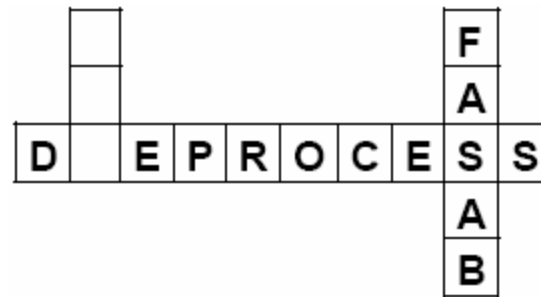


The Federal Accounting Standards Advisory Board



FASAB Update



We Need "You" to Complete
Due Process

18th Annual Government
Financial Management Conference
August 5, 2008

Disclaimer



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

Objectives



- **Discuss major challenges facing FASAB**
- **Discuss what you can do to support FASAB**
- **Provide an update on recent developments**

Major Challenges



- **The federal government's financial health**
- **Primary focus of FASAB is not on one bottom line number**
- **Community involvement**
- **Cost/benefit considerations**

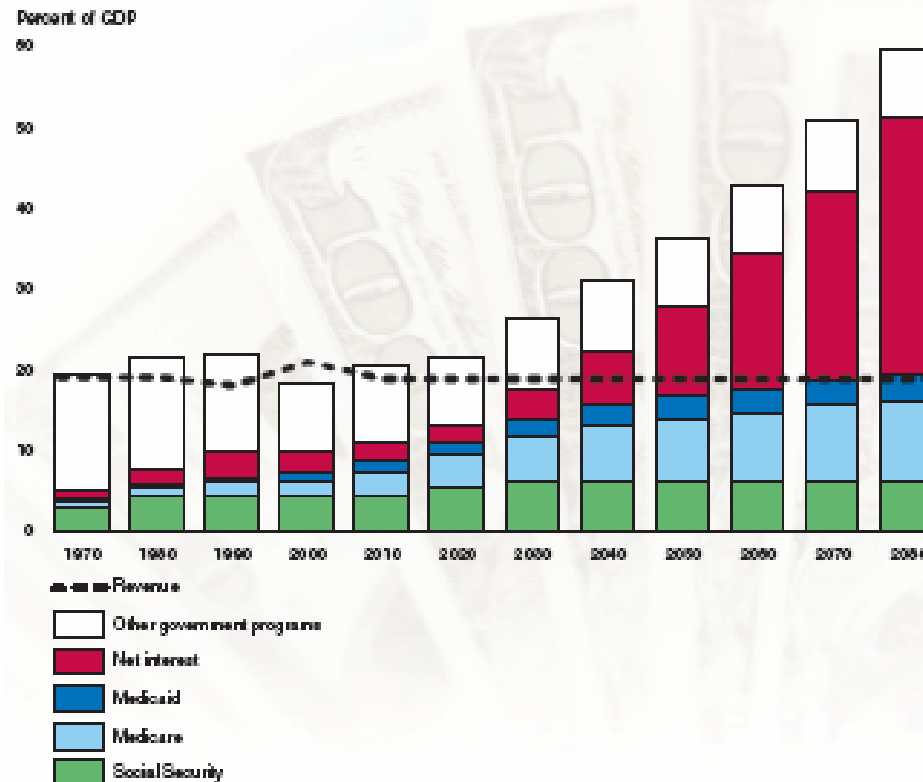
The Federal Government's Financial Health



Fundamental Reforms Are Needed Now

Chart 4 shows government revenue and spending as a percent of GDP from 1970 through 2080.⁴ Since World War II, federal revenue as a share of GDP has been roughly constant at around 18 percent.⁵ When taxes rose, policy actions tended to pull them back.

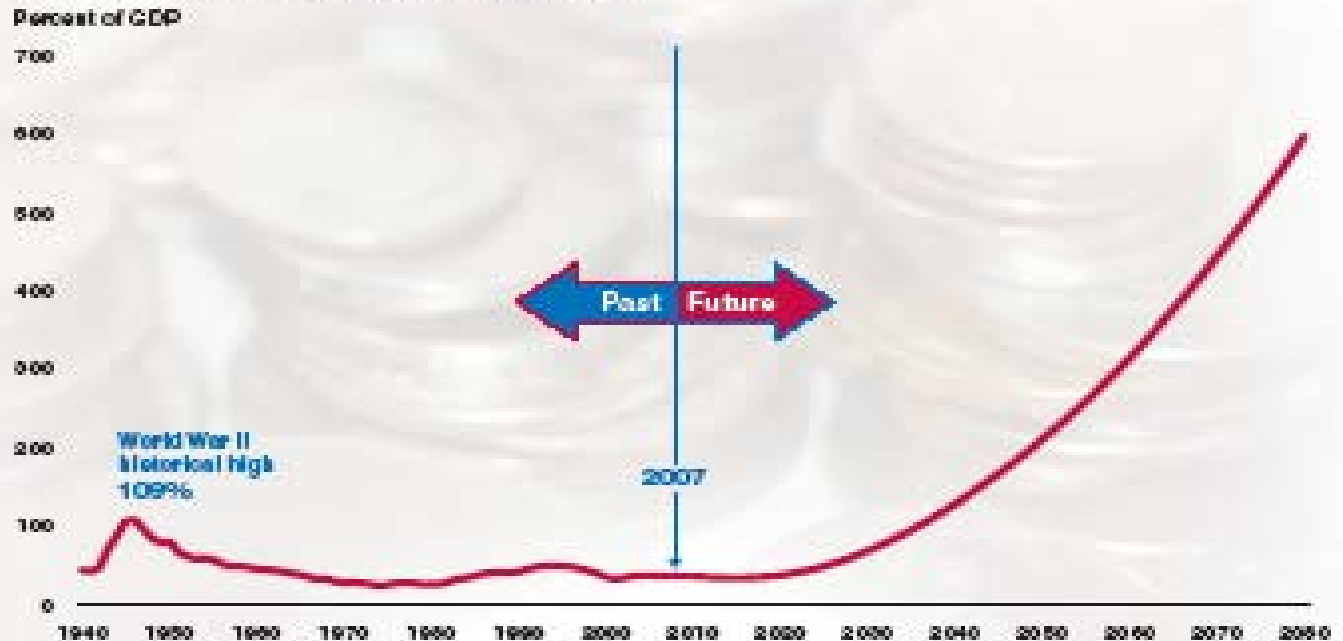
Chart 4: Government Revenue and Cost 1970-2080



Federal Government's Financial Health (contd.)



Chart 5: Federal Debt Held by the Public 1940-2080



The nation must change course before the deficit and debt reach unprecedented heights. The government must bring program cost in line with available resources. Delays in taking this action will increase the magnitude of the reforms needed and will place more of the burden on our children and grandchildren.

Primary Focus of FASAB



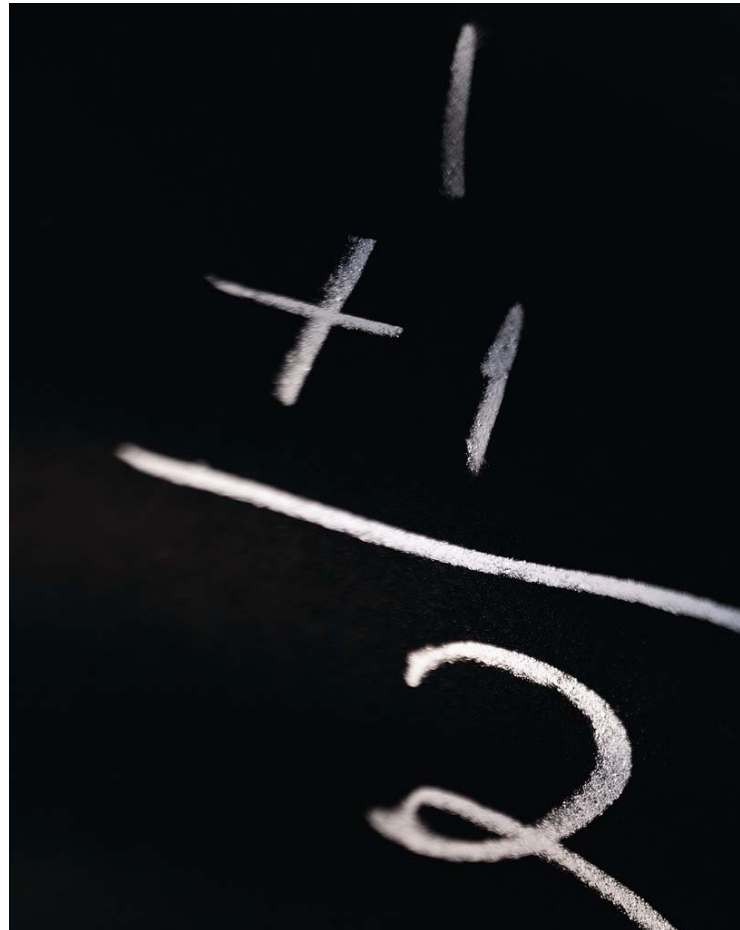
- **Stewardship--Information on whether:**
 - the government's financial condition improved or deteriorated
 - programs are sustainable as currently constructed

Primary Focus of FASAB (contd.)



- **Operating Performance—
Information to evaluate:**
 - **The service efforts, costs and accomplishments of government**
 - **The manner in which these are financed**
 - **Management of the entity's assets and liabilities**

Primary Focus of FASAB (contd.)



There is a need for more than just the bottom line numbers.

Community Involvement



- **FASAB Community**
 - **Preparers**
 - **Auditors**
 - **Users**
 - **Internal**
 - **External**

Community Involvement (contd.)



- **Formal Feedback**
 - **AAPC**
 - **Requests for comment**
 - **Public Hearings**

Community Involvement (contd.)



- **Informal Feedback**
 - **Task Forces**
 - **Surveys**
 - **Field Testing**

How does FASAB inform?



- **www.fasab.gov**
- **FASAB listserv**
 - Bi-monthly FASAB newsletter
 - Requests for comment
 - Press releases
 - Agendas
 - Invitations to serve on task forces
- **Public meetings**

FASAB On-Line Resources



www.fasab.gov



FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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- News Releases
- Meetings
- Active Projects
- Exposure Drafts And Documents for Comment
- Listing of Documents
- Strategic Directions
- Reports and Documents
- FASAB News
- FASAB E-Mail Service
- Original Pronouncements as Amended
- 2004 Current Text
- Generally Accepted



Welcome to the Federal Accounting Standards Advisory Board

The mission of the FASAB is to promulgate federal accounting standards after considering the financial and budgetary information needs of citizens, congressional oversight groups, executive agencies, and the needs of other users of federal financial information. Accounting and financial reporting standards are essential for public accountability and for an efficient and effective functioning of our democratic system of government. Thus, federal accounting standards and financial reporting play a major role in fulfilling the government's duty to be publicly accountable and can be used to assess (1) the government's accountability and its efficiency and effectiveness, and (2) the economic, political, and social consequences of the allocation and various uses of federal resources. This website provides access to all publications issued by FASAB including exposure drafts, the volumes presenting Original Pronouncements and current text, newsletters, minutes and meeting agendas.

If you have questions about state and local governmental entity accounting, please visit <http://www.qasb.org/>.

If you have questions about non-governmental entity accounting, please visit <http://www.fasb.org/>.

Contact Information

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Cost/Benefit Considerations



- **Costs not readily available**
- **Benefits difficult to quantify**
- **Balance in the eye of the beholder**
- **True user not always easy to pinpoint**

How Does the Board Address Cost/Benefit?



- **Agenda-setting**
- **Proposal development**
- **Staff communications**
- **Exposure Drafts**
- **Field Tests**

Activity Completed in FY 2008



**SFFAC 5, Definitions of
Elements and Basic
Recognition Criteria**

**Fully Effective
(FY 2008)**

**Technical Release 8,
Clarification of Standards
Related to Inter-Entity Cost**

**Fully Effective
(FY 2009)**

**Technical Release 9,
Implementation Guide for
SFFAS 29: Heritage Assets
and Stewardship Land**

**Fully Effective
(FY 2009)**

Activity Completed in FY 2008 (contd.)



SFFAC 5, Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements

Fully Effective
(FY 2008)

- Defines five elements
- Provides basic recognition criteria
 - Meets the definition
 - Measurable

Activity Completed in FY 2008 (contd.)



Technical Release 8 Clarification of Standards Related to Inter-Entity Cost

Fully Effective
(FY 2009)

- Provides guidance on implementing the cost accounting standard
 - Broad and general
 - Directness of relationship
 - Identifiability

Activity Completed in FY 2008 (contd.)



Technical Release 9 Implementation Guide for SFFAS 29: Heritage Assets and Stewardship Land

Fully Effective
(FY 2009)

- Provides guidance for implementing the related standard
 - Materiality considerations
 - Format and level of detail to report
 - Condition reporting requirements

Outstanding Exposure Drafts



- **Distinguishing Basic, RSI, and Other Accompanying Information**
(comments requested by 6/26/2008)
- **Reporting Changes in Assumptions and Selecting Discount Rates and Valuation Dates**
(comments requested by 1/15/2008)
- **Accounting for Federal Oil and Gas Resources**
(comments requested by 1/11/2008)

Outstanding Preliminary Views Document



- **Accounting for Social Insurance,
Revised**
(comments requested by 4/16/2007)



Active FASAB Projects



- **Revisiting Conceptual Framework**
- **Social Insurance**
- **Natural Resources (Oil and Gas)**

Revisiting Conceptual Framework



- **Completed Phases:**
 - Review Objectives
 - Elements
- **Remaining Phases:**
 - Financial Reporting Model / Sustainability Reporting
 - Entity
 - Measurement Attributes
- **Review and Maintenance**

Conceptual Framework - Sustainability Reporting



- **Primary Purpose**

- Provide information to help readers determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.
 - (Sub-Objective 3b)

Conceptual Framework - Sustainability Reporting (contd.)



- **Current Proposal**
 - **Long-term projections**
 - Present values of receipts and spending
 - Narrative discussion and graphs
 - Consistent time horizons for all components of report
 - **Summary Display with net present value of the difference between receipts and spending**
 - **Graphic display of fiscal gap over various levels of debt to GDP**

Conceptual Framework - Sustainability Reporting (contd.)



- **Treasury and OMB Member Concerns**
 - How prescriptive should the standard be?
- **Intergenerational Equity Concerns**
 - Are we adequately addressing the impact on current and future generations?

Conceptual Framework - Financial Reporting Model



- **Purpose**
 - Guidance for selecting methods of communicating information (i.e., basic or RSI)
 - Stewardship objective requires adding long-range projections & other information
 - Enhance comparability and consistency
- **Revisiting SFFAC 2, *Entity and Display***
 - Validate and explain each financial statement
 - Ensure all objectives are adequately addressed by the model

Conceptual Framework - Financial Reporting Model (contd.)



• Project Approach

– User Needs Study

– Alignment of Model with Needs

- Fill voids
- Adjust current requirements to improve alignment (e.g., budget to actual to accrual results)

Conceptual Framework - Federal Entity



- **Defined in SFFAC 2**
 - Conclusive criterion
 - Indicative criteria
- **Revisiting**
 - Questionable or unique entities
 - Consistency, completeness, and accountability
 - Material weakness

Conceptual Framework - Federal Entity (contd.)



- **Objectives of entity project**
 - Clarify boundaries
 - Provide guidance
- **Challenges**
 - Difficulty in defining boundaries
 - Definition of “control”
 - Differing viewpoints
 - Legislation

Conceptual Framework - Federal Entity (contd.)



- **Task Force**
- **Surveys**
 - CFO
 - OIG
 - FFRDCs

Social Insurance



- **Provide information on:**
 - **What is?**
 - **Impact on the government's financial condition and position**
 - **What will be?**
 - **Sustainability**
 - **Likelihood of future benefits**

Social Insurance (contd.)



- **Preliminary views document issued**
 - Primary view
 - Alternative view

- **Challenges**
 - **Understandability**
 - Ability to change law
 - Size and volatility
 - **Usefulness**

Social Insurance (contd.)



- **Issues**
 - **Differing viewpoints**
 - Working on a compromise package
 - **How should information be displayed?**
 - Summary reporting (MD&A)
 - Links between the balance sheet and the SOSI
 - Links between the statement of net cost and the SOSI-Changes

Natural Resources



- **Recognizing oil and gas proved reserves at calculated current value**
- **Results in information on:**
 - **Quantity of proved reserves**
 - **Value of proved reserves**
 - **Royalty revenue and depletion of reserves**

$$[\text{Quantity}] \times [\text{Price}] \times [\text{Royalty Rate}] = \text{Asset}$$

Other Current Projects



- **Reporting Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuations Dates**
- **Applicability of FASB GAAP**
- **Estimating the Cost of Legacy PP&E**

Changes in Assumptions & Selecting Discount Rates



- **Purpose**
 - **Guidance for displaying changes in assumptions**
 - **Provides more transparent and useful information prepared in a more consistent manner**

Changes in Assumptions & Selecting Discount Rates (contd.)



- **Background**
 - **Change in assumptions may exceed changes in any other costs**
 - **Various Treasury rates being used when calculating present values for expense and liability amounts**

Applicability of FASB GAAP



- **Background**
 - **AICPA Rule 203 Status**
 - **Current practice**
 - **Revisiting newsletter guidance**
 - **Consistency, completeness, and accountability**
 - **Consolidation issues**

Applicability of FASB GAAP (contd.)



• **Issues**

- **What are user needs**
- **What requirements would address user needs and Treasury reporting needs**
- **What are the reporting costs, burdens, challenges**

Applicability of FASB GAAP Pros/Cons of Conversion



• Pros

- Consistency, completeness, and accountability
- Consolidation
- Avoid two sets of information
- Avoid year-end manual processes

Applicability of FASB GAAP Pros/Cons of Conversion (contd.)



• **Cons**

- **Costs to convert**
- **Costs passed on to users**
- **Comparability to sector (e.g., utility)**
- **FS differ from SEC submission**
- **Perceived benefit only at CFR level**

Applicability of FASB GAAP Pros/Cons of Conversion (contd.)



- **Cons (contd.)**

- **Indirect impact on legislative and judicial branches**
- **Potential for OCBOA or less than unqualified opinions**
- **Loss of comparison to historical reporting**

Applicability of FASB GAAP

Active Project Status



- **Survey**
- **Workgroup**
- **Tentative Decisions**
 - **No entities required to convert to FASAB at this time**
 - **CFR can include two sources**
 - **Intragovernmental eliminations**

Estimating the Cost of Legacy PP&E



- **Purpose**
 - Reduce the cost of compliance
- **Background**
 - Lack of systems
 - Timely data
 - Cost / benefit
- **Issue**
 - How long is too long to rely on this transition guidance?

Upcoming Projects



- **Held community roundtables**
- **Set technical agenda in June**
- **Identified top priorities**
 - **Evaluation of Existing Standards**
 - **Asset Impairment and Deferred Maintenance**
 - **Linking Cost to Performance**

Convergence with Other Standards-Setters



- **Hold informed deliberations**
- **Identify opportunities for collaboration**
- **Maintain liaisons**

Contact Information



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Attachment 1 – Fiscal Sustainability Statement

Primary Summary Display Long-Term Fiscal Projections for the U.S. Government

Long-Term Fiscal Projections for the U.S. Government

Amounts projected to 75 years

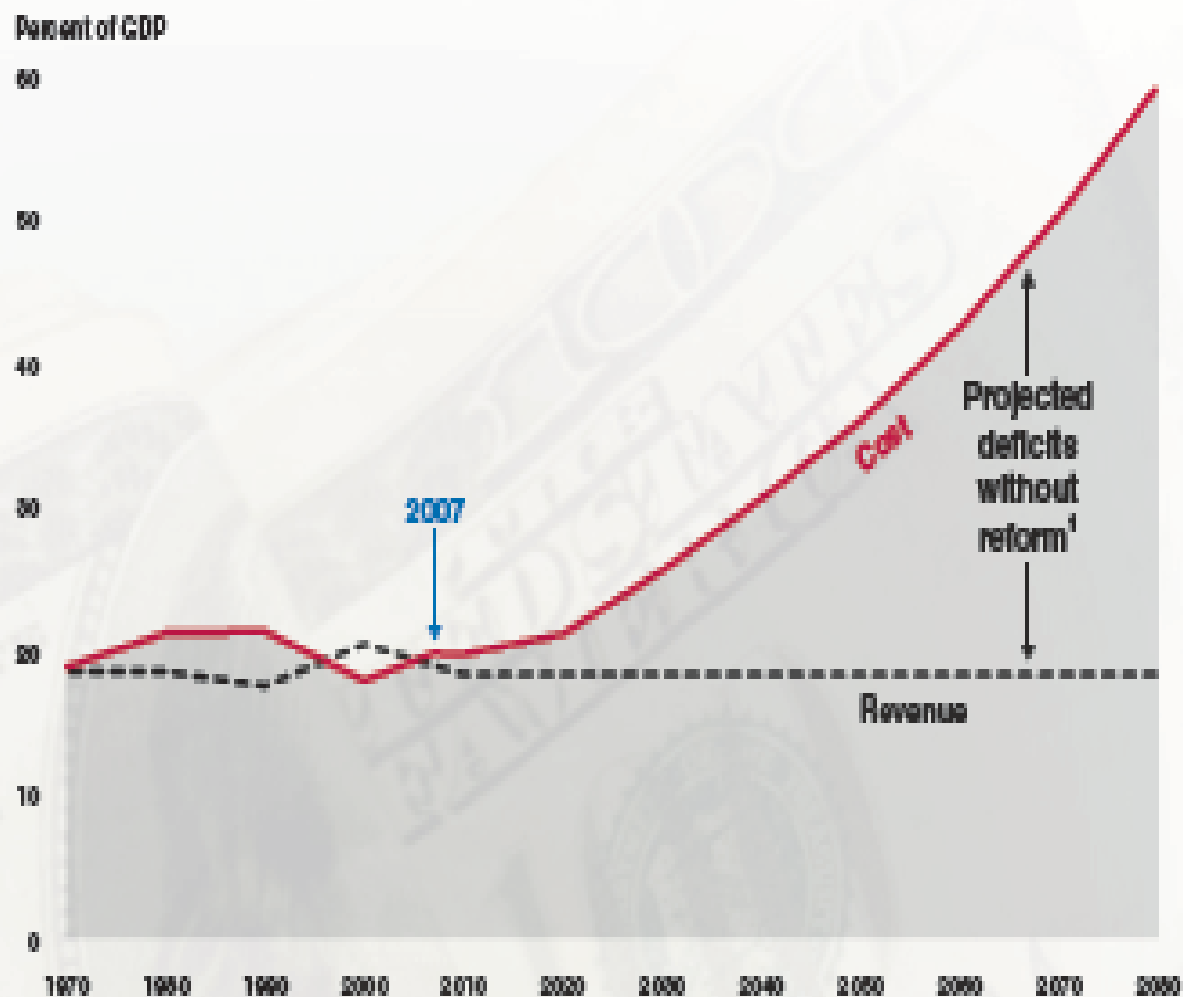
	As of January 1, 2008 (Current Year)		As of January 1, 20XX (Prior Year)		Change from Prior Year	
	PV Dollars (in trillions)	% GDP*	PV Dollars (in trillions)	% GDP*	PV Dollars (in trillions)	% GDP*
Receipts						
Medicare	\$ 10.7	1.5%	\$ XX.X	X.X%	\$ X.X	X.X%
Social Security	36.3	5.1%	XX.X	X.X%	X.X	X.X%
<u>All other receipts</u>	<u>91.0</u>	<u>12.8%</u>	<u>XX.X</u>	<u>X.X%</u>	<u>X.X</u>	<u>X.X%</u>
Total Receipts	\$ 137.9	19.4%	\$ XX.X	X.X%	\$ X.X	X.X%
Spending						
Medicare	\$ 44.8	6.3%	\$ XX.X	X.X%	\$ X.X	X.X%
Medicaid	15.6	2.2%	XX.X	X.X%	X.X	X.X%
Social Security	40.5	5.7%	XX.X	X.X%	X.X	X.X%
<u>Rest of Federal government**</u>	<u>73.9</u>	<u>10.4%</u>	<u>XX.X</u>	<u>X.X%</u>	<u>X.X</u>	<u>X.X%</u>
Sub-total- Spending	\$ 174.9	24.6%	\$ XX.X	X.X%	\$ X.X	X.X%
<u>Add: Debt Held by the Public</u>	<u>5.0</u>	<u>.7%</u>	<u>XX.X</u>	<u>XX.X%</u>	<u>XX.X</u>	<u>XX.X%</u>
Total Projected Spending plus Repayment of Debt	\$ 179.9	25.3%	\$ XX.X	XX.X%	\$ XX.X	XX.X%
Fiscal Imbalance***	\$ 41.9	5.9%	\$ XX.X	X.X%	\$ X.X	X.X%

*** **Staff Draft - For Discussion Purposes Only** ***

Attachment 2 – Fiscal Sustainability Graphs

The Government Is On An Unsustainable Fiscal Path

Chart 1: The Government Is On An Unsustainable Fiscal Path



***** Staff Draft - For Discussion Purposes Only *****

Attachment 3 – Social Insurance Model

Image 1 – Navigating the New Statements

