

Virginia Accounting and Auditing Spring Conference

Federal Accounting Standards Update

May 14, 2012

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Topics for Today

- Standards
- Technical Bulletins
- Projects/Pending Standards

Standards

Standards	
SFFAS 34	The Hierarchy of Generally Accepted Accounting Principles for Federal Entities
SFFAS 35	Estimating the Historical Cost of General Property, Plant, and Equipment
SFFAS 36	Reporting Long-Term Comprehensive Fiscal Projections for the U.S. Government
SFFAS 37	Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements
SFFAS 38	Accounting for Federal Oil and Gas Resources
SFFAS 39	Subsequent Events: Codification of Accounting and Financial Reporting Standards
SFFAS 40	Definitional Changes Related to Deferred Maintenance and Repairs
SFFAS 41	Deferral of Effective Date for of SFFAS 38

Technical Bulletins

Technical Bulletins	
TB 2006 - 1	Recognition and Measurement of Asbestos – Related Cleanup Costs
TB 2009 - 1	Deferral of Effective Date of TB 2006 - 1
TB 2011 - 1	Accounting for Federal Natural Resources Other Than Oil or Gas
TB 2011 - 2	Extended Deferral of the Effective Date of TB 2006 - 1

Projects/Pending Standards

SFFAS 42	Deferred Maintenance and Repairs: Amending SFFAS 6, 14, 29, and 32
SFFAS 43	Revisions to Identifying and Reporting Earmarked Funds: Amending SFFAS 27
Exposure Draft	Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use
WIP	The Federal Entity

SFFAS 34 – GAAP Hierarchy

- Background
 - Hierarchy used to be in auditing standards
 - Auditing Standards Board asked for it to be included in accounting standards
 - FASB, GASB, and FASAB adopted the hierarchy

Very Important – Many Unaware

SFFAS 34 – GAAP Hierarchy

- The Hierarchy
 - a. FASAB Standards and Interpretations
 - b. FASAB Technical Bulletins and AICPA Industry Accounting and Audit Guides applicable to Federal Entities
 - c. Technical Releases of the AAPC of the FASAB
 - d. Implementation guides published by the FASAB staff as well as practices widely recognized and prevalent in the Federal Government

SFFAS 34 – GAAP Hierarchy

- The Hierarchy
 - If the accounting treatment for an event is not specified in a category, go to the next highest category
 - If the accounting treatment for an event is not specifically covered, look to the accounting treatment for similar events based on substance
 - Use of other accounting literature may be appropriate in the absence of coverage in the hierarchy
 - Other accounting literature includes FASAB concepts statements; FASB, GASB, and International standards, textbooks, etc.

SFFAS 34 – GAAP Hierarchy

- Use of FASB Standards by Federal entities
 - Considered GAAP if used historically
 - In rare instances new Federal entities could adopt FASB standards
 - Standard provides some guidance in this area

SFFAS 35 – Estimating Historical Cost of GPP&E

- Amends SFFAS Nos. 6 and 23
- Applicable to:
 - Entities that have not previously prepared financial statements
 - Entities that do not have controls sufficient to capture historical cost data
 - Entities that simply chose to use estimates to determine historical cost

SFFAS 35 – Estimating Historical Cost of GPP&E

- Provides for use of reasonable estimates to value GPP&E and depreciation
- Also applies to internal use software covered by SFFAS 10
- Why this standard – narrow interpretation of the estimate provisions of SFFAS 23

SFFAS 35 – Estimating Historical Cost of GPP&E

- This standard clarifies that federal entities should report their G-PP&E based on historical cost
- However, reasonable estimates of historical cost may be used to value G-PP&E assets
- Estimation methods include
 - Cost of similar assets at the time of acquisition, or
 - Current cost of similar assets discounted for inflation since the time of acquisition (i.e., deflating current costs to costs at the time of acquisition by general price index), or
 - Other reasonable methods, including those estimation methods specified in SFFAS 23 paragraph 12 (e.g. Budget data)

SFFAS 36 – Long Term Fiscal Projections

- **Objective:** assess whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due
- Begins Fiscal Sustainability Reporting
- Applies to the Consolidated Financial Statements of the U.S. Government
- Treated as RSI until 2013

SFFAS 36 – Long Term Fiscal Projections

- Assumes continuation of current policy and taxation without change
- The projection of current policy without change is intended to show the long-term results of current policy without change

SFFAS 36 – Long Term Fiscal Projections

- The basic financial statement, *Long-Term Fiscal Projections*, should show:
 - Receipts, disaggregated by major programs such as Medicare, Social Security, and all other receipts, and total receipts;
 - Non-interest spending, disaggregated by major programs such as Medicare, Medicaid, Social Security, and all other non-interest spending, total non-interest spending; and
 - The difference between projected receipts and projected noninterest spending
- Fiscal gap information should be provided, either on the face of the financial statement or in the disclosures.

SFFAS 36 – Long Term Fiscal Projections

- Fiscal gap information
 - Fiscal gap is the change in non-interest spending or receipts that would be necessary to maintain public debt at or below a target percentage of GDP

SFFAS 36 – Long Term Fiscal Projections

- After the initial year of implementation, the basic financial statement should also present:
 - Comparative amounts for the current year and prior year,
 - The net change for each line item from the prior year as both present value dollars and as a percentage of the present value of GDP for the projection period indicated

SFFAS 37 – Social Insurance: Additional Requirements for Management’s Discussion and Analysis and Basic Financial Statements

- Social insurance comprises five programs
 - Social Security,
 - Medicare,
 - Railroad Retirement,
 - Black Lung, and
 - Unemployment Insurance
- This Statement amends sections of SFFAS 17, *Accounting for Social Insurance*

SFFAS 37 – Social Insurance: Additional Requirements for Management’s Discussion and Analysis and Basic Financial Statements

- Standard requires the government-wide entity as well as entities that present a statement of social insurance (SOSI) to:
 - Include in one section of management’s discussion and analysis (MD&A) information about costs, assets and liabilities, social insurance commitments, budget flows, and long-term fiscal projections
 - Include in MD&A a table or other singular presentation of key measures drawn from the basic financial statements;
 - Add a section within the SOSI that summarizes the net present values of cash flows and presents certain subtotals and totals, and
 - Present a statement of changes in social insurance amounts (SCSIA) that indicates the reasons for changes in the open group measure from the end of the previous reporting period

SFFAS 38: Accounting for Federal Oil and Gas Resources

- Statement provides for a more complete accounting for oil and gas resources available to the federal government
- Addresses the federal government's royalty share of proved reserves (considered an asset)
- Requires reporting of information on the royalty asset as required supplementary information (RSI) for three years
- Provides transparency regarding the value and changes in value of these significant assets

SFFAS 39: Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards

- Establishes accounting and financial reporting standards for subsequent events
- Applies to the accounting for, and disclosure of, subsequent events not addressed in other applicable GAAP

SFFAS 39: Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards

- Subsequent events: Events or transactions that affect the basic information or RSI that occur subsequent to the end of the reporting period but before the financial report is issued
 - Recognized events: Subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period and affect the estimates inherent in the process of preparing basic information and RSI
 - Non-recognized events: Subsequent events that provide evidence with respect to conditions that did not exist at the end of the reporting period but arose subsequent to that date

SFFAS 40 *Definitional Changes Related to Deferred Maintenance and Repairs*

- Clarifies that “deferred maintenance” reporting includes deferred repairs
 - Technical distinction of M&R versus accounting treatment resulted in instances of under-reporting
 - Not all repairs should be capitalized
 - *Maintenance “retains” function whereas Repairs “restore” function*
- Revises the examples of maintenance and repair activities to better reflect current practices
 - Deleted reference to “structural components” as this caused confusion leading many to think that personal property (e.g. equipment) was excluded
 - Added “systems” to broaden coverage to match asset categories/classes

SFFAS 40 Definitional Changes Related to Deferred Maintenance and Repairs

- Encompasses activities associated with heritage assets, multiuse heritage assets and stewardship land as well as equipment and other personal property
 - Added “preserve “ to broaden coverage to Heritage/MU Heritage assets and land
- Addresses issues related to the distinction between maintenance, repairs, and new capital expenditures.
 - Ambiguity of terms and overall definition led to confusion

SFFAS 41: Deferral of Effective Date of SFFAS 38

- Defers the effective date for Oil and Gas reporting to years beginning after September 30, 2012

SFFAS 42, Deferred Maintenance and Repairs; Amending SFFAS 6, 14, 29 and 32

- This Statement amends the required supplementary information (RSI) presentation. The amendments require entities to:
 - Describe their maintenance and repairs (M&R) policies and how they are applied,
 - Discuss how they rank and prioritize M&R activities among other activities,
 - Identify factors considered in determining acceptable condition standards,
 - State whether DM&R relate solely to capitalized general property, plant and equipment (PP&E) and stewardship PP&E or also to non-capitalized or fully depreciated general PP&E,
 - Identify PP&E for which management does not measure and/or report DM&R and the rationale for the exclusion of other than non-capitalized or fully depreciated general PP&E,
 - Provide beginning and ending DM&R balances by category of PP&E, and
 - Explain significant changes from the prior year.

SFFAS 43: Revisions to Identifying and Reporting Earmarked Funds

- Modifies the definition of earmarked funds by clarifying that
 - At least one source of funds external to the federal government must exist for a fund to qualify as earmarked, and
 - Provides a specific exclusion is proposed for any funds that are established to account for pensions, other retirement benefits, other postemployment or other benefits provided for federal employees (civilian and military).

ED: Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use

- **Impairment**

- A significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E.
- The service utility of G-PP&E is the usable capacity that at acquisition was expected to be used to provide service, as distinguished from the **level of utilization**

ED: Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use

- **Identification and Recognition of Impairment – A Two-step Process**

- **Step 1: Identify Indicators of Impairment**

- Evidence of physical damage,
- Enactment or approval of laws or regulations which limit or restrict G-PP&E usage,
- Changes in environmental or economic factors,
- Technological changes or evidence of obsolescence,⁹
- Changes in the manner or duration of use of G-PP&E,
- Construction stoppage or contract termination, and
- G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods

ED: *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*

- **Step 1: Identify Indicators of Impairment (continued)**
 - G-PP&E would be identified as potentially impaired as a result of
 - The occurrence of significant events or
 - Changes in circumstances, or routine asset management processes
 - Statement does not require that entities perform procedures solely to identify potential impairment of G-PP&E.
 - Events or circumstances that may indicate impairment are generally expected to have prompted consideration by oversight entities, management, or others

ED: *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*

- **Step 2 - Impairment Test**

- G-PP&E identified through the processes described in Step 1 should be tested for impairment by determining whether the following two factors are present:
 - **The magnitude of the decline in service utility is significant**
 - Judgment is required to determine whether the decline is significant. Such judgments may be based on:
 - The relative costs of providing the service before and after the decline,
 - The percentage decline in service utility, or
 - Other considerations.
 - **The decline in service utility is expected to be permanent**

ED: *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*

- **Measurement**

- Replacement approach
- Restoration approach
- Service units approach
- Deflated depreciated current cost approach
- Cash flow approach
- Construction stoppage / contract termination

- **Recognizing and Reporting Impairment Losses**

- Recognize and report in the statement of net cost and may be included in program cost(s) or cost(s) not assigned to programs consistent with SFFAS 4

TB 2006-1 Recognition and Measurement of Asbestos – Related Cleanup Costs

- Clarifies the required reporting of liabilities and related expenses arising from asbestos-related cleanup costs.
- Prior to this technical bulletin
 - Most federal entities had recognized liabilities for the removal of asbestos that posed an immediate health threat (i.e., friable asbestos), but
 - Many federal entities had not prepared an estimate of cleanup costs for the future removal of asbestos that did not pose an immediate health threat (i.e., non-friable asbestos).

TB 2006-1 Recognition and Measurement of Asbestos – Related Cleanup Costs

- Requirement

- Estimate both friable and non-friable asbestos-related cleanup costs and
- Recognize a liability and related expense for those costs that are both probable and reasonably estimable, consistent with the current guidance in Statement of Federal Financial Accounting Standards (SFFAS 5)
- TB 2011-2 defers the effective date until reporting periods beginning after September 30, 2012