



**April 15, 2016**

Memorandum

To: Members of the Board

*Wendy M. Payne*

From: Wendy M. Payne, Executive Director

Subj: Updated Project Timelines and New Priorities– **Tab F**<sup>1</sup>

**MEETING OBJECTIVES**

- To review and provide input regarding:
  - ✓ the status of priority projects
  - ✓ priorities among potential projects

**BRIEFING MATERIAL**

This memo updates members regarding active project progress, summarizes the February discussion of responses to our three-year plan, and poses questions for discussion at the meeting.

Attachment 1 – Potential Projects Listing from the 2015 Annual Report and Three-Year Plan

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

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## BACKGROUND

Six responses to our FY2016-2018 three-year plan were received. (Responses indicating “no comment” are not reflected in this total.) In addition to the direct responses to the report, staff hosted two roundtable discussions with independent public accounting (IPA) firm audit and advisory practice representatives. Complete responses were provided in your February 2016 briefing materials and are available at [http://files.fasab.gov/pdffiles/tab\\_J\\_3\\_year\\_plan\\_feb\\_2016.pdf](http://files.fasab.gov/pdffiles/tab_J_3_year_plan_feb_2016.pdf).

### Summary of Input Received Regarding Three-Year Plan

There is strong support for the active projects. The respondents offered input on a variety of topics. Support was expressed for the following areas listed in order of frequency of mention:

- Financial performance reporting
- Managerial cost accounting
- Land
- Electronic reporting (with one respondent suggesting that the Board not create any additional requirements and others suggesting the Board assist in DATA Act implementation)
- Evaluate existing standards
- Financial/economic condition reporting
- Asset retirement obligations
- Derivatives
- Parent-Child Issues

Some participants in the IPA roundtables encouraged the Board to develop a codification of the standards.

Also, for next year’s three-year planning effort, we are considering ways to survey the preparer community. Some suggested that a survey would allow for candid responses from individuals at different levels in the organizations.

In addition to the official feedback on the three-year plan, the tax expenditures task force has indicated a need to follow-up with a broader effort to review revenue reporting. Such an effort would consider whether an approach other than “tax expenditures” might be needed to fully meet reporting objectives.

Note also that the revenue standards have not been reviewed since their issuance in 1996. Some respondents to the 2014 three-year plan noted that changes in FASB revenue standards suggested a need to review existing exchange revenue standards. In addition, SFFAS 7 provides for classification as exchange/non-exchange based on an authoritative appendix specifically identifying revenues. Some have questioned whether the classifications support consistent treatment of like revenues.

## February Member Input

At the last meeting, members considered the input and provided their top three priorities from among the potential projects. The most significant result was that seven members ranked one or more potential projects related to performance reporting (Financial Performance Reporting, Financial/Economic Condition Reporting, Performance Reporting, and Cost Accounting) in their top three priorities. However, no single potential project received majority support from members.

**Table 1: Member Priorities as of February 2016**

<b>Potential Projects Rated as Top 3</b>	<b># of Members</b>
<b>Projects Relating to Performance:</b>	
Financial Performance Reporting	3
Financial/Economic Condition Reporting	2
Performance Reporting	2
Cost Accounting	2
What is meant by performance statements as part of RSI in reporting model	1
Defining programs & activities so that cost can be reported	1
Performance Measurement	1
<b>Subtotal of Top 3 rankings relating to performance</b>	<b>12</b>
<b>Other potential projects:</b>	
Electronic	3
Summary or Popular Reporting	2
Land	2
Asset Retirement Obligations	2
Public-Private Partnerships—Phase 2	1
GAAP Hierarchy	1
Sustainability	1
"Budget" to Actual	1
Liability for civilian and military pensions is growing	1
Improve clarity regarding intragovernmental debt	1
Risk Assumed	1

Member comments (see the February minutes, pages 30-33) imply:

1. Electronic reporting is a hard to define project and seems to be addressed in some respects through DATA Act implementation. Ultimately, relating outlays and obligations to an appropriation, program activity, and finally program would be of great benefit.

2. Cost accounting is defined differently by different people and project goals are hard to define and, therefore, attain. In addition, the greater challenge seems to be in motivating agencies to undertake cost accounting.
3. There seems to be an intersection among the projects to define programs, cost accounting, and electronic reporting. An effort to address electronic cost accounting and financial performance reporting may be needed but a definition of program must precede it.
4. Budgetary reporting remains challenging to understand but some members continue to desire a clear budget to actual statement.
5. Popular reports are most likely to be read. They provide an excellent outreach tool. Clear guidance regarding good, effective communication is needed, but it would not necessarily be in a standard.
6. One member believes intragovernmental debt is poorly understood. Clarifying the impact of such debt would be helpful to citizens.
7. Growing liabilities such as employee pensions and other post-employment benefits should be highlighted and presented in a clearer manner.
8. Awareness of the financial reports is important. Thus, projects that would have broad impact should be undertaken.

Because members expressed uncertainty about the objectives of some potential projects and the potential for some overlap among the projects relating to performance, I believe a focus on potential project objectives relating to performance may help identify areas we can best contribute to improved reporting. Members are asked to rank the objectives in preparation for discussion at the meeting. It may be helpful for you to provide your ranking before the meeting so an excel spreadsheet of the objectives was included with the softcopy emailed to you. Note that the objectives do not presume that accounting standards are to be developed; instead, we will discuss the best vehicle for guidance later. For example, a recommended practice guide or research report may be useful.

Traditionally, the board has prioritized projects based on the following factors:

- a) the likelihood a potential project will significantly contribute to meeting the operating performance and stewardship reporting objectives established in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*;
- b) the pervasiveness of the issue among federal entities; and
- c) the potential project's technical outlook and resource needs.

Additional factors considered significant by individual members in planning the technical agenda have included:

- (1) a focus on citizens and citizen intermediaries as the primary users of the financial report of the U.S. government,
- (2) attention to the needs of Congress and program managers,
- (3) impacts on preparers and auditors due to declining real budgets,
- (4) increasing risks due to fiscal uncertainty and operational complexity, and
- (5) more electronic reporting.

## **Performance Related Projects**

Members identified the following topics as important at the February meeting:

- a. Financial Performance Reporting
- b. Financial/Economic Condition Reporting
- c. Performance Reporting
- d. Cost Accounting
- e. What is meant by performance statements as part of RSI in reporting model?
- f. Defining programs & activities so that cost can be reported
- g. Performance Measurement

Federal GAAP has address many aspects of the above topics. For example, SFFAS 15 requires that management's discussion and analysis contain a section addressing the reporting entity's mission and organizational structure, and performance goals, objectives, and results. SFFAS 4, *Managerial Cost Accounting Concepts and Standards*, addresses identification of responsibility segments, reporting of full cost, recognition of inter-entity costs, and costing methodology. However, the integration of cost or other financial measures in performance reports appears to be limited.

Federal departments and agencies are required to produce performance reports each year, no later than 150 days after the end of the fiscal year. They are to provide an update on performance, by comparing actual performance achieved against the performance goals established in performance plans. When reporting on performance, they must ensure performance reporting updates contain specific elements:

- performance reporting process;
- review of performance for preceding 5 years;
- evaluation of current performance plan to performance achieved;
- actions for unmet goals;
- describe the use and assess the effectiveness in achieving agency performance goals of any waivers for managerial accountability and flexibility;
- a review of the performance goals relative to the agency's strategic human capital management;
- describe how the agency ensures data accuracy and reliability; including an identification of:
  - the means used to verify and validate measured values;
  - the sources for the data;
  - the level of accuracy required for the intended use of the data;
  - any limitations to the data at the required level of accuracy; and

- how the agency has compensated for such limitations if needed to reach the required level of accuracy; and
- summary of program evaluation findings.<sup>2</sup>

A central website – [www.performance.gov](http://www.performance.gov) – provides easy access to performance reports. The website is described as follows:

#### About This Site

Performance.gov is a window to the Administration's efforts to deliver a more effective, smarter, and leaner government. The site gives the public, agencies, members of Congress, and the media a view of progress underway in cutting waste, streamlining government, and improving performance.

Performance.gov advances the President's commitment to communicate candidly and concisely what the Federal Government is working to accomplish, how it seeks to accomplish its objectives, and why these efforts are important.

All cabinet departments and nine other major agencies have agency pages on Performance.gov. Each agency's page describes the agency's mission and lists the agency's strategic goals, objectives, and Priority Goals. Each agency's home page also provides links to the agency's strategic plan, annual performance plan, and annual performance report; reports agency progress on government-wide management initiatives; and shows agency contributions to Cross-Agency Performance (CAP) goals.

We invite you to look through Performance.gov to learn more about how the government is working to get the most from taxpayer dollars and to deliver the best service possible to the American people. We welcome your suggestions for improvement here.

Much has been accomplished in performance reporting at the federal level. This memo cannot provide a thorough overview. Instead, highlights are provided relating to how financial information appears in selected instances. A more thorough review would be needed to make firm conclusions so please consider this an introduction.

The image below shows how cost savings are presented in a highlight section of the home page:

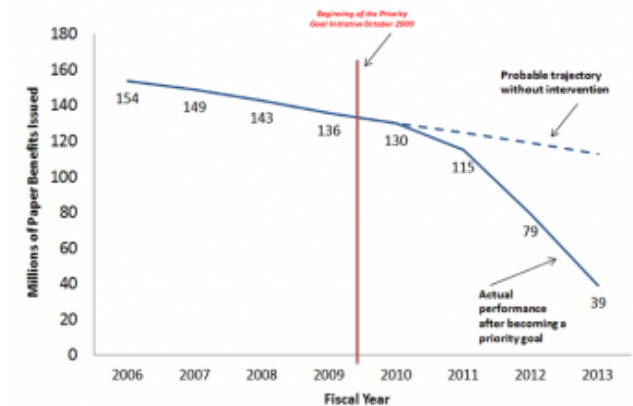
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<sup>2</sup> Adapted from [http://www.gao.gov/key\\_issues/managing\\_for\\_results\\_in\\_government/issue\\_summary](http://www.gao.gov/key_issues/managing_for_results_in_government/issue_summary) "Agency Performance Reporting" section.

## Saving millions for the American People

The Department of the Treasury estimates that it has saved the American people hundreds of millions of dollars by creating an Agency Priority Goal around increasing electronic transactions with the public to improve service, prevent fraud, and reduce costs. Included in this goal was an effort to modernize the Federal government's payment and collection systems, which resulted in paper benefit payments dropping from 131 million in 2010 to 39 million in 2013, allowing us to get money to beneficiaries and back into the economy faster than ever. At the same time, electronic collections jumped from 85 percent of total collections in 2010 to 97 percent in 2013, reducing costs to the Federal government.

[Increase Electronic Transactions with the Public to Improve Service, Prevent Fraud, and Reduce Costs](#)



From the home page, users can select agencies or goals. For each agency, the mission statement and an overview are provided. On the left side, users can access more detailed performance reports or pages.



*John B. King, Jr.*  
Acting Secretary

## Department of Education (ED)

**MISSION:** The U.S. Department of Education's mission is to promote competitiveness by fostering educational excellence and ensuring equal opportunity. By the year 2020, America will once again have the best-educated, most competitive proportion of college graduates of any country. To do this, the United States must close the opportunity gaps so that all youth—regardless of their backgrounds—can succeed in college and careers. Specifically, ED's 4,400 employees and \$68 billion in federal programs:

- Establishing policies on federal financial aid for education, and
- Collecting data on America's schools and disseminating research
- Focusing national attention on key educational issues.
- Prohibiting discrimination and ensuring equal access to education

**THEMES:** EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL JUSTICE

### Overview

**Strategic Goals & Objectives** ⓘ

**FY16-17 Agency Priority Goals** ⓘ

**FY14-15 Agency Priority Goals** ⓘ

### OVERVIEW

The Department operates programs that touch on every area and secondary programs annually serve nearly 14,000 school district public schools and 33,000 private schools. Department programs serve more than 15 million postsecondary students. In the past three years, the Department has consolidated programs from kindergarten through college to save expenses, and better serve states, schools, students, and families.

The U.S. Department of Education Strategic Plan for Fiscal Year 2016

At the bottom of each page (see screen shot below), there are links to “Agency Plans and Reports” that allow the user to access reports including the Agency Financial Report.





Download

Featured Report

[Agency Plans and Reports](#)

[Agency Strategic Plan](#)

In addition to the performance reporting, federal contract, grant, loan, and other financial assistance awards of more than \$25,000 is displayed on a searchable, publicly accessible website - USASpending.gov. Also, the DATA Act requirements are intended to expand and improve the quality of USASpending and should be considered. Because we have an update scheduled for April 27<sup>th</sup>, no overview is provided here.

Further, we have educational session scheduled for April 27<sup>th</sup> regarding OMB's program coding project. Together, these sessions will provide you with information relevant to the potential objectives outlined below.

The project goal implied by the group of highly rated projects would be to improve reporting of performance information. However, members may have different views about what improvements are needed and how FASAB could contribute to such improvements.

To clarify what performance-related objectives members believe would be helpful and appropriate for FASAB, please be prepared to rank the potential project objectives identified below during the meeting. Note that such an effort would require engaging the stakeholders broadly and a diverse task force would be required.

Also, note that the objectives overlap to some extent. This was intentional so that members could indicate a broader or narrower objective; thus, some objectives would be excluded.

#### Potential Objectives Related to Performance:

- a) Identify the users of performance information and the types of financial information they desire
- b) Determine whether the reporting boundary for performance should be the same boundary as for financial reporting and how the boundary (scope) of the report(s) should be described.
- c) Identify performance reporting objectives and qualitative characteristics desired by users (for example, performance reporting should enable users to identify the efforts and accomplishments as well as their efficiency and effectiveness)

- d) Identify aspects of the organization, budget, strategic plan, and other structures (or management aspects) of federal agencies that indicate the boundaries of a “program”
- e) Define “program” and establish guidance on applying or implementing the definition
- f) Identify factors that should be considered in determining how to aggregate or disaggregate performance and financial information
- g) Identify factors to consider in aggregating transaction level data
- h) Identify factors to consider regarding the need for comparability (for example, what factors imply a greater need for comparability versus a lesser need) and how users can be alerted to comparability issues (if needed)
- i) Identify elements of effective performance reports such as:
  - i) Measures of efforts (inputs, resources, or costs)
  - ii) Accomplishments (outputs and outcomes)
  - iii) Measures relating efforts and accomplishments (efficiency and effectiveness measures)
  - iv) Discussion and analysis
- j) Require a complete performance statement within financial reports and specify what it should include (for example, measures of efforts and accomplishments and/or the relationship between efforts and accomplishments (efficiency and effectiveness measures))
- k) Define terms used in performance reporting such as:
  - i) Effectiveness
  - ii) Efficiency
  - iii) Inputs (budgetary, financial, and other resources such as FTE)
  - iv) Outputs
  - v) Outcomes
  - vi) Performance indicators
  - vii) Objectives
- l) Develop an inventory of financial terms and plain language definitions that may be useful in performance reporting (for example, the many types of cost (budget) information and varied use of the term “cost” (budget))
- m) Recommend financial information that might be displayed (such as total cost of service, incremental cost of service, spending, transfers, administrative costs, obligations, or outlays) and factors that influence selection among them
- n) Identify financial performance measures, assist in selecting among them, suggest plain language explanatory information, and describe the challenges and limitations of government financial performance measures

- o) Identify information helpful for assessing financial or economic condition such as:
  - i) Key financial ratios are useful in assessing the financial health of the entity
  - ii) Information about the tax system that could be an indicator of financial health
  - iii) Cost trend information at disaggregated levels
  - iv) External reports such as rating agency reports
  - v) Benchmarks against other nations/departments
  - vi) Inter-governmental financial dependency measures
- p) Develop a guide to using, developing, and reporting cost information
- q) Provide a framework for integrating budget, costs, and service performance information
- r) Develop a taxonomy of auditable accounting codes that tie each expense journal entry to a type of benefit or outcome

## **Electronic Reporting Project**

Three members expressed interest in the electronic reporting potential project. The three-year plan describes the project as follows:

Electronic reporting is increasingly viewed as a means to convey financial information about government. This is evidenced not only by sites such as USAspending.gov and Recovery.gov but also by the universal practice of posting annual financial reports to federal websites and the emerging practice of providing a highlights document accompanied by an electronic copy of the full report. More recently, a requirement that performance reports be provided electronically rather than in printed form was established in law — the GPRA Modernization Act (GPRAMA). Also, the DATA Act of 2014 demonstrates a growing expectation that machine readable data be provided that links specific transactions with program activities and associated metadata.

This is an area of great interest to the profession. The Association of Government Accountants issued Research Series Report No. 32 on e-Reporting in July 2012. The full report is available at [http://www.agacgfm.org/Research-\(1\)/Research-Publications.aspx](http://www.agacgfm.org/Research-(1)/Research-Publications.aspx). The AGA report revealed a desire for common definitions, formats, and content among survey participants. Useful information regarding desired reporting and the need for standards and/or best practice guidance was provided through the research report.

The AGA report recommends, among other actions, the following actions relevant to standard-setting:

1. “An organization, group or taskforce of stakeholders should be appointed from the standard-setting community, federal, state and local government preparers, representatives from various public interest groups, and citizen-users — all with the collective charge to develop guidelines through an open dialogue and with a shared vision for data formatting and common reporting. This group should also encourage the discovery and recommendation of and reward for best practices in government financial, non-financial and performance information reporting.”

2. The above group should “set definitions and strategies and create uniform standards for data content, database design and logical data model constructs for easier extraction, transformation and processing. Integrating federal, state and local information is critical. Standardization must be stable and able to survive challenges from preparers, data providers, systems vendors and users among others who are wedded to their existing systems and approaches.”<sup>3</sup>

Given these trends and concerns, the board plans to consider concepts for electronic reporting in its reporting model project. Respondents may wish to consider whether a separate effort would be beneficial and provide insights regarding needed guidance.

The most recent AGA report related to electronic (or open data) reporting – *Bringing Financial Reporting into the Age of Open Data and Open Government—Three Approaches* – is included in the front material of this meeting’s binder. The three approaches are (1) audited general-purpose financial statements with drill-down capability, (2) selected data sets, and (3) checkbook-level reporting. The report acknowledged that these approaches are not mutually exclusive and can serve user needs in complementary ways.

The project goal would be to improve electronic reporting of financial information. However, members may have different views about what improvements are needed and how FASAB could contribute to such improvements.

To clarify what electronic reporting objectives members believe would be helpful and appropriate for FASAB, please be prepared to rank the potential project objectives identified below during the meeting. Note that such an effort would require engaging the stakeholders broadly and a diverse task force would be required.

Also, note that the objectives are organized using the three approaches identified in the AGA report and overlap to some extent. This was intentional so that members could indicate a broader or narrower objective; thus, some objectives would be excluded.

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<sup>3</sup> Association of Government Accountants, e-Reporting, July 2012, pages 20-21.

### Potential Objectives Related to Electronic Reporting:

- I. Provide audited generally accepted accounting principles-based financial statements online and provide a capability for users to drill down from amounts presented in the general purpose financial statements.
  - a) Identify the users and their objectives
  - b) Provide a framework for creating drill-down capabilities that contribute to meeting those objectives.
  - c) Provide guidance on the use of alerts for readers moving from audited level data to unaudited data.
  - d) Set definitions and strategies and create uniform standards for data content.
  - e) Set definitions and strategies and create uniform standards for database design and logical data model constructs for easier extraction, transformation and processing.
  - f) Set guidelines for integrating federal, state and local information.
- II. Identify financial and related information data sets that, for various reasons, would be very useful to users and make those data available in a manner that enables users to drill down and otherwise manipulate the data and/or download the data for further research.
  - g) Identify the users and their objectives
  - h) Identify financial datasets that contribute to meeting those objectives.
  - i) Identify related information datasets that contribute to meeting those objectives.
  - j) Identify financial and related information datasets that contribute to meeting those objectives.
  - k) Set definitions and strategies and create uniform standards for data set content.
  - l) Set definitions and strategies and create uniform standards for database design and logical data model constructs for easier extraction, transformation and processing.
  - m) Set guidelines for integrating federal, state and local information.

- III. List on the Internet, all of the government's/agency's expenditures in a manner that enables the individual amounts to be examined, manipulated and downloaded for further analysis.
- n) Identify the users and their objectives
  - o) Identify data aggregation schemes that allow users to meet those objectives.
  - p) Establish plain language definitions for aggregations of data elements that contribute to user understanding of data. (For example, key financial or organizational terms that allow aggregation of like data so that complete information results)
  - q) Establish plain language definitions for data elements that contribute to user understanding of data.
  - r) Identify financial and related information datasets that contribute to meeting those objectives.
  - s) Set definitions and strategies and create uniform standards for data set content.
  - t) Set definitions and strategies and create uniform standards for database design and logical data model constructs for easier extraction, transformation and processing.
  - u) Set guidelines for integrating federal, state and local information.

## **Summary or Popular Reporting**

While only two members expressed interest in a potential project regarding Summary or Popular Reporting, it is included here because it also relates to performance reporting (the area most highly rated by members). It is through popular reporting that most citizens are likely to learn about their government's performance. GASB research findings regarding popular reporting by state and local governments include the following:

1. 77 percent of local governments and 85 percent of state governments responding to a survey publish some type of popular financial report by various titles including budget summaries, popular annual financial reports, service efforts and accomplishments reports, financial trends reports, and state of the government annual reports.<sup>4</sup>
2. Little consistency exists in the types of information that are reported in popular reports or in the way the information is presented and published.
3. Focus groups and other research efforts led to a definition of effective popular reports as "short, visually appealing and timely, providing financial information

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<sup>4</sup> GASB, Technical Plan, Potential Projects

relevant to citizen interests and concerns including broad community issues and are widely distributed and made accessible to citizens.”<sup>5</sup> In addition, criteria were developed for each of these aspects. For example, relevant financial information criteria include:

- a. Provides:
  - i. timely information
  - ii. information on revenues and major taxes
  - iii. information on expenditures and cost of government services
  - iv. information on cost and impact of “big ticket” capital projects
  - v. information on amount, cost and affordability of debt
- b. Focuses on government outcomes and performance
- c. Addresses issues that are visible and tangible to citizens
- d. Contextualizes the data through trend analysis, per capita information, benchmarks and comparisons to other cities

Currently, federal component reporting entities producing an agency financial report (AFR) are required<sup>6</sup> to publish a summary of performance and financial information (SPFI) by February 15<sup>th</sup>. Guidance regarding FY 2015 content was:

1. Agencies may choose to present the information in:
  - A 3-8 page high-level summary,
  - A 25-30 page more detailed summary, or
  - An MD&A that can be easily extracted from the PAR or AFR and issued as an independent report.
2. The document, at a minimum, should include the following elements:
  - Agency mission and strategic goals and objectives;
  - Summary of performance results:
    - Include only a limited number of key, representative performance measures;
    - Historical performance trend data for the entity’s strategic goals and the selected key performance measures/indicators associated with those goals;
    - A candid assessment of whether the agency met or did not meet its goals and progress toward meeting them demonstrated by trend data, where possible;
    - Include specific examples of progress and problems within the context of how outcomes are achieved;
    - Link the presentation of budget and cost information with performance measures, where feasible;

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<sup>5</sup> Yusuf, Juita-Elena, PhD; Jordan, Meagan M, PhD. Effective Popular Financial Reports: The Citizen Perspective. *The Journal of Government Financial Management*; Winter 2012; page 48.

<sup>6</sup> OMB Circular A-136, Section III: Summary of Performance and Financial Information. Last accessed April 7, 2016 at [https://www.whitehouse.gov/sites/default/files/omb/assets/OMB/circulars/a136/a136\\_revised\\_2015.pdf](https://www.whitehouse.gov/sites/default/files/omb/assets/OMB/circulars/a136/a136_revised_2015.pdf)

- Summarized financial statement data. This information is based on the same underlying data as the financial statements presented in the PAR and AFR;
- Summary of significant management challenges identified by the IG as well as GAO reports that the agency needs to address or progress toward them demonstrated by trend data (e.g., IG and GAO reports, where appropriate);
- Specific references and Internet links that will take the reader to the supporting evidence for the information on the agency's program and financial performance (e.g., relevant sections of the agency's PAR, AFR, APR, and CBJ, and other related documents). The links will provide the reader with the exact location of the information in a document and not a general link to the document itself;
- Include specific examples of progress and problems within the context of how outcomes are achieved; and
- Optimize the use of Web links to relevant documents including the PAR, AFR, APR, and CBJ performance evaluations and studies and additional information that will support the content of the document.

I reviewed fourteen 2015 SPFIs to identify areas for which practice aids might be beneficial. Nine SPFIs were between six and 14 pages in length. Five were between 29 and 72 pages in length. All the reports treated performance and financial information as separate matters. The performance sections rarely – if ever – included information regarding the inputs or service efforts (budgetary or cost) related to outputs or accomplishments presented. In some cases, the financial information aligned with strategic objectives identified at a high level in the performance section.

Presenting an effective SPFI for complex reporting entities seems challenging. Areas that I found particularly challenging in the financial section included:

1. Breadth of financial information presented (Is the goal completeness or most relevant?)
  - a. Should information from each financial statement be addressed in the summary?
    - i. Should all bases be presented? For example, some covered all financial statements, some only budgetary, and one omitted the statement of social insurance.
    - ii. Should condensed financial statements be provided or highlights?
  - b. What factors might be helpful in guiding selection of financial information?
2. Analytical content - Financial statement analysis is required in MD&A. Is it an important component of a SPFI? If so, can it be enhanced?
3. Explaining budgetary information
  - a. Do users understand what appropriations are?
  - b. When agencies have authority to use receipts to fund activities is the explanation clear? (Offsetting collections)
  - c. Do users understand the difference between budgetary and accrual information when both are presented?



## Potential Project Objectives:

The project goal would be to improve component reporting entity popular reports (currently titled: summary of performance and financial information). To clarify what objectives members believe would aid in meeting that goal, please be prepared to rank the potential project objectives identified below during the meeting. Note that such an effort would require engaging the stakeholders broadly and a diverse task force would be required.

Also, note that the objectives overlap to some extent. This was intentional so that members could indicate a broader or narrower objective; thus, some objectives would be excluded.

### Potential Project Objectives

- a) Identify the intended user(s) of such reports (for example, general citizens, key stakeholders such as grant recipients or state officials, appointed or elected officials, analysts or others)
- b) Consider the need for reporting objectives specific to popular reports (to possibly narrow the focus of the presentation)
- c) Identify specific report characteristics that effectively communicate information to the intended user (content as well as publication characteristics such as length, white space, use of graphs)
- d) Identify characteristics of summary financial information desired by the intended users
- e) Identify characteristics of summary budgetary information desired by the intended users
- f) Identify characteristics of summary performance information desired by the intended users
- g) Develop comprehensive guidance for preparers of popular reports including desired content regarding the organization, its performance and financial results, and publication characteristics (for example, length, white space, graphs).
- h) Develop criteria to assess the quality of popular reports (for example, similar to the CEAR review criteria)
- i) Develop guidance for (or examples of) relevant analysis of financial information (for example, factors to aid in selecting specific matters for further analysis, guidance on use of trend information, examples of analytical material extending beyond pointing to the amount of change in a line item)
- j) Develop guidance to facilitate integration of financial and performance information (for example, guidance on selecting among budgetary or financial amounts to present; guidelines for deciding whether to present appropriations, obligations, outlays, full cost, transfer payments, administrative costs or other amounts; example explanations in plain language for these terms)

- k) Identify ways to create awareness of the reports and make the reports more accessible
- l) Develop prototype popular reports useful to a variety of departments and agencies (for example, a prototype for a regulatory agency versus a service-delivery agency)

### **Questions for Members:**

Given the active projects timelines (see table 2 below), we would be able to add research projects within the next six months. My hope is that we can identify objectives for the top rated projects at this meeting and identify one or two research projects at the June meeting. In addition, note that we will be considering next steps for the reporting model project after the concepts are completed. The potential projects identified here relate in some ways to the reporting model but additional potential projects will be identified in late 2016 as a result of the reporting model concepts.

Please come prepared to rank objectives for each of the potential projects identified above. Alternatively, please suggest objectives not identified in this memo or potential projects you believe should be considered.

The excel spreadsheet provided with the softcopy of this memo may be useful in ranking the objectives. If you are able to submit it before the meeting, I will report the ranking results at the meeting and add other input to the ranking at the meeting.

If you have questions or suggestions, please contact me at 202.512.7357 or [paynew@fasab.gov](mailto:paynew@fasab.gov).

**Table 2 – Active Project Timelines**

Project and Objective	FY2016	FY2017	FY2018
<b>Financial Reporting Model</b>	Issue ideal model Exposure Draft concepts statement	Finalize ideal model concepts statement Identify and research discrete projects needed to support the ideal model and decide vehicle(s) for guidance	Develop and finalize proposals through discrete projects
<b>Leases</b> Evaluate existing standards to improve comparability and completeness of reporting	Issue Exposure Draft	Redeliberation	Finalize Standards
<b>Risk Assumed</b> Develop standards so that information about risks assumed by the federal government and their potential financial impacts are available	Issue Phase 1 Exposure Draft(s) Phase I Public Hearing  Begin Research for Phase II and III	Finalize Phase I Standards  Develop Exposure Drafts for Phase II	Phase I Implementation Guidance as Needed Issue Phase II Exposure Draft(s) Phase II Public Hearing Finalize Phase II Standards
<b>Department of Defense Request for Guidance</b>	Continue Liaison to the DoD Workgroups – Develop Due Process Documents and Seek Input	Continue to respond to requests for guidance	
<b>Tax Expenditures</b>	Issue Exposure Draft	Redeliberation Finalize Standards	

Project and Objective	FY2016	FY2017	FY2018
<b>Reconciling Budget and Accrual Information – Alignment between Agency and Government-wide Requirements</b> (This project is related to the reporting model project. Incremental changes will be considered first. Decisions regarding next steps will be taken as the ideal model is developed.)	Research	Issue Exposure Draft  Finalize Standards <u>Consider Next Steps in Reporting Model Project</u>	
<b>Land and Land Rights</b>	Research Begin Developing Exposure Draft	Issue Exposure Draft	Redeliberation Finalize Standards
<b>Public-Private Partnerships</b>	Issue P3 Disclosure Requirements Consider Implementation Guidance	Issue Implementation Guidance as Needed	Phase II – Recognition and Measurement
<b>Implementation Guidance (as needed in the year before or of implementation)</b>		Opening Balances (inventory and G- PP&E) Reporting Entity	Public-Private Partnerships (Disclosures)

## Potential Projects

After considering factors that may influence project priorities, the board begins its planning by reviewing potential projects identified by the Executive Director (see [page 26](#) for the rules of procedure governing agenda setting). Note that the list accumulates over time. Generally, potential projects are only removed if the issue has clearly been addressed through other projects.

Stakeholders are encouraged to contact the Executive Director to suggest potential projects or to provide insight regarding the projects identified here. Instructions for submitting comments are presented on [page 13](#).

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## Rules of Procedure Regarding Agenda Setting

The FASAB consults with the Executive Director to prioritize its potential projects. New projects are added to the active agenda based on periodic prioritization by the board. The Executive Director ensures that agenda decisions are initiated in advance of staff becoming available to take on new work so that pre-agenda research will be conducted. All agenda decisions are made at meetings of the FASAB by oral polling with agreement of at least a majority of members polled required for approval.

To prepare for the FASAB consultation, the Executive Director solicits timely suggestions from other individuals and organizations. The Executive Director, after consultation with the Chairperson, may publish brief descriptions of potential projects and request input from selected individuals and groups on the potential projects and other emerging issues. In addition, the Chairperson may decide to convene an agenda hearing to discuss potential projects with stakeholders. ...

In addition to agenda setting initiated by FASAB, any individual or organization may request in writing or at an open meeting that the FASAB address a new issue, or review or reexamine any effective Statement of Federal Financial Accounting Standards, Statement of Federal Financial Accounting Concepts, or other effective provision of federal accounting principles. The FASAB will respond to such communications and explain its disposition of the request.

## Asset Retirement Obligations

In some circumstances entities may be required to incur costs to retire assets. The board has established general standards for liability recognition and specific standards for liabilities associated with environmental cleanup (in SFFAS 5, *Accounting for Liabilities of the Federal Government*, and SFFAS 6, *Accounting for Property, Plant and Equipment*, respectively). However, there is no specific guidance regarding asset retirement obligations other than cleanup costs (e.g., hazardous materials required by law to be cleaned up) and the board has not considered whether asset retirement obligations meet the definition of a liability established in Statement of Federal Financial Accounting Concepts (SFFAC) 5, *Definitions of Elements of Accrual Basis Financial Statements*. GAAP for the private sector includes specific guidance regarding asset retirement obligations developed since issuance of SFFAS 6. Accounting Standards Codification 410-20, Asset Retirement obligations (formerly Financial Accounting Standards Statement No. 143, *Accounting for Asset Retirement Obligations* (issued 6/01)) requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. This creates three inconsistencies between entities following federal GAAP and those following FASB GAAP. One, certain liabilities recognized under FASB standards would not be recognized in the federal sector. Two, FASB standards require that liabilities be recognized in full when the obligation occurs while FASAB standards provide for incremental recognition so that the full liability is recognized at the end of the useful life of the asset requiring environmental cleanup. Three, the asset retirement costs are added to the total cost of the asset under FASB standards and are not in the federal sector; instead these costs are expensed as the liability is recognized.

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## *Cleanup Costs - Evaluating Existing Standards*

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SFFAS 6, *Accounting for Property, Plant and Equipment*, addresses cleanup costs. Issues regarding existing standards for cleanup costs include:

1. Whether the existing liability recognition provisions are consistent with element definitions established in SFFAC 5.
  - a) The liability may be understated because the obligation is to clean up the entire hazardous waste but SFFAS 6 provides for a gradual buildup of the liability balance as the related PP&E is consumed in service (the full cleanup cost is disclosed in a note).
  - b) The cost of PP&E may be understated because the SFFAS 6 requirement is to capitalize its acquisition cost; the later cost to retire the asset is excluded.
  - c) The scope of liability recognition is limited to costs to clean up hazardous substances rather than the full asset retirement obligation.
2. Cost-benefit issues relating to the level of precision required for estimates and ongoing concerns regarding the timing of recognition of asbestos liabilities (generally when asbestos exists rather than when it is to be removed) have been raised.

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## *Conceptual Framework – Review and Finalization*

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The board undertook a project to refresh its conceptual framework. Work began in 2006 and the stated objectives were a framework to:

- provide structure by describing the nature and limits of federal financial reporting including the boundaries of the federal reporting entity,
- identify objectives that give direction to standard setters,
- define the elements critical to meeting financial reporting objectives and describe the statements used to present elements,
- identify means of communicating information necessary to meeting objectives and describe when a particular means should be used, and
- enable those affected by or interested in standards to understand better the purposes, content, and characteristics of information provided in federal financial reports.

The board established a phased approach and in the case of the reporting entity phase the effort led to development of standards concurrent with amendments to existing concepts. The board envisioned a final review of the resulting concepts to ensure consistency across the framework and to confirm its coverage is comprehensive. The board has issued new concepts on elements of accrual bases financial statements, measurement of those elements, and placement of information (basic, required supplementary information (RSI), and other information (OI)).

If this project were undertaken, the board would review its framework (including the results of the reporting entity and reporting model projects) and ensure the framework covers the topics it should and is internally consistent.



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## *Cost of Capital*

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The opportunity cost of making an investment in assets is not recognized in the financial statements of agencies using the assets. Some other national governments have incorporated a capital use charge into the determination of the cost of agency operations as a management tool. The board considered this issue in connection with SFFAS 6 and issued an invitation to comment. Ultimately the board deferred further work on this project. In doing so, the board noted that there was interest in incorporating a cost of capital in the budget and that progress in this area would benefit the board's work. If this project were undertaken, the board would need to consider the likely effectiveness of incorporating a capital charge in agency financial statements, the appropriate capital base on which to assess the charge, and the selection of an interest rate to apply.

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## *Derivatives*

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Staff has not researched the use of derivatives by federal agencies and has not had any inquiries by agencies or their auditors regarding appropriate accounting for derivatives. This is an area generally addressed in other domains.<sup>5</sup> The GASB issued Statement No 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*, on the topic. Selected material from the GASB's plain language explanation is presented below.

### **What is a Derivative?**

A derivative is a unique and often complex financial arrangement that a government may enter into with another party, typically a private-sector financial firm. The value of a derivative or the cash it provides to a government (or that it requires a government to pay) is based on changes in the market prices of an item that is being hedged, such as interest rates on long term bonds or commodity prices. In other words, the value or cash flows of a derivative are derived from (are determined by) how the market prices of the hedged item change.

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## *Electromagnetic Spectrum*

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The Federal Communications Commission (FCC) manages the electromagnetic spectrum – a renewable natural resource excluded from coverage in Technical Bulletin 2011-1 (Accounting for Federal Natural Resources Other Than Oil and Gas). The technical bulletin requires entities to report the federal government's estimated royalties and other revenue from federal natural resources that are (1) under lease, contract or other long-term agreement and (2) reasonably estimable as of the reporting date in required supplementary information.

Regarding the electromagnetic spectrum, the FCC's goal is to:

Ensure efficient allocation and management of assets that government controls or influences, such as spectrum, poles, and rights-of-way, to encourage network upgrades and competitive entry.

This project would consider information needed to allow citizens to monitor the management of this asset. The asset is not specifically addressed by other accounting standards at this time.

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<sup>5</sup>Presently, derivatives are reported in federal financial reports in conformance with private-sector standards.



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## *Electronic Reporting*

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Electronic reporting is increasingly viewed as a means to convey financial information about government. This is evidenced not only by sites such as [USAspending.gov](http://USAspending.gov) and [Recovery.gov](http://Recovery.gov) but also by the universal practice of posting annual financial reports to federal websites and the emerging practice of providing a highlights document accompanied by an electronic copy of the full report. More recently, a requirement that performance reports be provided electronically rather than in printed form was established in law — the GPRA Modernization Act (GPRAMA). Also, the DATA Act of 2014 demonstrates a growing expectation that machine readable data be provided that links specific transactions with program activities and associated metadata.

This is an area of great interest to the profession. The Association of Government Accountants issued Research Series Report No. 32 on e-Reporting in July 2012. The full report is available at [http://www.agacgfm.org/Research-\(1\)/Research-Publications.aspx](http://www.agacgfm.org/Research-(1)/Research-Publications.aspx). The AGA report revealed a desire for common definitions, formats, and content among survey participants. Useful information regarding desired reporting and the need for standards and/or best practice guidance was provided through the research report.

The AGA report recommends, among other actions, the following actions relevant to standard-setting:

1. “An organization, group or taskforce of stakeholders should be appointed from the standard-setting community, federal, state and local government preparers, representatives from various public interest groups, and citizen-users — all with the collective charge to develop guidelines through an open dialogue and with a shared vision for data formatting and common reporting. This group should also encourage the discovery and recommendation of and reward for best practices in government financial, non-financial and performance information reporting.”
2. The above group should “set definitions and strategies and create uniform standards for data content, database design and logical data model constructs for easier extraction, transformation and processing. Integrating federal, state and local information is critical. Standardization must be stable and able to survive challenges from preparers, data providers, systems vendors and users among others who are wedded to their existing systems and approaches.”<sup>6</sup>

Given these trends and concerns, the board plans to consider concepts for electronic reporting in its reporting model project. Respondents may wish to consider whether a separate effort would be beneficial and provide insights regarding needed guidance.

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## *Evaluating Existing Standards*

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A general concern expressed by members of the board and the federal financial management community has been that resources are increasingly constrained. Because of competing demands, some believe existing requirements should be evaluated and any unnecessary requirements eliminated. This has been a long-standing concern that the board considers carefully in existing projects.

While there have been many opportunities for the community to propose changes to existing standards, exploring burden reduction in a targeted fashion remains an option. Project objectives could include:

1. provide additional forums for preparers, auditors, and users to identify requirements they believe are unnecessary (this could be done through an open-ended written request for input or roundtable discussions)

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<sup>6</sup>Association of Government Accountants, *e-Reporting*, July 2012, pages 20-21.

2. evaluate the requirements identified against the reporting objectives
3. prepare an omnibus exposure draft to adjust or eliminate requirements

The challenge in this approach is that the relevance of requirements varies among agencies. For example, agencies for which certain requirements are immaterial may not find the information relevant but may find the steps necessary to omit the required information based on materiality too burdensome. They may simply comply with the requirement. To reduce the burden on this agency would mean that the requirement also would be eliminated at an agency for which the information is material. In addition, the burden is likely different between agencies with and without strong systems and controls.

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### *Financial/Economic Condition*

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The board provided standards regarding fiscal sustainability reporting. However, a broader focus on financial condition reporting might result in additional reporting such as key indicators of financial condition at the agency or government-wide level.

Questions such as the following could be addressed in the project:

- What key financial ratios are useful in assessing the financial health of the entity?
- What information about the tax system is viewed as an indicator of financial health? (e.g., tax gap, tax expenditures, changes in the tax base/structure)
- Is cost trend information needed at disaggregated levels? (e.g., trends in construction costs for capital intensive operations or personnel costs for labor intensive operations)
- Are there external reports/measures that should be reported such as rating agency reports regarding sovereign nations?
- Are benchmarks against other nations/departments needed?
- Are measures of risk assumed due to inter-governmental financial dependency needed?

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### *Financial Performance Reporting*

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Performance reporting should include financial measures; measuring cost is a particularly important part of measuring performance. Measuring cost and reporting the results is a function of accounting and the financial reporting system. Measures generally need to be accompanied by suitable explanatory information. Indeed, narrative information is an essential part of reporting on performance.

Explanatory information includes both quantitative and narrative information to help report users understand reported measures, assess the reporting entity's performance, and evaluate the significance of underlying factors that may have affected the reported performance. Relating efforts with accomplishments in a meaningful manner is more complex. Two types of such indicators are:

- Efficiency measures that relate efforts to outputs of services: These indicators measure the financial resources used or the cost (in dollars, employee-hours, or equipment) per unit of output. They provide information about the production of an output at a given level of resource use and demonstrate an entity's relative efficiency when compared with previous results, established goals and objectives, generally accepted norms or targets, or results achieved by similar entities.

- Effectiveness or cost-outcome measures that relate efforts to the outcomes or results of services: These measures report the cost per unit of outcome or result. They relate costs and results to help managers, executives, Congress, and citizens assess the value of the services provided by an entity.

A framework for financial performance reporting may assist in improving performance reporting. The framework would identify financial performance measures, assist in selecting among them, suggest plain language explanatory information, and describe the challenges and limitations of government financial performance measures.

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### *Hierarchy of Generally Accepted Accounting Principles*

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SFFAS 34 provides a four-level hierarchy of generally accepted accounting principles (GAAP). It preserved the long-standing and common practices of all U.S. accounting standard-setting bodies at the time it was issued in 2009. Since then the Financial Accounting Standards Board and the Governmental Accounting Standards Board have revised their GAAP hierarchies. Each reduced the number of levels. In doing so they reviewed due process requirements for each source of guidance (for example, standards, interpretations, technical bulletins, and implementation guidance) as well as sources of guidance for areas not addressed in a specific pronouncement.

The purpose of this potential project would be to review the hierarchy to identify and resolve problems experienced in applying the four-level hierarchy.

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### *Intangibles*

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The FASAB standards do not address intangible assets other than internal use software. Staff has been contacted by a few individuals with respect to intangibles such as census data and rights to use of inventions. The GASB issued Accounting and Financial Reporting for Intangible Assets. The issuance is described as follows on the GASB website:

[GASB] Statement No. 51 identifies an intangible asset as having the following three required characteristics:

- It lacks physical substance—in other words, you cannot touch it, except in cases where the intangible is carried on a tangible item (for example, software on a DVD).
- It is nonfinancial in nature—that is, it has value, but is not in a monetary form like cash or securities, nor is it a claim or right to assets in a monetary form like receivables, nor a prepayment for goods or services.
- Its initial useful life extends beyond a single reporting period.

The standard generally requires intangible assets to be treated as capital assets, following existing authoritative guidance for capital assets, although certain intangible assets are specifically excluded from the scope of the statement. One key exclusion relates to intangible assets that are acquired or created primarily for the purpose of directly obtaining income or profit. Such intangible assets should be treated as investments. The standard also provides guidance for issues specific to intangible assets. For instance, to report the historical cost of an intangible asset in the financial statements, the asset has to be *identifiable*. That means that the asset is *separable*—the government can sell, rent, or otherwise transfer it to another party. If it is not separable, the asset has to arise from contractual or other legal rights, such as water rights acquired from another government through a contract that cannot be transferred to another party.

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## *Interim Financial Reporting*

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The initial objectives of this potential topic would be (1) to evaluate the importance of quarterly or semiannual financial reporting, for instance, to users of financial statements and (2) to assess the need for specific guidance related to interim financial reports. If guidance is determined to be needed, another objective would be to consider whether specific guidance should be issued regarding interim financial reporting. Presently, federal accounting standards are applicable to any reporting period without regard to their length.

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## *Land*

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Current standards differentiate between stewardship land and land acquired in connection with development or construction of an item of general PP&E. Stewardship land is not capitalized but disclosures of information regarding use of the land and physical measures are required (see SFFAS 29, Heritage Assets and Stewardship Land). Land classified as general PP&E is capitalized at historical cost. Because reporting on land varies based on the intended use at acquisition of land, some have suggested that the board review existing standards and consider adopting a consistent approach to reporting land.

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## *Long-Term Construction/Development/Procurement Contracts*

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The board has considered the need for disclosures regarding complex, long duration contracts for the development and acquisition of weapons systems. A proposal was made to require disclosure of the ten largest acquisition programs showing budgeted amounts, expected amounts, cost to date, and progress to date. Public comment on this proposed disclosure requirement revealed a number of technical areas requiring clarification as well as resistance to this non-traditional disclosure among some commentators. As a result, the board set aside its work in this area. However, the board noted (in the Basis for Conclusions to a subsequent ED and SFFAS 23 – *Eliminating the Category National Defense PP&E*) its intention to return to this proposal on a government-wide basis in the future.



## Managerial Cost Accounting

The CFO Act calls for the development of cost information and the integration of accounting, program, and budget systems and information. Also, subsequent legislation such as the Government Performance and Results Act (GPRA) and the GPRA Modernization Act established the expectation that cost measurement would be an important part of reporting on results. Accordingly, as illustrated in Figure 1, cost data is vital to financial reporting, budget decision-making, and performance management and reporting and, ultimately, cost data is a key ingredient for fiscal management and demonstrating accountability.

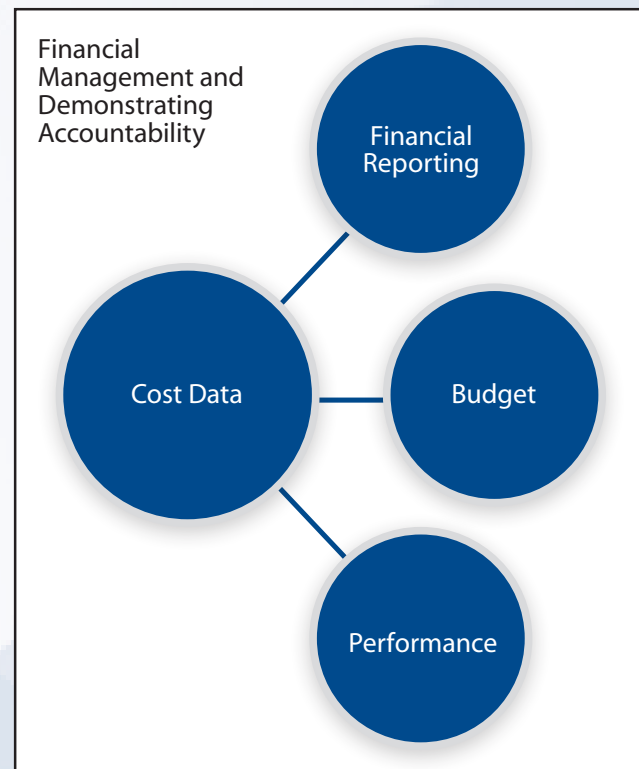
The board's focus is on external financial reporting and it does not typically address management information needs. In 1995, to support the goals of the CFO Act and the GPRA, the board established managerial cost accounting standards at the request of then Vice President Gore. While these standards address external reporting needs such as full cost information, they also provide broad goals for managerial cost accounting to support internal users.

Despite this guidance, the board continues to be advised of a need to improve the internal availability of cost information and its linkage to performance information. In 2010, FASAB staff surveyed agencies regarding managerial cost accounting. Results indicated that a guide to using, developing, and reporting cost information might be helpful. Also, research in the reporting model project identified cost accounting as critical to meeting a need to integrate cost, budget, and other performance information. The ideal model under development in the reporting model project will inform this project regarding long-term goals for disaggregating and linking information to improve external financial reporting but will not address guidance for meeting needs for managerial information.

In 2013, the board contracted with the National Academy of Public Administration (NAPA) to study questions such as (1) are good financial and related data available to senior managers, (2) how effectively are managers using such data, (3) what gaps may exist, and (4) what options are most likely to be helpful in closing any gaps. The study found – among other things – that data are granular and accurate but challenges remain in analyzing and transforming data into readily understood actionable information. In particular, the ability to identify the cost of programs and outcomes is lacking but desired.

The NAPA panel recommended that the President's Management Council (PMC) take a leadership role in linking budgeted resources to costs, outputs, and performance. The NAPA panel further recommended that FASAB "support the PMC by utilizing FASAB's staff expertise in conceptualizing frameworks for integrating budget, costs, and service performance information developed through the creation of SFFAS 4, *Managerial Cost Accounting Concepts and Standards*. While SFFAS 4 already provides guidance to agencies on the principles of managerial cost accounting, significant unmet availability of such information was described by agency leaders. Taking the concepts and standards to the next level

**Figure 1: Role of Cost Data**



to meet the needs of agency decision-makers will require direction by the PMC. FASAB has already been proactive with soliciting user needs for financial information. Accordingly, FASAB should leverage its three sponsors—Treasury, OMB, and GAO—in elaborating on details of user needs. One potential approach for long-term consideration would be the development of a taxonomy of auditable accounting codes that tie each expense journal entry to a type of benefit or outcome.”

The NAPA study results recognize the importance of engaging senior leaders across government to improve availability and use of managerial cost accounting information. Given the board’s mandate—providing generally accepted accounting principles for external reporting--and its limited resources, the board believes addressing managerial cost accounting is one component of a government-wide initiative.

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### *Natural Resources*

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SFFAS 38, *Accounting for Federal Oil and Gas Resources*, was issued as final on April 13, 2010. It requires the value of the federal government’s estimated petroleum royalties from the production of federal oil and gas proved reserves to be reported in a schedule of estimated federal oil and gas petroleum royalties. In addition, it requires the value of estimated petroleum royalty revenue designated for others to be reported in a schedule of estimated federal oil and gas petroleum royalties to be distributed to others. These schedules are to be presented in required supplementary information (RSI) as part of a discussion of all significant federal oil and gas resources under management by the entity. Due to a deferral (SFFAS 41), the Statement is effective as RSI for periods beginning after September 30, 2012.

It was the board’s intent that the information required by the Statement transition to basic information after being reported as RSI for a period of three years. Prior to the conclusion of the three-year RSI period, the board planned to decide whether such information should be recognized in the financial statements or disclosed in notes. The information will remain RSI until such time a determination is made.

The purpose of this project would be to consider the results of the RSI reporting requirements and develop standards regarding any transition of information to basic information.

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### *Nonmonetary Transactions*

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SFFAS 6, *Accounting for Property, Plant, and Equipment*, provides that fair value be the basis of accounting for exchanges of property, plant, and equipment. SFFAS 7, *Accounting for Revenue and Other Financing Sources*, also provides that fair value is the basis for recognizing donated, transferred and exchanged nonmonetary assets. Despite this guidance, the board receives technical inquiries regarding nonmonetary transactions and some evidence exists that nonmonetary transactions are increasing. This project would consider whether existing guidance is adequate and consistent. In addition, the board would consider whether guidance on fair value measurements is needed.

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### *Note Disclosures*

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Generally, note disclosures are established in each statement of federal financial accounting standards. The general purpose of disclosure is discussed in SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*. However, no framework exists to guide the establishment of disclosure requirements. This project would consider the following matters:

- Do the existing required disclosures meet their intended objectives and continue to be relevant, useful, and comprehensive?
- Do reporting entities meet the disclosure requirements consistently over time?
- Would it be preferable to continue setting disclosure requirements on a Statement-by-Statement basis or, as the FASB has proposed, create framework criteria for all disclosures? Would the latter approach help to reduce repetition within disclosures and overall financial report length?
- What unmet user needs exist that might require new note disclosures?

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### *Property with Reversionary Interest*

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The federal government sometimes retains an interest in PP&E acquired by a grant recipient with grant money. In the event the grant recipient no longer uses the PP&E in the activity for which the grant was provided, ownership of the PP&E reverts to the federal government. These arrangements are specifically excluded from PP&E accounting. Some have suggested that a review of this exclusion is needed to ensure that similar arrangements are accounted for similarly and that adequate information is reported in such circumstances.

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### *Research and Development*

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Research and development (R&D) expenditures are included as part of gross costs in the Statement of Net Cost and are presented as required supplementary stewardship information (RSSI). The amounts presented include both direct R&D spending by agencies and spending which supports non-federal research and development. Generally, staff has found that FASB standards for R&D are referenced to determine what spending qualifies as R&D (for example, to identify when to begin capitalizing costs as new assets are developed). Given the significant federal investment in R&D (\$123.9 billion in 2014) and the possible differences between sectors, a review of practices in this area may be warranted. Alternatively, R&D reporting may be explored as a component of an overall project focusing on Stewardship Investments.

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### *Reporting Cash Flows*

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The objective of this research project would be to revisit FASAB guidance for reporting cash flows and determine whether additional guidance may be needed to better inform users about the government's financial management. Citizens are concerned about the government's financial management and expect to be informed on whether the government had sufficient cash to pay its bills or needed to borrow funds, sell long-term assets, or sell investments. The operating performance objective of financial reporting indicates that users expect to evaluate the manner in which the government financed its programs. Also, federal entities that apply FASB GAAP noted that cash flows enable managers and key stakeholders to assess their entity's financial health. A financial presentation that clearly distinguishes sources and uses of cash flows over multiple periods could help citizens understand how programs are being financed and how that financing may have changed.

As with other entities, the government needs cash to pay for goods and services and to service debt. The government may obtain cash from taxes and fees or from investments and borrowings. Presently, Statement of Federal Financial Accounting Standards (SFFAS) 24, *Selected Standards for the Consolidated Financial Report of the United States Government*, requires a statement of changes in cash balance from budget and



other activities. The financial statement should explain how the annual unified budget surplus/deficit relates to the change in cash balance and debt held by the public. Also, the statement should highlight, “items affecting the Government’s cash balance that are not included in the budget outlays or receipts,” and “should prominently display the cash inflow and outflow related to the changes in debt held by the public and interest accrued and interest paid on debt held by the public.” However, FASAB did not provide prescriptive guidance for the statement, such as the definition of cash, how cash flows should be classified, and whether the statement should be linked to the balance sheet. At that time, the Board believed that flexibility was needed, “so that the most meaningful display could evolve.”

Other accounting standards-setters require entities to present a statement of cash flows, define cash for reporting purposes, and specify the classifications that should be used. For instance, the International Public Sector Accounting Standards Board (IPSASB) requires entities that prepare accrual basis financial statements to prepare a cash flow statement. The standards define cash and require entities to classify flows by operating, investing, and financing activities. The classification approach is intended to help users assess the impact of the activity on the entity’s financial position.

In addition, FASAB’s research noted user interest in the changes in the government’s financial position. The stewardship financial reporting objective states, “federal financial reporting should provide information that helps the reader to determine whether the government’s financial position improved or deteriorated over the period.” A presentation that classifies cash flows by activity may help users understand the reasons for changes in balance sheet items such as loans and debt held by the public.

The research would include reviewing cash items currently being presented and whether a different set of candidates are possible. Also, the research will determine fundamental government activities impacting the government’s financial position and whether such activities are being reflected in the existing cash flow presentations.

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### *Revenue (Exchange and NonExchange)*

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SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, provides guidance for recognition of exchange and non-exchange revenue. In FY2014, \$417.9 billion of exchange revenue and \$3,066.1 billion of non-exchange revenue were reported government-wide. SFFAS 7 requires disclosures and required supplementary information as well as suggests other accompanying information on the following topics:

- A perspective on the income tax burden.
- Available information on the size of the tax gap.
- Tax expenditures related to entity programs.
- Directed flows of resources related to entity programs.

SFFAS 7 has not been reviewed since it became effective in fiscal year 1998. Feedback suggests that some agencies are relying on FASB standards for more detailed guidance regarding revenue recognition and the FASB has revised these standards since the issuance of SFFAS 7. When SFFAS 7 was established, the board acknowledged both inherent and practical limitations that made full accrual accounting for tax revenues unattainable. The basis for conclusions for SFFAS 7 notes:

171. At the time the Board began deliberations on this standard, accounting systems necessary to determine even the limited revenue accruals that are now required for taxes did not exist. The changes in systems required by this standard are limited to those necessary to mirror the established



assessment processes. The Board understands that the Internal Revenue Service is attempting to improve its collection function and the related management information systems. Because such systems must also provide accounting information, the Board decided not to impose accounting standards at this time that might conflict with systems changes needed to improve the efficiency and effectiveness of the collection process or go beyond the minimum changes considered necessary to enable the collecting entities to properly discharge their responsibilities.

173. In the future, the general standard for accrual as it applies to taxes and duties could be tightened to produce a fuller application of the accrual concept. For fines, penalties and donations, no accountable event precedes the recognition point established by this standard. Therefore, the general standard for recognition as it applies to these sources of revenue results in full accrual accounting for them.

A review of the revenue standards might consider general improvements that could better meet the reporting objectives as well as how to improve the understandability of the presentation of information about taxes.

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### *Stewardship Investments*

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The board undertook reclassification of all required supplementary stewardship information (RSSI) due to questions regarding audit coverage. RSSI is not a category recognized in auditing standards. Audit coverage of the information may not meet the board's expectations unless the board reclassifies the remaining information in an established category. Hence, the reclassification would resolve questions regarding the desired audit status of the information. The board completed work on two of three types of information – stewardship responsibilities and stewardship property, plant and equipment in 2005. The remaining RSSI type is stewardship investments including human capital, research and development, and non-federal physical property. The board deferred addressing this type so that it could devote additional resources to higher priority projects. The consequence is that this information continues to receive the audit coverage afforded required supplementary information.

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### *Summary or Popular Reporting*

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Agencies are issuing summary reports of financial and performance information and some view these as the primary report for citizen users. The need for guidance or standards has not been explored by staff. However, citizens participating in focus groups provided valuable insights regarding their interests and expectations.