



U. S. Federal Accounting Standards Advisory Board

September 2012 Update

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Disclaimer

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

Overview

- New Mission Statement
- Recently Completed Projects
 - Earmarked Funds
 - Deferred Maintenance and Repairs
- Ongoing Projects
 - Asset Impairment
 - Federal Financial Reporting Model
 - Federal Entity
- New Projects
 - Leases
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 - Investments
 - Public Private Partnerships



New Mission Statement

- The FASAB serves the public interest by improving federal financial reporting through issuing federal financial accounting standards and providing guidance after considering the needs of external and internal users of federal financial information.



Earmarked Funds – Background

- SFFAS 27 requirements effective in 2006
- Intended to accomplish two goals:
 - highlight financing that will be needed by the government as a whole when earmarked funds use their accumulated revenues in the future
 - enhance awareness of the restrictions on the use of earmarked revenues
- Requires separate display of certain information on the balance sheet and statement of changes in net position as well as disclosures

Earmarked Funds – Results of Evaluation

- Problems identified:
 - Confusion regarding the term “earmarked”
 - 500+ funds classified as earmarked
 - Some with no external source of revenue
 - Some with large negative balances
 - Uncertainty about the understandability of agency level financial statements due to multi-column display

Earmarked Funds – SFFAS 43

- Changing the name to “funds from dedicated collections”
- Excluding funds:
 - supporting federal employee benefits
 - predominantly financed from general funds rather than a dedicated collection from external sources
- Allowing combined or consolidated amounts to be presented
- Alter presentation on the Statement of Changes in Net Position:
 - continue current presentation on the face of statements if a majority of funding is from dedicated collections or such funds are qualitatively material
 - If not, present information in a note referenced on the face of statement of changes in net position
- SFFAS 43 issued June 2012 and effective FY2013



SFFAS 40, Deferred Maintenance and Repairs: Definitional Changes

- Amended the definition only
- Repairs – clarify that deferred repairs are included
- Capital – clarify that deferred capital improvements are not included
- Preserves the notion that management determines acceptable condition
 - Effective FY 2012



Deferred Maintenance and Repair – SFFAS 42

- Emphasize the need for interdisciplinary communication
- Encourage consistent use of condition standards, assessment methods, and reporting formats
- Eliminate the requirement to report condition information



Deferred Maintenance and Repair – SFFAS 42

- Information required:
 - Policies and how they are applied including policies for ranking and prioritizing maintenance and repair activities
 - Factors considered in determining acceptable condition standards
 - Scope of DM&R (whether includes non-capitalized G-PP&E and/or excludes any classes of PP&E)
 - Beginning and ending DM&R balances by category of PP&E
 - Explanation of significant changes from the prior year.
- Effective FY2015
- Do you need help with details?



Asset Impairment

- Scope and applicability
 - Assets held in-use
 - Indicators of potential impairment
 - Techniques for measuring potential impairment
 - Recognition guidance vs. adjusting estimates or Net Book Value
- Significant & permanent declines in service utility
- Should be limited & rare cases
 - Prominent events
 - Entities not required to “search or hunt”



Asset Impairment

- Some common indicators of impairment include those listed below:
 - a. evidence of physical damage,
 - b. enactment or approval of laws or regulations which limit or restrict G-PP&E usage,
 - c. changes in environmental or economic factors,
 - d. technological changes or evidence of obsolescence,⁹
 - e. changes in the manner or duration of use of G-PP&E,
 - f. construction stoppage or contract termination, and
 - g. G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods.



Asset Impairment

- Widely recognized methods for measuring impairment include:
 - Replacement approach
 - Restoration approach
 - Service units method
 - Deflated depreciated current cost approach
 - Cash flow approach
 - Lower of (1) Net Book value or (2) Higher of Net Realizable Value or Value-in-Use Approach
- Board is voting now – issuance of SFFAS 44 may be early 2013.



Federal Reporting Model

- Concerns exist regarding the benefits of accrual basis financial statements relative to the cost of preparing them
- 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
 - Statement of spending pilots
 - Study of other sovereign government practices



Users Contacted

- Citizen surveys and focus groups
- Program managers
- Analysts
- CFO Roundtables
- Auditor Roundtable



User Research Results

- Overall
 - Participants sought information that tends to be particular and **specialized**.
 - **Understandability** of financial information was a concern.
 - **Centralized source** for obtaining data



Federal Reporting Model Task Force - Government-wide 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



20-Year CFO Act Review – In Brief

- Twenty-year Chief Financial Officers (CFO) Act Study by CFOs and IGs found the Act:
 - increased transparency and accountability,
 - established a government-wide financial management leadership structure and agency CFOs,
 - promoted new accounting and reporting standards,
 - generated auditable financial statements,
 - strengthened internal control and improved financial management systems, and
 - enhanced performance information.
- Recommended:
 - Move toward real-time data
 - Add forward-looking information
 - Address program managers needs
 - Evolve the reporting model



Specific Ideas from the AGA CFO Survey

Enhance and Expand Existing Statements

- Create a new statement associated with spending money.
- Change the Statement of Net Costs to **be about costs**, not just expenses as it is now.
- Break information down **by projects and programs**, which would produce information of more value to program managers and citizens.
- **Integrate** performance results with financial information in a single report.
- Add **predictive information** to the statements.
- **Focus on both** financial and nonfinancial performance metrics.
- Use plain English in the reports.



Reporting Model – Next Steps

- Task forces to focus on three areas:
 - Statement of Net Cost
 - Performance Reporting
 - Budgetary Reporting
 - COST ACCOUNTING.....
- Integration
- Understandability
 - Clarity of budgetary reporting
 - Budget to actual (feasibility questions)
 - Context and terminology
 - Potential streamlining to highlight most important items
 - Functions (education, health, defense) and programs



Federal Entity

- FASAB established concepts in mid-90's
- Standards now being developed
- Questions:
 - What to include (all entities “established by” the federal government or a subset)?
 - How to present information (all consolidated, some separately displayed or disclosed)?
 - What distinguishes “related” parties from parties included in governmental reports?



Federal Entity – Draft Proposal

- Include all entities budgeted for, controlled with potential for risk or reward, or owned
- Distinguish between core and non-core entities
 - Core entities are taxpayer supported and on-going decision making is more clearly linked to elected officials. Information for core entities is to be consolidated in financial statements.
 - Non-core entities are somewhat independent from elected officials and may be financial self-sustaining. Information regarding non-core entities is to be disclosed in notes.
 - Relationship explained
 - Relevant financial activity during the period revealed
 - Risks discussed and quantified if possible



New Projects

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



Risk Assumed

- Current reporting;
 - Risk assumed information (the present value of expected future cash flows for insurance in force) is required supplemental information with implementation inconsistent.
 - Commitments and contingencies disclosures vary and at the government-wide level there is uncertainty about comparability of component information and completeness.
- Objective:
 - Meaningful disclosures regarding risks assumed by the government. Challenges include
 - Implicit risk assumptions
 - Definition applicable across a diverse set of programs
 - Measurement



Leases

- Federal standards currently align with private sector and state/local government standards.
- FASB and IASB are developing a new approach which will limit the scope of “operating leases” dramatically.
- The FASAB project will consider:
 - Issues and practices in the federal domain
 - Merits of the revised FASB standards
 - A solution that meets federal financial reporting objectives
- FASB and IASB expect to issue a proposal (a revised ED) late this year or early next year.
- A FASAB task force has been formed to research current practice and identify issues.



Investments in Non-federal Securities

- Preparers and auditors applied the GAAP hierarchy to determine how to account for present intervention activities.
- The focus of this project will be on the intervention activities and providing standards for any future interventions of a similar nature.



Public Private Partnerships

- 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.



Contact and Website Information

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