

FASAB Update 2016



**MACPA GOVERNMENT AND NOT-FOR-PROFIT
CONFERENCE
APRIL 29, 2016
1:00 – 2:10 PM**

DISCLAIMER



- Views expressed are those of the speaker.

Overview



- Reporting Model
- Leases
- Insurance Programs
- Opening Balances for General PP&E
- Land
- Budget and Accrual Reconciliation
- Tax Expenditures

Reporting Model



External users need to

- Understand the relationship among
 - ✦ budgetary information
 - ✦ cost information
 - ✦ performance information

- Determine whether the government's financial condition improved or deteriorated
 - ✦ what measure(s) should be considered

Reporting Model



External users need to

- Understand component reporting
 - ✦ budgetary terms and concepts unique to federal government
 - ✦ how the financial statements relate to the government-wide financial statements

- Understand the relationship between
 - ✦ information required by GAAP (*required information*) and
 - ✦ other information
 - presented voluntarily
 - presented to comply with legislation or administrative directives

Reporting Model



Board developing conceptual guidance

- Concepts intended to
 - guide the Board in developing reporting model standards
 - help others understand the purposes for required information

- Discuss the relationship between required and other information
 - required information
 - based on common understanding of terms
 - complete
 - other information
 - might not meet the qualitative characteristics of required information
 - might not be exposed to the same level of discipline as required information

Reporting Model



Board developing conceptual guidance

- Distinguish between required information for
 - the government-wide reporting entity
 - ✦ power to tax
 - ✦ charge fees
 - ✦ borrow
 - component reporting entities
 - ✦ authority through appropriations
 - ✦ diverse missions and activities

Reporting Model



Board developing conceptual guidance

- Reporting concepts regarding
 - component budgetary information
 - the relationship among different financial statements
 - disaggregation of cost and budgetary information
 - performance information
 - summary reporting

Reporting Model



Potential impact on standards

- Guidance regarding
 - presentation of component budgetary information
 - disaggregating and classifying cost and budget information
 - the presentation of trends
 - financial information to include in summary reports
 - performance reporting

Leases



- FASAB is collaborating with GASB to develop standards for governmental organizations.
- GASB's preliminary views document should improve clarity of ultimate exposure draft.
- Each Board will issue an exposure draft.

Leases



- Tentative decision to establish a single model (with exceptions for short-term arrangements – 24 months for federal).
 - Leases create assets consisting of the “right to use” a resource.
 - Leases create liabilities consisting of the obligation to pay for the resource.
- Treatment should help identify the interest cost associated with leases.

Leases-Intragovernmental Exceptions



- Leases between two consolidation entities (as defined in SFFAS 47) would be expensed by lessor when due and payable.
- Minimal disclosure requirements.

Leases



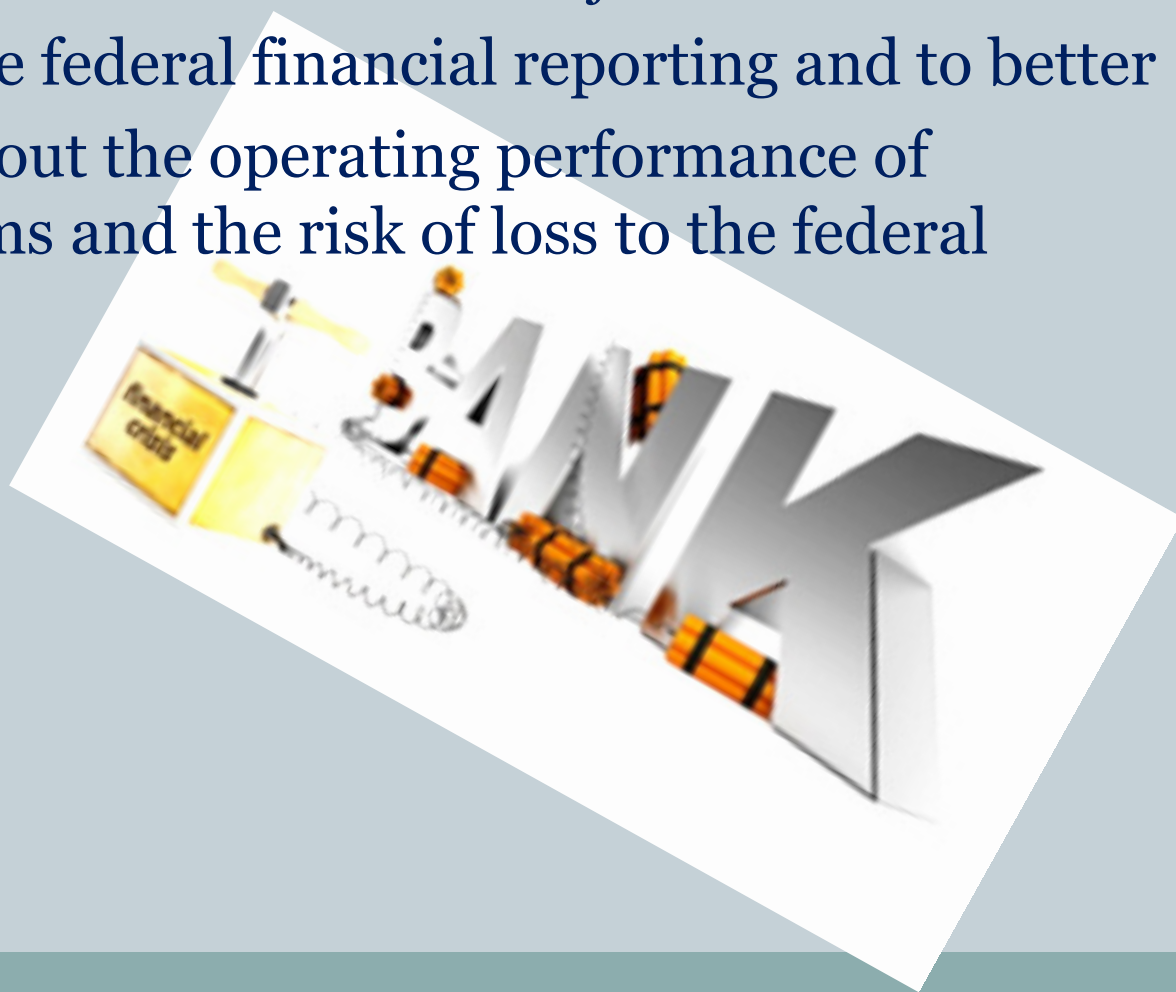
Tentative Timelines

- FASB/IASB – Final expected late 2015
- GASB – ED early 2016 and final early 2017
- FASAB – ED early 2016 and final early 2017

Insurance Programs

14

In this first phase of the Risk Assumed Project FASAB is seeking to improve federal financial reporting and to better inform readers about the operating performance of insurance programs and the risk of loss to the federal government from adverse events



Insurance Programs

15

Each program:

- **Has a unique mission related to the risk factors they must manage**
- **Usually fills a gap for a certain amount of time or money, where the insurance industry is not willing or able to manage certain risk factors**
- **Is complicated due to many uncertainties**

Insurance Programs:

16

To provide concise, meaningful, and transparent information regarding insurance program costs and liabilities, the exposure draft proposes to establish three categories of insurance and related guidance:

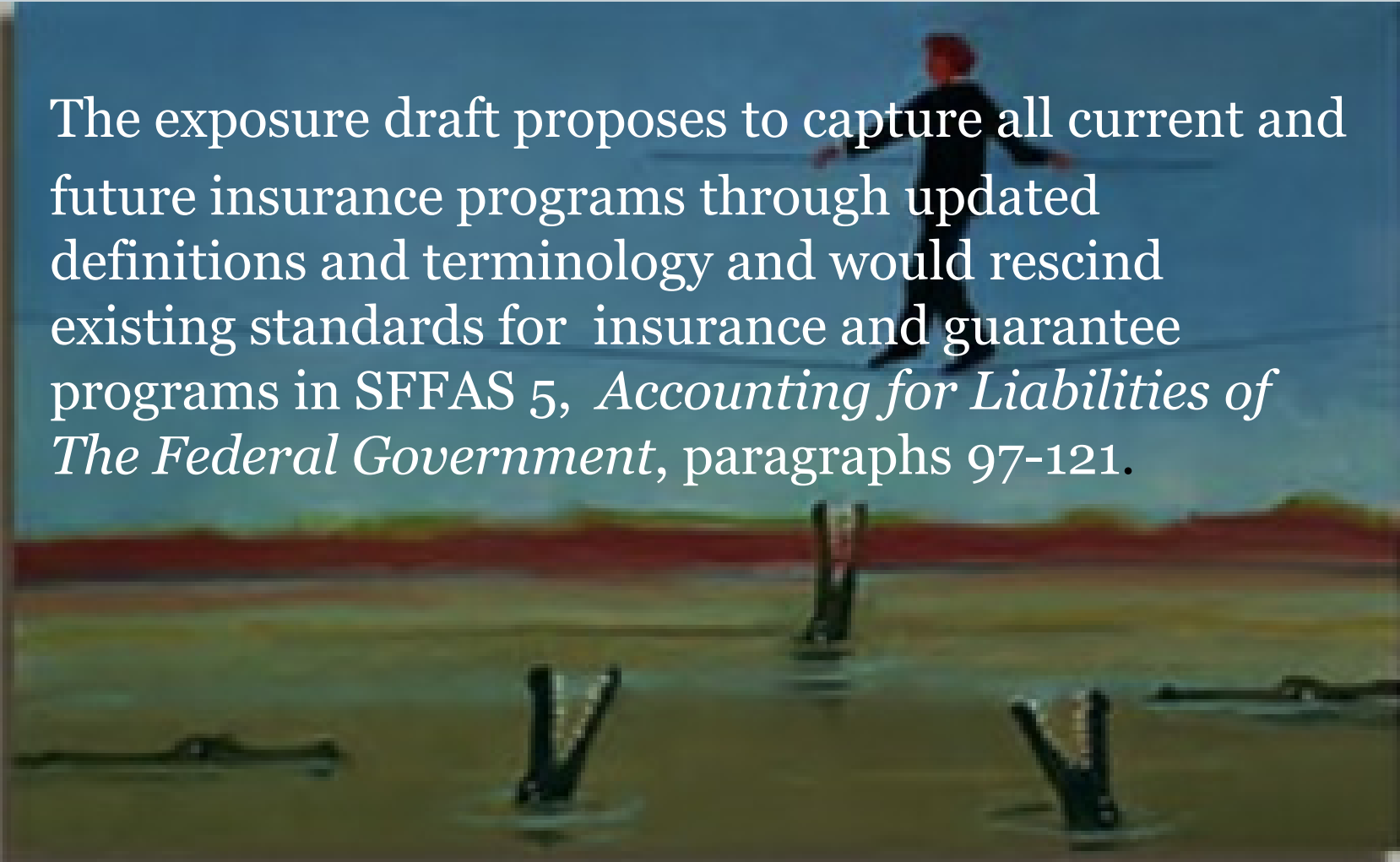
- exchange transaction insurance programs other than life insurance,
- nonexchange transaction insurance programs, and
- life insurance programs.



Insurance Programs

17

The exposure draft proposes to capture all current and future insurance programs through updated definitions and terminology and would rescind existing standards for insurance and guarantee programs in SFFAS 5, *Accounting for Liabilities of The Federal Government*, paragraphs 97-121.

A person in a wetsuit is walking on a beach. In the foreground, several surfboards are stuck upright in the sand. The background shows a calm ocean and a clear sky.

Insurance Programs

18

Status:

- Exposure Draft (ED) released for comment December 30, 2015
- Comments were requested by March 29, 2016
- 18 comment letters were received and summarized
- Staff analyzed the comments and provided recommended updates to the Board

08/27/2008 08:39

Department of Defense – Implementation Issues



- ***Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials***
 - Issued January 2016
 - Effective FY17, but earlier implementation encouraged
 - Amended SFFAS 3, *Accounting for Inventory and Related Property*
- **Deemed Cost**
 - Several valuation methods permitted
 - Flexible dates to allow components to establish opening balances at different dates
 - Once established, considered GAAP

Department of Defense – Implementation Issues



- *Establishing Opening Balances for General Property, Plant, and Equipment*
 - DoD sought guidance on improvements to real property and this expanded to other areas
 - Alternative valuation methods in establishing opening balances for general PP&E accomplished through comprehensive implementation guidance in SFFAS 6
 - Amends SFFAS 6, SFFAS 10, SFFAS 23 and rescinds SFFAS 35

Department of Defense – Implementation Issues



- **Exposure Draft Issued December 22, 2015**
 - Using deemed cost (Same as SFFAS 48-replacement cost, estimated historical cost, and fair value) for establishing opening balances of all general PP&E.
 - Selecting between deemed cost and prospective capitalization of internal use software
 - Allowing an exclusion of land and land rights with disclosure of acreage information and expensing of future acquisitions

Department of Defense – Implementation Issues



- **Due Process Issues**

- Respondents disagreed with land proposal

- ✦ Key reasons- inconsistency & added cost
- ✦ Land project

- Reasonable estimates and the recession of SFFAS 35.

- ✦ SFFAS 6 was revised to include the following in par. 26:

26. All general PP&E shall be recorded at cost. Although the measurement basis for valuing general PP&E remains historical cost, reasonable estimates may be used to establish the historical cost of general PP&E, in accordance with the asset recognition and measurement provisions herein. Cost shall include all costs incurred to bring the PP&E....

- ✦ Similar change made in SFFAS 10

Land



- Project goal: Improve accounting/reporting for land
 - SFFAS 6 requires capitalization of **land & land rights** acquired in connection with GPP&E at the cost incurred.
 - SFFAS 29 defines “**stewardship land**” as land **other than GPP&E** land. It requires disclosures regarding policies for managing land, categories of land, and physical quantity information.

Land



- Project objectives: Recommend recognition, measurement, and disclosure requirements as appropriate:
 - What is the most appropriate reporting objective?
 - Does predominant use or managerial intent influence the accounting and/or reporting?
 - Which measurement attribute(s) should be considered for recognition purposes?
 - Which non-financial attributes if any, should be presented?
 - What are agency best practices and practical limitations?
- **Join our Task Force** - *“This land is your land, this land is my land, from California to FASAB Standards”.....**This land was meant for YOU and me!!***

Budget and Accrual Reconciliation



- **Project Goal:**
 - Improve the component reporting entity's budgetary and net cost reconciliation
 - Support the Government-Wide Accounting (GWA) reconciliation

- **Project Objectives:**
 - Review usefulness of the current Statement of Financing note disclosure
 - Improve the component reporting entity budget and accrual reconciliation
 - Research and recommend alternative component level reconciliation that may support GWA reconciliation

- **Working Group & Proposed Timeline**

Tax Expenditures

26



- **What are tax expenditures**



Revenue losses attributable to provisions of the U.S. Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability (Source: Congressional Budget and Impoundment Act of 1974)

- **Examples** – *note that many achieve various policy objectives:*
 - Exclusion of employer-provided health insurance premiums and medical care
 - Deductibility of medical expenses
 - Exclusion of interest on various types of state and local bonds

Tax Expenditures (cont'd)

27



• History

- 1995-1996: estimates and disclosures included in CFR
- Since 1997: estimates and disclosures excluded from CFR
 - Existing estimates are not measured under current accounting concepts
 - Discussion is currently absent; however, tax expenditures significantly impact the federal government's financial position, tax collections, and performance outcomes
- Current project
 - Board identified a need to improve users' awareness and understanding of tax expenditures

Tax Expenditures (cont'd)

28

- **Project History**

1. Task force deliberations and recommendations
2. Board deliberations
3. Exposure Draft



Tax Expenditures (cont'd)

29

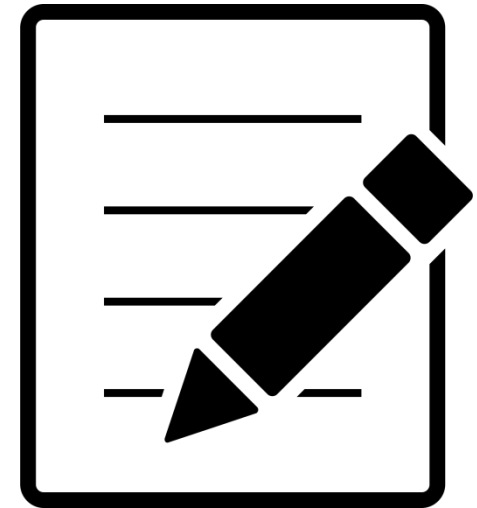


- **Task force recommendations:**

1. Narrative disclosures within the notes to the financial statements and MD&A of the CFR
2. Inform readers regarding other online sources of information where readers can obtain detailed information

<https://www.treasury.gov/resource-center/tax-policy/Pages/Tax-Expenditures.aspx>

3. Options for presenting tax expenditure estimates in the CFR



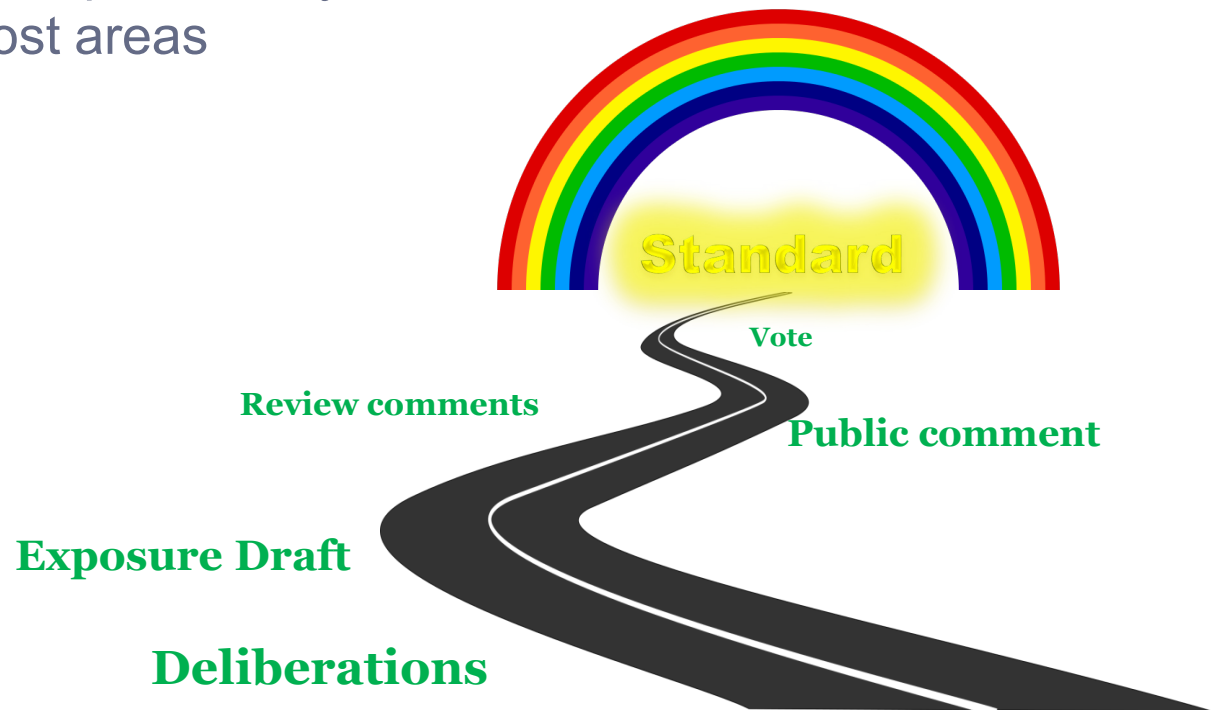
Tax Expenditures (cont'd)

30



- **Board deliberations**

- Board has reached preliminary consensus in most areas
- Next steps...



Tax Expenditures (cont'd)

31

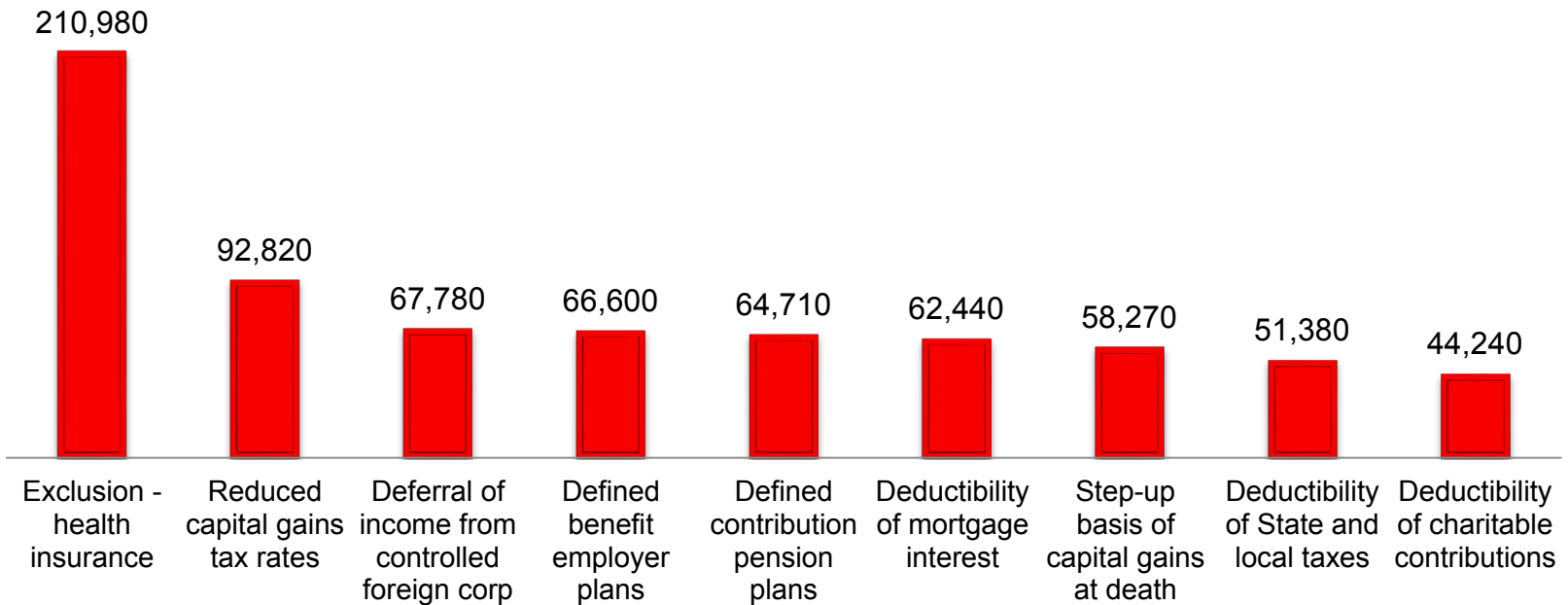


- **Exposure Draft** (current status)
 - Require discussion of tax expenditures, their general purpose, and how they impact the government's financial position and condition
 - Discussion of other factors that may affect tax collections in order to place tax expenditure information in an appropriate context
 - Disclosures on how nonexchange revenue, tax collections and refunds are impacted; and whether tax expenditures are presented in the consolidated financial statements
 - Encouraging the presentation of tax expenditure estimates in OAI
 - Plan to release ED around June 2016

Largest Tax Expenditures - FY2016

In Millions

32



Source: FASAB analysis of Department of the Treasury estimates obtained at <https://www.treasury.gov/resource-center/tax-policy/Documents/Tax-Expenditures-FY2017-11132015.pdf>

QUESTIONS

