

AICPA – SABEW Accounting and Auditing Workshop



**FEDERAL ACCOUNTING STANDARDS
ADVISORY BOARD**

**WENDY PAYNE
EXECUTIVE DIRECTOR**

Disclaimer



**VIEWS EXPRESSED ARE MY OWN.
VIEWS OF THE BOARD ARE
EXPRESSED IN OFFICIAL
PUBLICATIONS.**

OVERVIEW



- 1. WHAT AND WHO WE ARE**
- 2. HOW WE OPERATE**
- 3. QUICKEST POSSIBLE INTRO TO FEDERAL REPORTS**
- 4. HOT TOPICS**
- 5. RESOURCES (LINKS SOON TO BE IN YOUR FAVORITES MENU)**



What is the Federal Accounting Standards Advisory Board?

The source for
GAAP for
federal entities
and a federal
advisory
committee



- **Who are we?**
- **SPONSORS:**
 - Office of Management and Budget
 - US Department of the Treasury
 - US Government Accountability Office
- **MEMBERS:**
 - Chairman – Tom Allen
 - OMB – Norman Dong, Interim Controller
 - Treasury – Mark Reger, Deputy Assistance Secretary
 - GAO – Robert Dacey
 - Michael Granof
 - Sam McCall
 - Scott Showalter
 - Graylin Smith
 - Harold Steinberg

How We Operate



- Open due process
 - Procedures quite similar to GASB and FASB but also subject to Federal Advisory Committee Act
- Differences:
 - ✦ Members are subject to various laws (for example, ethics laws for government employees and FACA restrictions on private deliberations)
 - ✦ Agenda setting conducted in open meetings with full board action
 - ✦ Final statements subject to 90-day review by sponsors
 - ✦ Degree of “obscurity”

Federal Financial Reports



- Most federal entities are required to provide audited financial statements.
 - Look for them by November 15th following a September 30th fiscal year end absent an extraordinary event like a government shutdown.
- Most follow FASAB standards.
 - Some – particularly non-profits and insurance providers such as the FDIC – follow FASB standards.
- The Financial Report of the US Government is audited.
 - Look for it between December 15th and the end of February. (2/26/2014 this year)
 - Referred to as “CFR” (Consolidated Financial Report)
- Resource page at the end will help you locate reports.

Quick Intro to the CFR



- Provides three perspectives:
 - Accrual or “traditional” financial statements
 - Budgetary information
 - Long-term fiscal projections
 - ✦ Social insurance programs
 - ✦ Whole of government
- A Citizens Guide - summary and highlights
- Caution: receives a disclaimer of opinion from GAO

Net Cost is the amount that must be financed by tax revenue and, as needed, by debt.

**United States Government
Statements of Net Cost
for the Years Ended September 30, 2012**

for the Years Ended September 30, 2011

(In billions of dollars)	Gross Cost	Earned Revenue	Subtotal	(Gain)/Loss	Net Cost	(In billions of dollars)	Gross Cost	Earned Revenue	Subtotal	(Gain)/Loss	Net Cost
				from Changes in Assumptions						from Changes in Assumptions	
Department of Health and Human Services	\$924.0	\$67.8	\$856.2	\$0.3	\$1,848.3	Department of Health and Human Services	\$943.3	\$66.4	\$876.9	\$0.1	\$877.0
Social Security Administration	825.4	0.3	825.1	-	1,650.8	Social Security Administration	782.9	0.4	782.5	-	782.5
Department of Defense	784.7	56.0	728.7	70.4	1,639.8	Department of Defense	827.0	78.0	749.0	(32.0)	717.0
Department of Veterans Affairs	213.6	4.1	209.5	149.3	576.5	Department of Veterans Affairs	123.7	4.7	119.0	58.9	177.9
Interest on Treasury Securities Held by the Public	245.4	-	245.4	-	490.8	Interest on Treasury Securities Held by the Public	250.9	-	250.9	-	250.9
All other entities	851.8	222.6	629.2	100.2	1,803.8	All other entities	1,070.5	216.1	854.4	1.1	855.5
Total	\$3,844.9	\$350.8	\$3,494.1	\$320.2	\$3,814.3	Total	\$3,998.3	\$365.6	\$3,632.7	\$28.1	\$3,660.8

Earned revenue is on an accrual basis less allowance for losses.

Gross cost (in contrast to budget outlays) includes accruals for:

- cost of employee and veterans earned benefits (including legislated changes)
- environmental cleanup costs
- depreciation

and excludes expenditures for:

- capital acquisitions and investments

Gains and losses from changes in assumptions used to estimate federal employee pension, ORB, and OPEB liabilities are displayed separately from other costs.

Note that "cost" for entitlement payments for programs such as Social Security and Medicare represents the cash payments adjusted for any changes in current liabilities. So, accruing (actuarial) benefit costs are not included in annual cost. Hence, no liability for the future payments to or on behalf of participants is recognized on the balance sheet. Instead, the due and payable amount is recognized as a liability.

Actuarial projections are provided in the Statements of Social Insurance and Changes in Social Insurance Amounts.

**United States Government
Reconciliations of Net Operating Cost and Unified Budget Deficit
for the Years Ended September 30, 2012**

(In billions of dollars)

Net operating cost	-1,316.30
Components of net operating cost not part of the budget deficit:	
Increase in liability for military employee benefits (Note 15):	111.1
Increase in liability for veteran's compensation (Note 15)	227.9
Increase in liabilities for civ employ benefits (Note 15):	142.8
Increase in environmental and disposal liabilities (Note 16):	14.9
Net Decrease in other categories (e.g., depreciation, GSE liabilities)	-213
Components of the budget surplus (or deficit) that are not part of net operating revenue/(or cost):	
Capitalized fixed assets:	-70.7
All other reconciling items	13.9
Unified budget deficit	<u>-1,089.40</u>

Balance Sheets

(In billions of dollars)	2012	2011
As of September 30:		
Assets:		
Cash and other monetary assets (Note 2)	\$ 206.2	\$ 177.0
Accounts and taxes receivable, net (Note 3)	111.2	106.3
Loans receivable and mortgage backed securities, net	859.6	772.1
TARP direct loans and equity investments, net (Note 5)	40.2	80.1
Inventories and related property, net (Note 7)	299	296.1
Property, plant, and equipment, net (Note 8)	855	852.8
Debt and equity securities (Note 6 and Note 9)	110.2	110.6
Investments in Government-sponsored enterprises	109.3	133.0
Other assets (Notes 10 and 12)	157.6	179.3
Total assets	\$ 2,748.3	\$ 2,707.3
Stewardship land and heritage assets (Note 27)		
Liabilities:		
Accounts payable (Note 13)	\$ 65.2	\$ 63.4
Federal debt securities held by the public and accrued interest (Note 14)	11,332.3	10,174.1
Federal employee and veteran benefits payable (Note 15)	6,274.0	5,792.2
Environmental and disposal liabilities (Note 16)	339.0	324.1
Benefits due and payable (Note 17)	166.2	171.0
Insurance and guarantee program liabilities (Note 18)	156.4	161.7
Loan guarantee liabilities (Note 4)	74.6	63.0
Liabilities to Government-sponsored enterprises (Note 19)	9.0	316.2
Other liabilities (Notes 10 and 19)	432.6	427.0
Total liabilities	18,849.3	17,492.7
Contingencies (Note 22) and Commitments (Note 23)		
Net position:		
Earmarked funds (Note 24)	665.3	748.2
Non-earmarked funds	(16,766.3)	(15,533.6)
Total net position	(16,101.0)	(14,785.4)
Total liabilities and net position	\$ 2,748.3	\$ 2,707.3

Statement of Social Insurance - Summary Section

	2012	2011	2010	2009	2008
<i>Participants who have attained eligibility age:</i>					
Revenue (e.g., Contributions and earmarked taxes)	1,970	1,737	1,628	1,427	1,333
Expenditures for scheduled future benefits	-16,662	-14,688	-13,661	-13,262	-12,369
Present value of future expenditures in excess of future revenue	-14,692	-12,951	-12,033	-11,835	-11,036
<i>Participants who have not attained eligibility age:</i>					
Revenue (e.g., Contributions and earmarked taxes)	36,024	33,620	32,263	30,621	29,851
Expenditures for scheduled future benefits	-72,936	-66,942	-63,287	-70,931	-67,950
Present value of future expenditures in excess of future revenue	-36,912	-33,322	-31,024	-40,310	-38,099
Closed-group – Total present value of future expenditures in excess of future revenue	-51,604	-46,272	-43,057	-52,145	-49,135
<i>Future participants:</i>					
Revenue (e.g., Contributions and earmarked taxes)	30,639	29,037	28,075	25,491	24,743
Expenditures for scheduled future benefits	-17,589	-16,594	-15,875	-19,224	-18,578
Present value of future revenue in excess of future expenditures	13,050	12,443	12,200	6,267	6,165
Open-group – Total present value of future expenditures in excess of future revenue	-38,554	-33,830	-30,857	-45,878	-42,970

United States Government
Statement of Changes in Social Insurance Amounts
for the Year Ended September 30, 2012 (Note 26)

	Social Security	Medicare HI	Medicare SMI	Other (e.g. Railroad Retirement)	Total
(In billions of dollars)					
Net present value (NPV) of future revenue less future expenditures for current and future participants (the "open group") over the next 75 years, beginning of the year	-9,157	-3,252	-21,320	-101	-33,830
Reasons for changes in the NPV during the year:					
Changes in valuation period	-473	-125	-1,013	-2	-1,613
Changes in demographic data and assumptions	-140	-97	752	3	518
Changes in economic data and assumptions	-1,037	-	-	-2	-1,039
Changes in law or policy	-	153	40	-	193
Changes in methodology and programmatic data	-471	-	-	-	-471
Changes in economic and other healthcare assumptions	-	-2,546	-55	-	-2,601
Change in projection base	-	286	3	-	289
Net change in open group measure	-2,121	-2,329	-273	-1	-4,724
Open group measure, end of year	-11,278	-5,581	-21,593	-102	-38,554

Totals may not equal the sum of components due to rounding.

New Financial Statement for 2015



- **Statement of Long-Term Fiscal Projections**
 - Whole of government receipts and non-interest expenditures
 - ✦ For a period sufficient to demonstrate sustainability (typically 75 years)
 - ✦ Receipts by major type
 - ✦ Major programs presented separately
 - Trends and narrative accompanying the statement offer critical context
 - ✦ Resulting debt to GDP and fiscal gap (change needed to meet a certain level of debt to GDP)
 - ✦ Timing of flows
 - ✦ Consequences
 - Available since 2010 as required supplementary information

\$s in Trillions

Table 1: Long Term Projections of Federal Receipts and Spending
75-Year Present Values 1

%GDP 2

Receipts:	2012	2011	Change	2012	2011	Change
Social Security Payroll Taxes	\$ 42.1	\$ 39.1	\$ 3.0	\$ 4.3	4.4	-0.1
Medicare Payroll Taxes	\$ 14.1	\$ 13.0	\$ 1.1	\$ 1.5	1.5	0
Individual Income Taxes	\$ 97.5	\$ 93.5	\$ 4.0	\$ 10.0	10.5	-0.5
Other Receipts	\$ 37.9	\$ 34.7	\$ 3.2	\$ 3.9	3.9	0
Total Receipts	\$ 191.6	\$ 180.2	\$ 11.4	\$ 19.7	20.3	-0.5
Non-interest Spending:						
Social Security	\$ 57.5	\$ 51.8	\$ 5.7	\$ 5.9	5.8	0.1
Medicare Part A 3	\$ 22.7	\$ 17.6	\$ 5.0	\$ 2.2	2	0.2
Medicare Parts B&D 4	\$ 22.2	\$ 21.1	\$ 1.1	\$ 2.4	2.4	0
Medicaid	\$ 26.1	\$ 24.0	\$ 2.2	\$ 2.7	2.7	0
Security Discretionary	\$ 30.4	\$ 28.7	\$ 1.7	\$ 3.1	3.2	-0.1
Non-security Discretionary	\$ 16.1	\$ 15.4	\$ 0.7	\$ 1.7	1.7	-0.1
Other Mandatory	\$ 33.2	\$ 28.1	\$ 5.1	\$ 3.4	3.2	0.3
Total Non-interest Spending	\$ 208.2	\$ 186.7	\$ 21.5	\$ 21.4	21	0.5
Non-interesting Spending less Receipts	\$ 16.5	\$ 6.4	\$ 10.1	\$ 1.7	0.7	1

¹ 75-year present value projections for 2012 are as of 9/30/2012 for the period FY 2013-2087; projections for 2011 are as of 9/30/2011 for the period FY 2012-2086.

² The 75-year present value of nominal GDP, which drives the calculations above, is \$971.3 trillion starting in FY 2013, and was \$889.8 trillion starting in FY 2012.

³ Represents portions of Medicare supported by payroll taxes.

⁴ Represents portions of Medicare supported by general revenues. Consistent with the President's Budget, Parts B & D are presented net of premiums, and Part D also net of state contributions.

NOTE: Totals may not equal the sum of components due to rounding.

Hot Topics

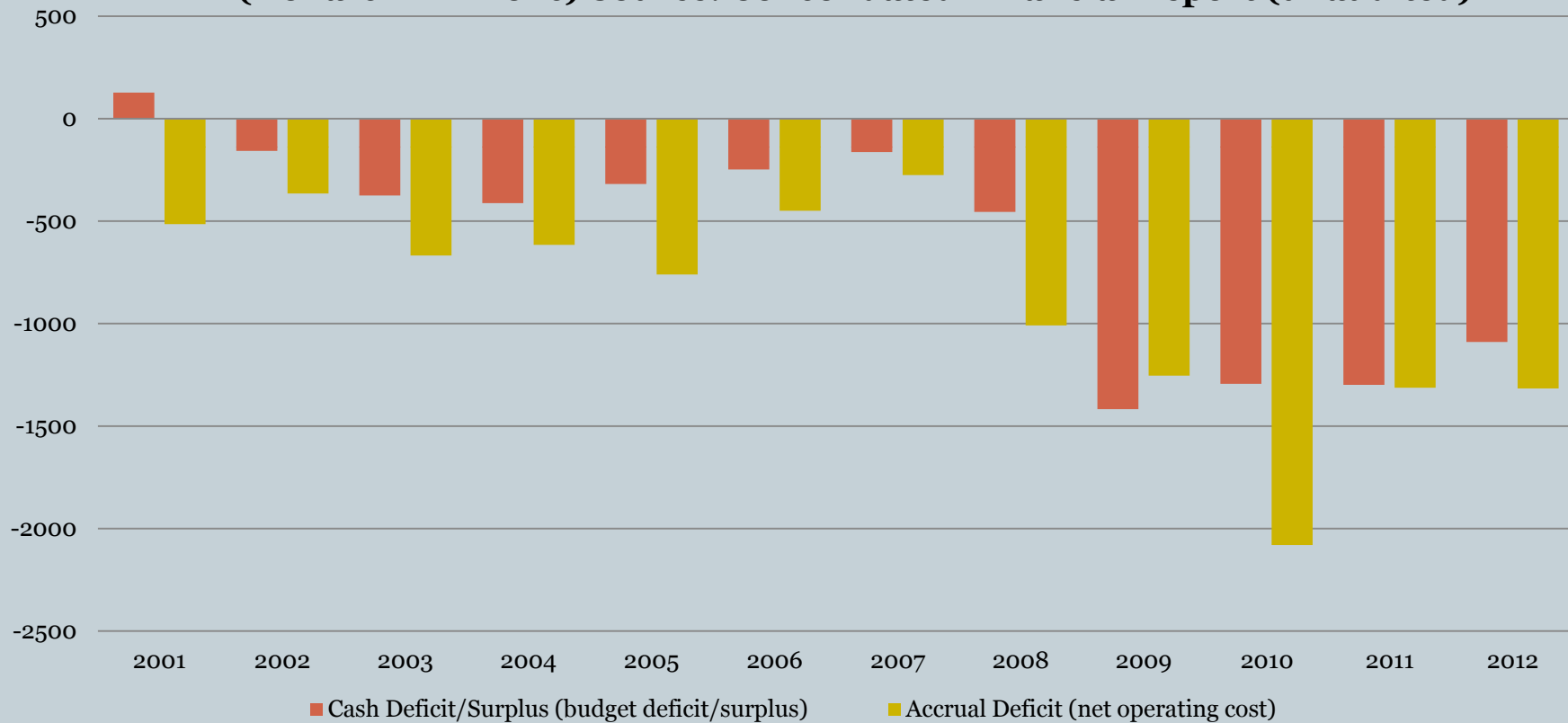


- Cost of government programs
- Tax preferences (tax expenditures)
- Reporting entity, public-private partnerships, and leases
- Audit Results - Department of Defense and CFR

Key Trends – Cost of Government



Cash and Accrual Surplus/Deficit by Fiscal Year
(Dollars in Billions) Source: Consolidated Financial Report (unaudited)

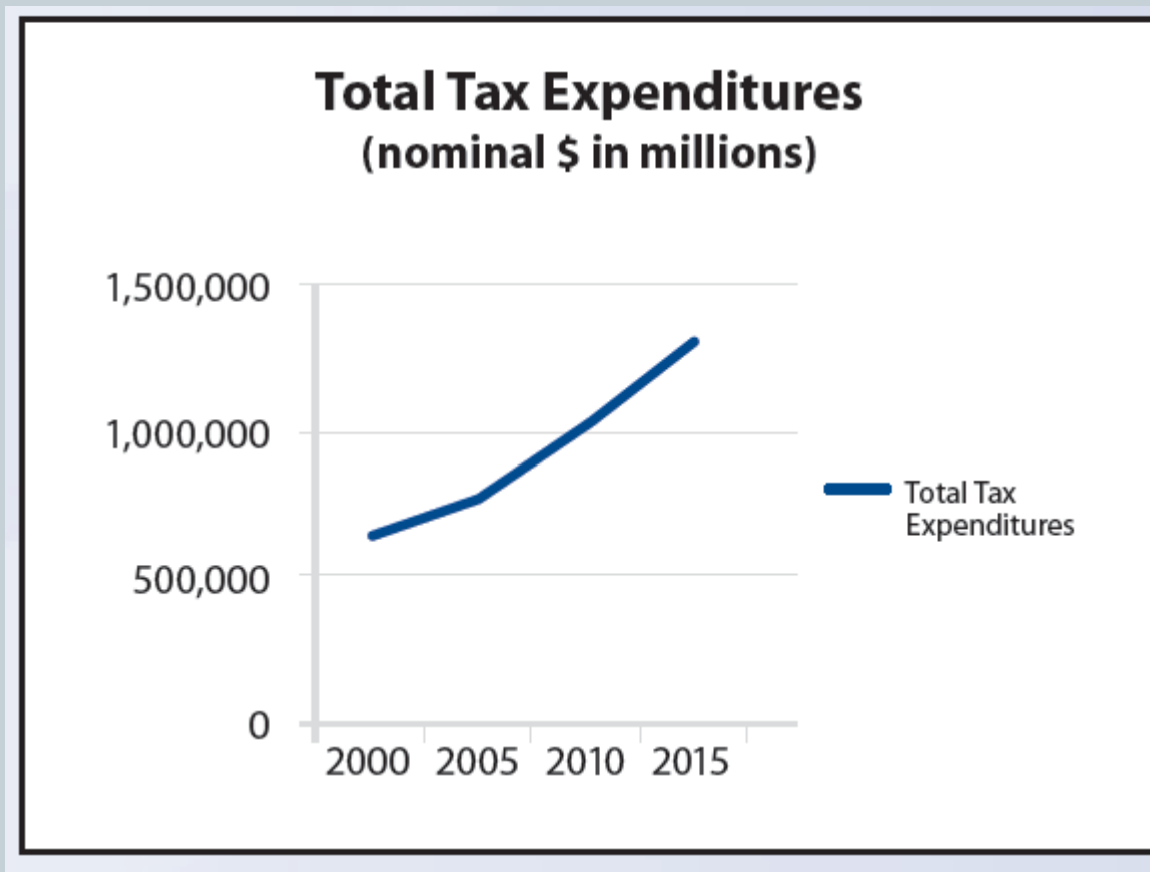


Level of Detail in Cost Information?



- **Budget does not really focus on cost of service.**
 - Budget functions (Health, National Defense, Income Security...)
 - Object classes (employee salaries and benefits, acquisition of assets)
- **Statement of Net Cost**
 - Agency level is usually presented by strategic goal. Some agencies provide more detail (see HHS – page 153 - <http://www.hhs.gov/afr/2013-hhs-agency-financial-report.pdf>)
 - CFR is by department.
- **Open government sites provide budgetary basis information by transaction.**
- **Issues – disaggregation, comparability, and quality**

Tax preferences or expenditures



Tax Preferences



- Details are available from other sources but not in CFR.
- Complexity of tax code may obscure understanding of federal revenues.
- Tax code includes preferences that are not substitutes for spending (such as progressive features).
- Some preferences appear to be substitutes for spending.
 - Mortgage interest deduction – is it a housing subsidy?
 - Earned income tax credit – is it a safety net program?
- How should we portray tax expenditures in financial reports?

Reporting Entity, P3s, and Leases



- Many unique – quasi-governmental – organizations
 - New standards planned for late 2014
- Public-private partnerships increasing in the federal space
 - Used to acquire facilities or expertise
 - Energy savings arrangements – capital improvements
 - Partnerships to put federal assets to better use
- Leases – are all leases a means of financing assets?
 - Improve visibility into financing costs

Audit Opinions



- A great deal of progress since 1990 (passage of the CFO Act requiring audits)
- However...
 - Department of Defense – disclaimer
 - CFR - disclaimer

Resources



- Treasury – Consolidated Financial Report of the US Government
<http://www.fms.treas.gov/fr/index.html>
- Treasury Resources – links to agency reports, President’s Budget, and various regulations –
http://www.fms.treas.gov/finrep12/fr_resources.html#agency
- GAO Reports on Long-Term Fiscal Outlook
<http://www.gao.gov/special.pubs/longterm/>
- GAO Guide to Understanding Financial Reports
<http://www.gao.gov/assets/80/77222.pdf>

More Resources



- FASAB – www.fasab.gov
- FASAB links to agency reports - <http://www.fasab.gov/resources/federal-financial-reports/>
- Office of Management and Budget – www.omb.gov

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