Federal Accounting Standards Advisory Board

April 4, 2014

Memorandum

To: Members of the Board

Wendy M. Payne

From: Wendy M. Payne, Executive Director

Subj: Technical Agenda – **Tab I**[1]

MEETING OBJECTIVES

- To review the status of ongoing projects and Congressional Outreach
- To consider 2014 objectives
- To review the three-year plan including outside input

BRIEFING MATERIAL

This memo updates members regarding active project progress, summarizes suggestions provided in response to our three-year plan, and poses questions for discussion at the meeting. The memo condenses material presented in support of the March meeting. Where entirely new material is included, it is underlined.

Attachments provide:

1. *Responses to the FY2014-2016 Three-Year Plan (note that two additional responses have been received since the March meeting)*
2. *Notes from Auditor Roundtables (unchanged from March meeting)*
3. *Leases briefing package for Congressional Outreach*

Appendices provide:

A. Excerpts from DoD financial statement notes regarding inventory and related property and SFFAS 3

[1] 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.

BACKGROUND AND STATUS UPDATE

On December 16th, Chairman Allen released our *FY2013 Annual Report and Three-Year Plan for FY2014-2016*. The release included a formal request for comments and was publicized to our listserv and press contacts.

To date, ten responses have been received. (Responses indicating "no comment" are not reflected in this total.) In addition to the direct responses to the report, staff hosted roundtable discussions with independent public accounting (IPA) firm audit practice representatives ("auditor roundtables"). The feedback is discussed in appropriate sections of the staff analysis below. As a reminder from the March memo:

1. We continue to have a staff vacancy which limits our ability to take on new projects and support the adequately support the Accounting and Auditing Policy Committee (AAPC).
2. Members are asked to provide input regarding relative priorities given current staffing levels. We will be able to actively deliberate on one new project only after we complete work on an existing project (most likely the reporting entity project).
3. <u>Support for development of implementation guidance has been eliminated. To support new guidance, we will need to divert resources from major Board projects. The following implementation guidance is underway or may be needed in the near future:</u>
    a. <u>internal use software options (both for the AAPC and the Board's consideration)</u>
    b. <u>contract financing payments (per request by Department of Defense (DoD))</u>
    c. <u>research and development capitalization decisions (per request by DoD)</u>
    d. <u>asset impairment (a survey is underway to identify questions)</u>
    e. <u>deferred maintenance and repairs (a survey was conducted and no needs identified but some agencies recently requested for more time to respond)</u>
4. The Natural Resources standards indicate that the information should transition to basic information in FY2016. We will need some support to consider the results of the three-year RSI period and develop standards regarding any transition of information to basic information. Current projects are unlikely to be completed in time for existing staff to address this effort timely. Ultimately, the Board may wish to consider whether a current project should be slowed or deferred so that staff can address this matter.

Congressional Outreach

The Board concluded, based on responses to the three-year plan issued in 2012, that Congressional outreach should be undertaken by staff. To date, we have accomplished the following:

1. Requested opportunity to participate in November 2014 "Subscription Day" so that newly elected members and their staff are introduced to FASAB and know how to locate federal financial reports. (A tri-fold brochure will be available at the Board meeting to preview our handout.)
2. Meetings with CPA Caucus members' staff directors are ongoing. (Two meetings already held and eight are being scheduled. Indicated availability to brief members and/or Caucus.)
3. Briefings regarding the lease project are ongoing. Ms. Valentine and I met with staff of two House committees (majority and minority staff), and two Senate committees during March. Meetings will include oversight, budget, and appropriations committee staff. Attachment 3 is the briefing material we provide for the meetings. The meetings were well received and additional contacts have been suggested. We will be following up in the coming weeks to ensure broad coverage. Ms. Valentine will update members on the information needs or concerns raised by Hill staff later this year.

Status Summary and Revised Timelines for Current Projects

Projects are progressing but in some cases project timelines are not being met due to the complexity of issues. Staff members are adopting new approaches such as increased contact with members between meetings. Members have been very responsive to this contact and staff appreciate your commitment and feedback.

I have adjusted the timelines for the active projects but caution that such timelines do not allow for undiscovered complexities, delays due to increased budgetary challenges for us and our constituents, or lengthy deliberations on complex issues.

As I noted in last year's planning session, the active projects are fully consuming staff resources. We are less able to respond to emerging issues and to support implementation of new standards. Emerging issues in two areas critical to the resolving government-wide financial statement audit issues are likely – DoD's audit readiness efforts and Department of the Treasury's (Treasury) reporting on the general fund.

While DoD has not requested major changes to standards regarding property, plant, and equipment (as indicated by earlier Financial Improvement and Audit Readiness (FIAR) plans), they did submit a request for guidance in six areas in response to the three-year plan. The request covers long-standing issues. Providing guidance would further DoD's audit readiness efforts and could reduce the cost of implementation.

While Treasury has not identified specific matters for which guidance is needed, staff anticipates the need for some guidance to support transition. We do consult with

Treasury staff from time to time and will address informal inquiries timely. However, should a need for authoritative guidance arise the Board would need to consider adjusting priorities.

The following pages present revised timelines for active projects and an overview of the timelines for current and research projects.

THE FEDERAL REPORTING ENTITY

Objectives: To provide principles that guide preparers of financial statements in determining what organizations should be included in the financial reports of the government-wide reporting entity and each component reporting entity to meet federal financial reporting objectives.

Guide preparers of general purpose federal financial reports (GPFFR) in determining whether included entities are entities to be consolidated or entities to be disclosed, and what information should be presented. This guidance will ensure that users of GPFFR are provided with comprehensive financial information about entities and their involvements with organizations so that federal financial reporting objectives are met.

Develop a definition of 'related party' and establish relevant disclosure requirements.

Assigned staff: Melissa Loughan

Other resources: Staff engaged a task force to help accomplish the project objectives.

Project page: http://www.fasab.gov/projects/active-projects/concepts-federal-entity/

Timeline:

September 2013 to June 2014

- Draft Statement of Federal Financial Accounting Standards (SFFAS)

June to August 2014

- Submit SFFAS to sponsors

October 2014

- Issue SFFAS after successful 90-review
- Consider the need for implementation guidance

THE FINANCIAL REPORTING MODEL

Objectives: The primary objectives of this project are to:

Determine what financial information would be helpful for decision-making, demonstrating accountability, and achieving the reporting objectives.

Determine how financial information should be presented to be most responsive to users and the manner in which they obtain information.

Consider how the information in a schedule of spending should relate to other financial statements and financial information presented in reports.

Assigned staff: Ross Simms

Other resources: Project page: http://www.fasab.gov/projects/active-projects/concepts-the-financial-report/

Timeline:

January 2014 – October 2014 Meetings

- Develop ideal model and draft concepts statement
- Review ED(s) of Statement of Federal Financial Accounting Concepts (SFFAC) or other proposals

December 2014 Meeting

- Issue ED(s) of SFFAC or other proposals for comment

April 2015 Meetings

- Discuss analysis of comments on ED(s) or other proposals

June and August 2015

- Draft SFFAC(s) or other guidance
- Decide on next steps to facilitate "ideal model"

October 2015

- Submit SFFAC(s) to sponsors or publish other guidance

December 2015

- Issue SFFAC(s) after successful 90-day review

LEASES

Objectives: The primary objectives of this project are to:

1.

a. Develop an approach to lease accounting that would ensure that all assets and liabilities [consistent with SFFAC 5 definitions] arising under lease contracts are recognized in the statement of financial position and related costs are recognized in the statement of net cost.

b. Evaluate and revise as needed the current lease-related definitions and recognition guidance in SFFAS 5 and 6, including consideration of the advantages and disadvantages of applying the potential FASB/IASB lease standard in the federal environment.

c. Ensure that the standards to be developed fully address the various lease transactions/activities currently being used in the federal community (e.g. enhanced use leases).

d. Consider how the budgetary treatment of lease-purchases and leases of capital assets as outlined in Office of Management and Budget (OMB) Circular No. A-11 relates to financial statements and disclosures.

Assigned staff: Monica R. Valentine, Domenic Savini and incoming staff

Other resources: Staff will consult with both FASB and GASB staff members assigned to their board's respective lease accounting projects. Staff will also organize a task force of knowledgeable federal and non-federal participants who have relevant experience or interest in lease accounting within the federal government.

Project page: http://www.fasab.gov/projects/active-projects/leases/

Timeline: **September 2013 – August 2014**

- Work with task force and GASB staff to identify lease activities and lease accounting issues, including FASB/IASB proposal
- Present identified lease accounting issues for board consideration

October 2014 Meeting

- Review draft standards section

December 2014 Meeting

- Present first draft Exposure Draft (ED) of SFFAS for board review

February 2015 Meeting

- Issue ED

June – October 2015 Meetings

- Present initial analysis of ED comment letters received
- Conduct public hearing

December 2015 Meeting

- Discuss analysis of comments on ED

February – April 2016 Meetings

- Draft SFFAS
- Submit SFFAS to sponsors

June - August 2016

- Issue SFFAS after a successful 90-day review
- Consider the need for implementation guidance

RISK ASSUMED

Objectives: The primary objective of this project is to study the significant risks assumed by the federal government and develop (a) definitions of risk assumed, (b) related recognition and measurement criteria, and (c) disclosure and / or required supplementary information (RSI) guidance that federal agencies can apply consistently in accordance with GAAP.

Assigned staff: Monica Valentine and Robin Gilliam

Other resources: Multi-disciplinary task force, including sub-groups to address specific topics.

Project page: http://www.fasab.gov/projects/active-projects/risk-assumed/

Timeline: **Phase I: Explicit Indemnification Arrangements** (insurance and guarantees other than loans):

Identify alternative measures of loss exposure (value at risk)
Consider recognition of elements in accrual financial statements (measurement and recognition guidance)
Consider needed disclosures and/or RSI

October 2013 – October 2014

- Begin identifying issues and drafting requirements

November 2014 – April 2015

- Issue ED of SFFAS or other request for feedback on Phase I
- Conduct pilot testing on Phase I
- Begin Phase II: Consider applicability to other types of risks assumed (entitlements other than social insurance, natural disasters, implicit or other explicit risks such as through governmental partnerships or treaties) and contingencies – follow steps similar to Phase I but completion expected 18 – 24 months following completion of Phase I.

June 2015

- Hold public hearing on Phase I

June - December 2015

- Finalize Phase I SFFAS

- Phase III: Consider implications for reporting on commitments (for example, is commitment reporting for grants, contracts, and other long-term agreements complete and consistent?)

- Submit Phase I SFFAS to sponsors

March 2016

- Issue Phase I SFFAS after successful 90-day review

2016 - 2017

- Develop implementation guidance for Phase I, if necessary

- Complete Phase II (entitlement programs, disaster response, regulatory activities, and interventions) and III (commitments and obligations arising from long-term contracts, treaties, and intergovernmental dependency) SFFASs

PUBLIC PRIVATE PARTNERSHIPS

Purpose:

This project was added to the agenda because federal agencies have increasingly turned to public-private partnerships (e.g., PPPs, P3s) to accomplish goals. Budget pressures are likely to further increase the use of P3s. Making the full costs and risks of such partnerships transparent would be the overall objective of the project.

Specific objectives could include:

- Defining terms
- Identifying disclosures regarding risks
- Providing guidance for the recognition and measurement of:
    - assets and liabilities
    - revenues and expenses
- Considering implications for other arrangements related to P3s (sale-leaseback or other long-term arrangements).

Applicability:

This project applies to the government-wide reporting entity and to component entities that prepare and present general purpose federal financial reports in conformance with SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles* (GAAP)*, Including the Application of Standards Issued by the Financial Accounting Standards Board* (FASB).

Objectives:

Because fairly robust FASAB guidance exists regarding the recognition and measurement of assets/liabilities and revenues/expenses, the primary objective of this project would be issue a Technical Bulletin providing guidance to resolve accounting issues not directly addressed by either the Statements or Interpretations. In addition, standards may be developed to require needed disclosure.

Assigned staff:

Domenic Savini

Other resources:

After a brief initial research phase, staff plans to utilize a multi-disciplinary task force, including sub-groups to address specific topics.

Project page: N/A

Timeline:

October – December 2013

- Present individual issues to task force and board

March - June 2014

- Develop and Issue Exposure Draft (ED) of SFFAS for additional disclosures

- Research issues to be address through a Technical Bulletin and develop illustrations or case studies

July - October 2014

- Develop draft Technical Bulletin

- Present analysis of responses to the ED of an SFFAS on disclosures

December 2014 – April 2015

- Develop final SFFAS on disclosures

2015- 2017

- Submit final SFFAS on disclosures to sponsors

- Issue SFFAS on disclosures following successful 90-day review

- Develop Technical Bulletin or other guidance in concert with leases and reporting entity projects

OVERVIEW – Project and Objective	FY2013	FY2014	FY2015	FY2016	FY2017 – and Later
The Federal Reporting Entity Consider what organizations and relationships should be included in federal entity reports and how information is to be presented	Issue Exposure Draft	Finalize Standards	Implementation Guidance as Needed		
Financial Reporting Model Consider whether the existing model meets user needs and reporting objectives Segments may include consideration of improvements in: cost information, performance reporting, budget presentation, or other areas such as the articulation of the financial statements	Develop Issues and Options	Consider results of Spending Pilots led by CFO Council Develop ideal model (concepts statement)	Finalize ideal model concepts statement in FY2016 Identify discrete projects needed to support ideal model and decide vehicle(s) for guidance.		
Leases Evaluate existing standards to improve comparability and completeness of reporting	Develop Exposure Draft	Develop Exposure Draft	Issue Exposure Draft Redeliberate	Finalize Standards	
Risk Assumed Develop standards so that information about risks assumed by the federal government and their potential financial impacts are available		Develop Phase I Exposure Draft	Issue Phase 1 Exposure Draft(s) Public Hearing Begin Phase II and III	Finalize Phase I Standards Develop Proposals for Phase II	Exposure Drafts for Phase II Finalize Phases II Develop Proposals for Phase III Implementation Guidance as Needed
Public Private Partnerships Consider how financial reporting objectives are met with regard to public private partnerships	Develop Project Plan and Begin Research	Develop and Issue Exposure Draft	Finalize Disclosure Standards and Develop Guidance in Recognition and Measurement Issues	Finalize recognition and measurement guidance	

OVERVIEW – Project and Objective	FY2013	FY2014	FY2015	FY2016	FY2017 – and Later
RESEARCH PROJECTS Research projects are not assigned full-time staff but research may occur as resources become available. Projects are listed in order of priority. Anticipated date for assignment to staff indicated where possible.					
Managerial Cost Accounting and Linking Cost to Performance (This project is related to the reporting model project. Decisions regarding next steps will be taken as the ideal model is developed.)		Independent Evaluation of User Needs for and Current State of Cost Accounting		Assign to staff depending on outcome of reporting model	
Tax Expenditures			Research		
Reconciling Budget and Accrual Information (This project is related to the reporting model project. Decisions regarding next steps will be taken as the ideal model is developed.)			Research	Assign to staff	
Natural Resources Consider implementation guidance and recognition requirements for information reported during experimental period as Required Supplementary Information		Develop project plan and consider outside support for evaluation	Begin Review to Reclassify Information		

RESULTS OF OUTREACH AND TECHNICAL INQUIRIES TO STAFF

Input Received Regarding Three-Year Plan

The individual letters are available for review at Attachment 1 (updated to include two additional letters received since March and one draft response with final anticipated before the meeting) and Auditor Roundtable input is at Attachment 2. There is general support for the active and research projects.

Of the research and other projects the following were mentioned as priorities by respondents to the three-year plan (includes one draft response – to be provided before the meeting):

1. Managerial cost accounting and linking cost to performance (3)
2. Evaluating existing standards (3; one focusing on deferred revenue and capitalization of cleanup costs)
3. Internal Use Software (4)
4. Reconciling Accrual and Budgetary Information (2)
5. Tax Expenditures (2)
6. Inter-governmental financial dependency (2)
7. Derivatives (1)
8. Asset Retirement Obligations (1)
9. Electronic Reporting (1)
10. Intangibles (1)

Several ideas were offered relating to the reporting model. Some respondents particularly emphasized managerial cost accounting/linking cost to performance and others noted the importance of the leases project. In contrast, some questioned whether leasing poses any federal specific issues (that is, why would federal GAAP differ from other GAAP). The auditor roundtable generated lively discussion and raised ideas that are relevant to the reporting model and other ongoing projects.

The DoD response (see page 14 of attachment 1) identifies six areas for guidance. To help you consider ways the DoD request might be addressed, suggested approaches for each of the six projects are presented in Table 1 below.

TABLE 1

Requested Project:	Suggested Approach if Undertaken:
Inventory and Related Property (SFFAS 3) – extend the use of reasonable baseline estimates (application of SFFAS 35, *Estimating the Historical Cost of General PP&E)* See Appendix A for DoD Note Disclosures and related SFFAS 3 provisions.	1) First consider whether a less costly method for addressing valuation would be appropriate and, if so, provide guidance from FASAB 2) If not, provide staff guidance clarifying that SFFAS 35 may be applied using the GAAP hierarchy

Contract financing payments (CFP) – clarify proper treatment as advances or construction in progress	Address through the AAPC by continuing prior efforts to draft a Technical Release
Deployed assets – is it appropriate to expense, rather than capitalize, deployed assets?	Address with FASAB
Revolving fund (business-type activities) – develop guidance for these activities	Address first with FASAB staff consultation and possible staff action to clarify. Elevate to FASAB or AAPC as needed.
Research and Development – determine the proper timing of capitalization in a changing R&D world (similar to IUS issues as methods move from linear to spiral development)	Possible AAPC technical release or FASAB action. (FASAB has not developed comprehensive R&D standards. Issues relating to the timing of capitalization may be addressed through the AAPC. Other issues may require FASAB consideration.)
In-Kind Lease Payments – guidance is needed for cases such as receipt of free or reduced utility fees, new assets, or improved assets in lieu of rent	These issues will be addressed in the ongoing leases and public-private partnership projects. Note however that the GAAP hierarchy permits reliance on standards by GASB or FASB regarding in-kind transactions (or exchanges of non-monetary assets).

If you have any questions before the meeting, please contact me.

In addition to these responses, members may wish to consider the results of the National Academy of Public Administration report on *Financial and Other Information for Decision Makers*. The report will be available before the meeting and may inform your consideration of the managerial cost accounting project.

Mr. Simms will identify potential projects relating to the reporting model research in his briefing material. He will provide his memo on April 11th. Please plan to consider these in setting priorities.

The attachments are brief and I encourage members to read them before continuing to the end of this memo. Note that we did not provide a copy of the three-year plan with this month's distribution. You may refer to last month's hard copy or http://www.fasab.gov/pdffiles/fasab_annual_report_2013.pdf If you prefer a new hard copy, please let me know.

Technical Inquiries to Staff

Members requested a list of inquiries received by staff. The following table identifies the questions posed, the citation, and disposition of issues received from September 2013 (when formal tracking began) through mid-February 2014. The list excludes routine inquiries such as questions about the status of existing literature or projects. In addition, most referrals to Treasury, OMB, or DoD are not identified. (Note that DoD prefers that technical inquiries from DoD components be routed to the comptroller's office for resolution.)

	Description of Issue	**GAAP Citation**	**Disposition**
1	Should two non-profits receiving 100% of their funding a single federal source and meet certain of the SFFAC 2 indicative criteria be consolidated?	SFFAC 2	Provided some discussion points and referred to OMB per footnote 4 in SFFAC 2.
2	Are all invoiced costs relating to General PP&E constructed by another federal agency capitalizable? It appears that costs not capitalizable if incurred by the acquiring agency are being charged by the constructing agency.	SFFAS 6 and 4/TR 13	Discussed the literature. Resolution uncertain.
3	Various questions regarding imputed cost for land and facilities "leased" by one federal agency from a state government for $1 and subsequently granted to another federal agency for its use.	SFFAS 4 and TR 8	Discussed the literature. Resolution uncertain.
4	Since DoE increased its PP&E capitalization threshold from $50,000 to $500,000 effective FY 2012, does DoE have to look for impairment and ultimately impair PP&E within the $50K - $500K range FY 2012 and forward?	SFFAS 44 & TR 14	FASAB standards need not be applied to immaterial items
5	When multiple agencies are involved in constructing an asset which agency should book contruction work in process?	SFAFS 6 and 4	Discussed the literature. Resolution uncertain.
6	How are broad and general costs considered with full costing? We also discussed examples.	SFFAS 4 and TR 8	Discussed the literature. Resolution uncertain.
7	How would Reporting Entity exposure draft differ for an entity like NCUA with 5 funds and some reporting FASB and some FASAB? Discussed ED.	SFFAC 2	Discussed the literature and pending ED. Resolution uncertain.
8	How should the General Fund be reported at Treasury? Staff assisted with the coordinating meetings and distributing materials to sub-group members of the federal entity task force members to liaison with Treasury as they proceeded and solicited feedback.	Various	Discussed the literature. Resolution uncertain.

9	Are there GAAP requirements specific to electronic deposits or processing?	SFFAS 1	Discussed literature and directed to more applicable guidance such as Treasury.
10	Does a related party relationship exist when National Science Board members are affiliated with entities to which the NSF issues grants or contracts? Explained there has been some difference of opinion between auditor/auditee in the past in this area. Believes FASAB standard would be beneficial.		Discussed the literature, including FASB and pending ED.
11	What Lease guidance should be used when an entity is leasing a building, land, and a structure?	FAS 13 Par 26	Even though FAS 13 par 26 specifically addresses leases involving buildings and land, the same concepts can be applied to structures as well.
12	More detail submitted on a FY2013 inquiry: Agency A serves as an acquisition agent for Agency X related to the development of complex equipment and charges Agency X for its oversight services that relate to the inspection, supervision, and administration of subcontractor contracts and oversight of the development work. Should these costs charged by Agency A be capitalized as part of Agency X's construction work in process (CWIP)?	TR 15 and SFFAS 4 and 6	Ongoing.

OBJECTIVES FOR 2014

It would be helpful to be clear about our 2014 objectives before addressing the three-year plan. There are two aspects of potential objectives – project milestones and continuous improvement.

The 2014 project milestones embodied in the revised timelines are:

1. Finalize reporting entity standards and submit for review in early FY2015
2. Reporting model:
   a. Develop an ideal model (a concepts statement) and begin preparing an exposure draft to solicit comments
   b. Consider the NAPA managerial information study (both as it relates to the ideal model for external reporting and to potential projects on managerial cost accounting/linking cost to performance)
   c. Review the results of the schedule of spending pilots
3. Develop a lease accounting proposal to issue for comment in early FY2015

4. Develop an insurance accounting standards proposal that can be issued early in FY2015
5. Issue a P3 definition and disclosure proposal for comment and complete comment period so that final standards can be completed in FY2015

Do members support the above project timelines for FY2014?

The project timelines are ambitious and the Board may wish to consider the actions needed to meet these timelines while maintaining quality and meeting constituents' expectations regarding use of technology. Other standards-setting bodies are making noted strides in use of technology. While we updated our website a few years ago, the website is not designed well for tablet or smartphone access. It does not provide features such as video presentations that are commonly available from other websites. Also, our newsletter is still provided in PDF format rather than more user friendly means. More importantly, some are making greater use of online collaboration tools. (Note that in addition to the usual investment needed to adopt new tools, FACA requirements must be met.)

Given the many areas for improvement in our use of technology for outreach, it would be helpful for members to advise staff regarding their priorities for the year. **Which, if any, outreach improvements are objectives for 2014:**

1. Move from a PDF newsletter to email format (headline with links to article – if you'd like to see examples, please send me a request via email and I will forward some current GASB and FASB examples)
2. Social media use (Twitter, Facebook, LinkedIn) (Note: subject to FACA requirements)
3. Enhanced online access to briefing materials
4. Internet based videos:
    a. Post-meeting updates from chairman
    b. Project status reports from staff
    c. Webcasting meetings

<u>Staff generally provide briefings upon request. Our participation in conferences and other meetings does divert resources from standards-setting activities but is an important outreach tool. A rough estimate of the staff time involved is 100 hours per year.</u> Given our resource constraints, **do members believe we should decrease support for conferences in 2014 and/or later?**

Which, if any, of the following steps do members support to improve the deliberative process and development of final documents:

1. Enhanced review of drafts by always engaging:
    a. An editorial reviewer
    b. An informal outside review committee prior to balloting (in addition to task force members)

2. Inviting more participation at meetings
    a. Direct participation of task force members
    b. Routine (not project specific) invitation to stakeholders (CFO Council members, CIGIE, and users of information)

At the April meeting, members are asked to share their thoughts on the 2014 project timelines, potential other improvements for 2014, and the three-year plan given the input received.

The 2014 objectives will inform staff on near-term efforts and trade-offs between project work and process improvements.

The three-year plan will be revised accordingly and considered again at the June meeting.

Specific questions are posed below to frame discussion at the meeting. Please feel free to contact me before the meeting with questions or concerns.

QUESTIONS

Question 1: Are the 2014 project timelines attainable and supported by members (see pages 16 and 17)?

Question 2: What 2014 process (outreach, education and deliberative) improvements should be priorities for staff (see page 17 for options)?

Question 3: Does the Board wish to adjust its existing priorities for current and research projects?

Attachment 1

FASAB's Three-Year Plan

Responses

Table of Contents

December 16, 2013

Mr. Tom Allen
Federal Accounting Standards Advisory Board
441 G Street, NW
Washington, DC 20548

Dear Sir:

Examining FASAB's FY13 Annual Report and Three-year Plan I noticed the following project:

"Reconciling Budget and Accrual Information (This project is related to the reporting model project. Decisions regarding next steps will be taken as the ideal model is developed.)"

The FASAB may consider implementing Financial Accounting Standards Board (FASB) standard no. 95 *Statement of Cash Flows* as a potential solution to the above project, using the direct method of cash flow computation. This accounting standard has many benefits to the federal reporting entity:

1) Provides a methodology for agencies to prepare cash flow statements.

2) The Statement fits under FASAB's reporting model and discloses information in a manner familiar to the private sector.

3) Reconciles budget and accrual information.

   a) Preparing the Statement of Cash Flows using the budgetary series (4xxx) of Standard General Ledger (SGL) accounts can be reconciled to the Balance Sheet, Fund Balance with Treasury proprietary accounts (1010), if the direct method is adopted.

   b) The Statement of Cash Flows can be reconciled to the Statement of Budgetary Resources, net outlays section, if the direct method is adopted.

   c) Statement of Cash Flows can be reconciled to the Treasury Department's Statement of Transactions (SF224), if the direct method is adopted.

   d) A net cost to net cash flow reconciliation can be provided along with the Statement of Cash Flows.

I currently prepare cash flow statements for credit reform Financing Accounts (public enterprise revolving funds) in the Federal government using FASB no. 95 direct method guidance; using SGL budgetary accounts (SGL 4xxx) for compilation. I am available to discuss this matter further with your staff.

Sincerely,

Sean D. McMahon CPA, CGFM
3595 2nd Avenue
Edgewater, Maryland 21037
Work: (202) 401-9031
Home: (410) 798-8062

From: Donovan, Joseph - OIG [mailto:Donovan.Joseph@oig.dol.gov]
Sent: Wednesday, February 05, 2014 4:07 PM
To: Payne, Wendolyn M
Cc: Lewis, Elliot - OIG
Subject: Annual Report and Three Year Plan of FASAB

Der Wendy,

Elliot and I have review your Annual Report and Three Year Plan. We appreciate the projects that the
Board has currently under review. Several of the potential projects, we believe, warrant strong consideration
and continued review at this time.

These projects are:

Managerial Cost Accounting and Linking Cost and Performance
Evaluation of Existing Standards
Derivatives
Asset Retirement Obligations

This listing reflects the order of our concern. We consider these projects to have importance to the Federal Government accounting standards.

We applaud your continued effort to assist the US Government in developing standards that aid in proper documenting of financial information of US Government's operations.

Again, many thanks for your diligence and efforts.

Joe

Joseph L. Donovan, Jr., CPA, CFF, CGMA, CICA
Audit Director, Financial Statement Audits
Phone: Cell: 703-568-4458 Office: 202-693-5248

Disclaimer: The following comments represent views of U.S. Securities and Exchange Commission (SEC) staff, and do not represent official views of the SEC. The term "we" in this document refers to SEC staff in the Office of Financial Management and not to the SEC as an organization.

Thank you for the opportunity to comment on FASAB's three-year plan.

SEC staff would like to comment on the following two potential projects:

- Internal Use Software
- Support and Outreach through Guidance and Education

Internal Use Software

Project description (page 30):

> *SFFAS 10 provides standards for internal use software. Since its implementation, federal preparers have expressed concerns regarding (1) the relevance of capitalized costs which are limited to the development phase (both OMB guidance and GAO's cost estimating guide focus broadly on project – or life-cycle – costs), (2) the need to assign full costs – which include general and administrative costs – to software, and (3) the ability to identify phases under current IT practices. The objectives of the project would be to:*
>
> - *Evaluate whether restricting capitalized costs to the development phases is useful and, if not, consider changes such as allowing capitalization from project inception to completion or expensing costs.*
> - *Consider alternatives to the current full cost requirements and/or guidance to support efficient agency implementation.*

SEC Staff Comments:

Numerous federal agencies, including the SEC, have substantial investments in software for internal use. SEC staff recommend that the Board consider adding this project to its near-term agenda. We believe that this project could make a substantial contribution towards the federal government's accountability for such investments with reporting that is both useful and cost-effective.

Support and Outreach through Guidance and Education

Project description (page 33)

> *While this item would best be considered in the context of strategic planning, it is listed here as a reminder of alternatives other than addition of major technical projects. Staff provides advice to preparers and auditors on an informal basis and supports education through review of textbooks, public speaking and other educational avenues (such as the CGFM program). Allocation of additional resources to this area might include (1) development of user guides, (2) more formal implementation guidance, or (3) evaluation of user needs and focus groups on communicating effectively through financial reports.*

SEC Staff Comments:

SEC staff believe that FASAB should consider maintaining or even expanding its outreach efforts by hosting one or two half-day seminars each year that focus primarily on the Board's ongoing and near-future projects. The seminars could include evaluation forms and/or Q&A discussions where participants could ask questions and provide comments informally.

Reason: Federal agencies are often not aware of Board projects that are likely to impact them in the future. Regular outreach seminars would be helpful to FASAB by promoting awareness of its ongoing projects and providing a venue for informal feedback, and would also be helpful to federal agencies by providing high-quality and relevant CPE at no cost in an environment where funding for training is often limited.

Although FASAB is not a NASBA-certified CPE provider, in the past FASAB staff has provided speaker bios, content information, and documented attendance for seminars sufficient to document and support CPE credits for professional certifications such as CPA and CGFM. Outreach seminars would appear to be a win/win situation for both FASAB and the seminar participants.

U.S. Department of Housing and Urban Development

HUD's Comments on FASAB's Annual Report (Fiscal Year ended September 30, 2013) and FASAB's Three Year Plan (Fiscal Years 2014-2016)

Annual Report: In HUD's view, the Annual Report comprehensively presents FASAB's efforts and accomplishments during Fiscal Year 2013 in its role as the authoritative standards-setting body in establishing generally accepted accounting principles for the federal government.

Three-Year Plan: HUD supports the planning and priorities set forth by the FASAB Board in the projects selected for inclusion in the Three-Year Plan. In HUD's view, Federal Agencies will benefit from additional guidance on key issues which will be formulated in the Research Projects listed in the plan.

From: Joe, William [mailto:William.Joe@opm.gov]
Sent: Friday, February 14, 2014 2:28 PM
To: FASAB
Cc: Farington, Kim
Subject: Comments on FASAB's Three Year Plan and Annual Report - from OPM

Good afternoon.
Please see below for comments from the U.S. Office of Personnel Management.

Thank you.
Sincerely,

Bill Joe
Office of the Chief Financial Officer
Office of Personnel Management
202-606-2171
William.joe@opm.gov

FASAB's Three Year Plan and Annual Report: Office of Personnel Management's (OPM) comments.

Managerial Cost Accounting and Linking Cost to Performance is one of the most important projects listed in regard to OPM and, we believe, most Federal agencies. As noted "…cost data is central to integration and plays a significant role in financial management,…"

This project, however, is contingent upon the outcome of the Reporting Model project, so we see the Reporting Model also as a high-priority project.

It would be great to have the FY 2015 Reporting Model milestones completed, or started, in FY 2014.

In addition, we would like to see the milestones for Managerial Cost Accounting and Linking Cost to Performance moved up by a year.

Reconciling Budget and Accrual Information would be the third priority.
We see this project, however, is contingent upon the outcome of the Reporting Model project, as well.
We believe this reconciliation is useful as a Note.
We would like to see the timeline for Reconciling Budget and Accrual Information also moved up by a year.

For Potential Projects, we believe the revisiting of the SFFAS 10 Internal Use Software would be worthwhile.

In addition, we look forward to the continued finalization of the Federal Reporting Entity.

Thank you for allowing us to comment on the FASAB's Three Year Plan and Annual Report.

Greater Washington Society of CPAs and GWSCPA Educational Foundation

1111 19th Street, NW, Suite 1200 Washington, DC 20036
202-464-6001 (v) 202-238-9604 (f) www.gwscpa.org info@gwscpa.org

February 17, 2014

Wendy Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6K17V
441 G Street, NW – Suite 6814
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Three-Year Plan (Plan).

The GWSCPA consists of approximately 3,300 members, and the FISC includes 26 GWSCPA members who are active in accounting and auditing in the Federal sector. This comment letter represents the consensus comments of our members.

FASAB's Three-Year Plan is an ambitious agenda, and includes the key topics that the FISC members believe should be priorities of the Board. We also provide the following suggestions:

1. The advancement of the Tax Expenditures project from a potential project to a current research project was very well received by several FISC members. The Tax Expenditures project has a great deal of potential for shedding light on a concept that is not well understood by many citizens. The amount of potential revenue involved is quite large, and focusing on why such expenditures are made and in which agencies and programs they occur could be very interesting to the public and the policy makers as well. The current practices of reporting tax expenditures through the Executive Branch's annual budget process and through evaluations from the Congressional Budget Office could be enhanced through reporting in the Government-wide annual financial report. The FISC encourages the Board to pursue this objective.

2. Among the potential projects, several FISC members supported the advancement of the Electronic Reporting and Financial/Economic Condition projects to research projects or current projects under consideration by the Board. The FISC members cited the growing need for standards in these areas, along with the rapid evolution of technology impacting the Electronic Reporting project, and the urgent need to report to stakeholders on the financial/economic condition of the Federal government using standardized measures and benchmarks. With respect to the Electronic Reporting project, although the FISC members agreed that the posting of data on the internet is both appropriate and efficient, one FISC member cautioned that it is important to recognize that some constituencies rely upon printed versions of financial reports, and of documents made available by the Board for due process (e.g., those without access to computers, some members of the international community, etc.).

3. In the interest of promoting consistent standards worldwide, would the Board consider incorporating into an existing or potential project the task of providing a comparison of International Public Sector

Accounting Standards Board (IPSASB) standards and FASAB standards? One of the FISC members identified that the availability of such a comparison would allow members of our accountability community to understand how the FASAB standards fit within the current and planned efforts by the IPSASB.

*****

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,

Andrew C. Lewis
FISC Chair

Page No.	Para No.	SUBJECT/TITLE (FASAB 2013 Annual Report and 3-Year Plan 2014-2016)	RECOMMENDATIONS/COMMENTS	Name of Commenter	Office
			Primary Point of Contact for all Comments	**Erik Dorman**	**BCA**
		General Comments	The Office of the Federal Acquisition Service Financial Services (FAS), a component of GSA, has reviewed FASAB's Annual Report for FY 2013 and Three-Year Plan for Fiscal Year 2014 - 2016 and generally have no issues or concerns. FAS will have exposure in some of the official three-year plan study areas, as will other GSA entities, such as Managerial Cost Accounting and Linking Cost and Performance. However, integration of the FAS Financial Planning Application into the budget formulation and execution positions FAS well in regards to that topic, and FAS should be able to respond to FASAB determinations in this area in an efficient manner. Recognizing Budgetary and Accrual Information is another project that will impact GSA, as the requirements will likely center around more disclosure on the differences in financial and budgetary information. FAS has made recent strides in this area based on prior audit findings - namely, monthly reconciliations of budgetary and proprietary data - that should position the service favorably on this topic as well. It is encouraging to see the Evaluation of Existing Standards and Internal Use Software as two projects on the list of potential studies and FAS would offer a priority on these projects for future official study. Standards for the accounting of internal use software is another area where concerns have been expressed regarding the accounting treatment of capitalized software.	Brad Wotring	BF
5		Presentation and Other Assistance	Please extend training to WebEx or other virtual options for non-DC residents.	Jane Pritchett	BCC
7	1 & 2	This section is a repeat from the previous paragraph.	In addition to these annual processes, members ….. “To date, no reportable events have occurred. Again, this year all members confirmed they conformed to the requirements regarding independence, ethics, and reporting undue influence." Together, these efforts serve to alert the AICPA ….. “To date, no reportable events have occurred. Again, this year all members confirmed they conformed to the requirements regarding independence, ethics, and reporting undue influence.” Delete either one: "To date, no reportable events have occurred. Again, this year all members confirmed they conformed to the requirements regarding independence, ethics, and reporting undue influence."	Donna Alwine	BB
14-15		Current Projects - Leases	The new updated leasing information should include sections for definitions (including bargain purchase), as well as guidance related to the various lease types (sale-leaseback, direct financing, etc.)	Jane Pritchett	BCC

15	2nd	<u>Leases</u> -- Objectives: The primary objectives of this project are to: a. Develop an approach to lease accounting that would ensure that all assets and liabilities [consistent with SFFAC 5 definitions] arising under lease contracts are recognized in the statement of financial position and related costs are recognized in the statement of net cost.	**(1a)** Clarify accounting treatment of operating leases in "holdover" status. Currently, holdover leases are accounted for at the cost of the last contract's month's dollar amount, and lessor is thereby remitted monthly payments during the holdover period. "Holdover" status in this statement refers to leases in official "lease extension" status due to the consequence of lessor and Government representative (*contracting officer*) in a continued negotiation wherein agreement on either *(i)* a new lease, or *(ii)* succeeding lease, is hard to consummate. Holdover leases can last six, twelve, and even more months. Upon finalized lease confirmation post-holdover, there is possible "catch-up" payments (*principle* + *interest* + *taxes*) due to the lessor that are recorded in the recordation month. **(1b)** With respect to (1a), should possible *(i)* higher lease principle, *(ii)* lease interest, and/or *(iii)* possible moving costs (*moving secure IT networks, furniture, etc.*) be involved in the accounting treatment of operating leases in "holdover" status with respect to the financial statement of net cost? (2) Clarify accounting treatment of operating leases with a "step" rent. "Step Rent" status in this statement refers to consummated leases with either (i) free or (ii) 50% or so reduced rental payments due lessor for one, two, three, or even more months due to the consequence of lessor and Government representative (contracting officer) negotiation. Some Government contracting officer's bargain hard for step rent trying to save taxpayer/customer agency resources. (a) Should obligations in step rent time period reflect negotiated lease contract price for the step rent time period? or, (b) Should obligations in step rent time period reflect an average obligation amount covering full lease period, sans options, or just the initial lease year, or some other calculation? (3) Clarify revenue accounting treatment of operating leases with respect to (2) above.	Keith Yackshaw	BP
20	1	OMB Circular A-34 was rescinded on 6/27/2002 and superseded by OMB Circular A-11, Part 4, which is updated annually.	Change A-34 to A-11, Part 4.	Donna Alwine	BB
22+		Potential Projects	Cleanup Costs - Evaluating Existing Standards and Revenue (Exchange and Non-Exchange) would be beneficial to GSA. Specifically - instances when capitalization of cleanup costs is appropriate, and instances when deferred revenue is appropriate.	Jane Pritchett	BCC

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jane.pritchett@gsa.gov

From: Jones, Anita [mailto:Jones.Anita@epa.gov]
Sent: Wednesday, February 19, 2014 12:38 PM
To: FASAB
Cc: O'Connor, John; Yusuf, Istanbul; Westermann, Tai-Fang; Osborne, Christopher; Miller, Dale; Varkalis, Cheryl
Subject: FW: [CFO-DCFO] Request for Input on FASAB's Three-Year Plan

Thank you for the opportunity to comment on FASAB's Three-Year Plan. The EPA has the following comment:

> **Reporting Model Timeline on Page 14:** The July 2015 timeline entry states, "Issue Statement(s) and decide on next steps to facilitate "ideal model." This statement is unclear as to when the "ideal model" is being developed. In our opinion, the "ideal model" needs to be developed prior to the statement(s) being issued. Please clarify whether FASAB plans to develop the "ideal model" before or after the statement(s) are issued.

Please contact Anita Jones at (202) 564-4969 if you have any questions concerning our comment.

Anita Jones
Environmental Protection Agency
Office of the Chief Financial Officer
Office of Financial Management
12th & Penn. Ave NW
Washington DC 20054

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

FEB 21 2014

Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Mail Stop 6K17V
Washington, DC 20548

Dear Ms. Payne:

The Department of Defense (DoD) appreciates the opportunity to provide input on the Federal Accounting Standards Advisory Board (FASAB) Three-Year Plan and Annual Report. The DoD proposes six projects for FASAB consideration.

1) Statement of Federal Financial Accounting Standards (SFFAS) 35, "Estimating the Historical Cost of General Property, Plant and Equipment," permits the use of reasonable estimates to determine historical cost values of property, plant, and equipment. The DoD requests a similar standard for inventory and operating materials and supply (OM&S). Inventory and OM&S valuations, such as moving average cost, are also based on historical cost. Extending the use of reasonable baseline estimates for inventory and OM&S would assist DoD in properly valuing its inventory and OM&S.

2) There are long-standing disagreements about the proper reporting of certain contract finance payments for property, plant, and equipment (PP&E). The accounting disagreement concerns the types of contract financing payments regulated by the Federal Acquisition Regulation used during the construction or acquisition of PP&E assets and as it relates to the use of the "construction work in process" account. SFFAS 6 states, "PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agency of the entity. In the case of constructed PP&E, the PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to general PP&E." Under certain fixed price contracts, the DoD makes financing payments which are not based on progress completed. The DoD generally is not liable for the goods being produced until DoD accepts them. Therefore, DoD has reported these contract financing payments as advances. SFFAS 1 states, "Advances are cash outlays made by a Federal entity to its employees, contractors, grantees, or others to cover a part or all of the recipients' anticipated expenses or as advance payments for the cost of goods and services the entity acquires." Clarifying the proper recording treatment of these payments, as advances or construction in process, would support DoD audit readiness efforts.

3) In fulfilling its mission, the DoD deploys PP&E assets across the world. Many times, these assets are destroyed or are become unusable. At times, it is more cost-effective not to return the assets to the United States. Therefore, the possibility of expensing rather than capitalizing deployed assets may be a more appropriate accounting treatment for these assets. FASAB consideration of this possibility is appreciated.

4) Revolving Fund or business-type activities are largely ignored in Federal accounting standards. They receive budget authority through offsetting collections, contract authority, and borrowing authority. These business-type organizations are required to follow appropriation type guidance, while performing service for fee or maintaining supplies for sale. There is little authoritative guidance for them to follow. Developing reporting/accounting guidance for Revolving Fund activity (business-type enterprise) in the Federal Environment would assist these types of organizations.

5) FASAB is currently developing revisions to SFFAS 10, "Accounting for Internal Use Software," primarily due to changes in how these assets are developed. They are no longer following a "waterfall" methodology. The same analysis needs to be reviewed for other types of research and development. Determining the proper timing of capitalization in a changing research and development world requires a new review.

6) FASAB has begun reviewing accounting for leases in its review of SFFAS 5, "Accounting for Liabilities of the Federal Government," and SFFAS 6, "Accounting for Property Plant and Equipment." In the changing economic environment, Federal agencies have begun using in-kind lease payments, rather than collecting rental fees. In-kind lease payment examples include free or reduced utility expenses, new construction, leasehold improvements, easements, and others. Recommend FASAB develop guidance to account for in-kind lease payments. None currently exist.

Please contact Ms. Maryla E. Engelking if you have any questions. You can reach her by email at maryla.e.engelking.civ@mail.mil or by phone at 703-602-0155.

Sincerely,

Mark E. Easton
Deputy Chief Financial Officer

National Aeronautics and Space Administration
Headquarters
Washington, DC 20546-0001

February 19, 2014

Reply to Attn of: Office of the Chief Financial Officer

Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Washington, DC 20548

Dear Ms. Payne:

We appreciate the opportunity to provide our input on the Federal Accounting Standards Advisory Board's (FASAB) Annual Report and Three-Year Plan. The National and Aeronautics and Space Administration (NASA) supports FASAB's projects and their continued focus on: (1) providing financial information that is beneficial to its users; (2) the cost of intended requirements in financial and human resources; (3) the streamlining of reporting; and (4) stakeholder communications from a project's inception, NASA also agrees with the increasing use of subject-related forums to communicate with agencies on FASAB Standards.

With respect to FASAB's current projects, NASA offers the following:

- NASA has provided comments on the Federal Reporting Entity project, and remains concerned about the potential impact of such guidance, particularly regarding Federally Funded Research and Development Centers (FFRDCs). Depending upon the potential reporting requirement imposed, NASA believes that implementation guidance may be necessary in view of the variations between FFRDCs. Any such implementation guidance would need close coordination with the U.S. Department of the Treasury and the Office of Management and Budget, and NASA would welcome the opportunity to participate in that effort.

- When developing the component level reporting model, the widely varying audience for the reports should be kept in mind. This audience includes U.S. citizens and Congress, authoritative Federal agencies, agency senior managers, program and project managers, and auditors. The reporting model should streamline reporting so that the resources used to prepare the report do not outweigh the benefit of the data being reported. These concepts should be kept in focus when considering the integration and/or relationship between cost, budget, and performance information.

- As part of the Managerial Cost Accounting and Linking Cost and Performance project, NASA suggests the Board poll specific stakeholders, including Federal agency senior management, when determining needed cost information. The project should result in high-level guidance leaving flexibility for implementation within individual agencies. Project team members will need to recognize the disparate missions of individual agencies, purposes of cost information, and value given to information used for different purposes. This is an area where it is important to be mindful of the cost versus the benefit.

- Along with the information provided from the questions planned in the study, the scope of the project should include guidance on the expected precision, recognition, recording, and reporting of cost estimates and the related liabilities. We suggest the scope also include more information on the relationship between actual cost, estimated cost, and month end or yearend accruals. NASA requests that the project team provide best practices or recommendations as a result of the study or project activities. We are interested in recommended cost estimation methodologies to provide the best cost data for certain goods, services, processes, products, procurement vehicles, or purposes; and the types of cost data needed and level of detail recommended for specified purposes. NASA would like to participate on the Managerial Cost Accounting and Linking Cost and Performance project.

With respect to new projects, as FASAB is just starting to initiate the projects on Leases, Risk Assumed, and Public Private Partnerships, NASA suggests that interested parties be afforded the opportunity to provide input in the early stages. The Public Private Partnerships team members should communicate perceived accounting issues with stakeholders as the project is initiated. Regarding the Risk Assumed project, the team should consider the value of the information when determining where to develop requirements for recognition, measurement, and reports. This information may be beneficial for programs above a specific Federal budget materiality threshold or other specified program of high interest. NASA is particularly interested in participating in the Public Private Partnership project.

NASA is also interested in what may result from potential projects, such as Clean-up Costs – Evaluating Existing Standards, Conceptual Framework – Review and Finalization. NASA would not necessarily prioritize a Research and Development (R&D) project for this planning window, but if one is initiated, NASA is interested in participating on that team given its predominant R&D focus.

Sincerely,

Pamela D. Hanes

Pamela D. Hanes
Deputy Chief Financial Officer for Finance

AGA

Advancing Government Accountability

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Alexandria, VA 22301-1314
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March 6, 2014

Ms. Wendy Payne
Federal Accounting Standards Advisory Board
441 G Street NW
Mailstop 6K17V
Washington DC 20548

Dear Ms. Payne:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's Three Year Plan for the Technical Agenda for the 2014 through 2016 period (Plan). The FMSB is comprised of 25 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed changes to standards and regulations of interest to AGA members. (Local AGA chapters and individual members are also encouraged to comment separately.)

The FMSB has reviewed the 2014 through 2016 Plan and concurs with most of the content and relative prioritization of the projects on the agenda. We have some questions regarding some items as well as some matters that we would like the FASAB to consider. We also have some additional comments and suggestions that we wish the FASAB to consider as it moves forward. We have grouped our comments by project as shown on page 12 of the Plan document. Our overall comments have been provided at the end of this letter.

Three Year Plan

<u>Federal Reporting Entity Project</u> - We are pleased that the FASAB has remained on track with completing this important project and that the plan is to issue final standards in the 2014 FY. The FMSB supports the approach, developing principles to guide preparers in determining what organizations should be included in the financial reports of the government-wide entity and each component reporting entity to meet federal financial reporting objectives, used by the FASAB. This method provides for guidance that can be used in answering future questions as they arise.

<u>Reporting Model Project</u> – The FMSB is pleased that the Federal Reporting Model project remains on the FASAB's plan and in our view is a high priority project for the FASAB. Users of federal financial information are placing increased demands upon the federal entity to provide improved reports that link spending to budgets and operational results. The plan for FY 2014 shows that the FASAB has continued with the expanded Reporting Model project by considering additional segments to the project and has initiated two new research

projects relative to this effort. These are the Managerial Cost Accounting and Linking Cost to Performance and the

Reconciling Budget and Accrual Information projects. We do suggest, however, that the Board expand its Reporting Model project during this same period to consider including a summary disclosure of intergovernmental financial dependency by individual state governments associated with direct funding to state and local governments and associated with federal procurements, disbursements to federal civilian and military employees and retires, and disbursements to citizens receiving Social Security and Medicare benefits within the jurisdiction of each state. We also suggest that the Board expand its Reporting Model project during this same period to actively engage with OMB in its continuing efforts to promote the inclusion of a Schedule of Spending as Other Information (OI), to include consideration of the reporting relationship between the SOS and other basic financial statements and the prospects for disclosing the relationship between the SOS and information reported in USASpending.gov. We support these four projects as worthy components of the long term effort to improve the Reporting Model.

Regarding the Reporting Model project on the 2014 FY plan, we see that the FASAB has decided upon a vehicle for further guidance, issuance of an "ideal model" concepts statement, which we presume would be the plan for further efforts on improving the Reporting Model. Page 14 of the FY 2014 plan notes that the FASAB plans to issue an ED of the ideal model concept statement after deliberation of the ED in August 2014 and finalize guidance in 2015. Due to the importance of the concept statement document, we would suggest that the FASAB consider exposing its initial thoughts on this matter in a Preliminary Views document to collect additional thoughts on this matter. The comments provide by interested parties might assist the FASAB in crystalizing its thoughts on these matters in advance of an ED as well as minimize any adverse reactions to the concepts statement. So as not to delay the process, we would suggest a short time frame for comments. This approach was useful in OMB's recent efforts in developing new guidance for administering federal grant funds.

Leases Project – The FMSB agrees that this project should be on the Technical Agenda as standards need to be updated in this area. The FASB, in a joint project with IASB, began deliberation in its January meeting, of the feedback it has received in response to the proposed FASB Accounting Standards Update, *Leases (Topic842)*, and the IASB Exposure Draft, *Leases*. However no decisions have yet been made. Therefore, we continue to recommend that the FASAB await the results of this project before moving ahead with development of an exposure draft on this topic. We also recommend that the Board actively monitor the deliberations by the GASB on lease accounting. We are providing recommendations to the GASB through our representative to the GASAC during the week of March 10th, and would be glad to brief you on those views at a later point.

Risk Assumed Project - In our comments to the FY 2012 and FY 2013 plans, we recommended that the Risk Assumed Project be merged with the Federal Reporting Entity Project. The projects were not merged and the Federal Entity Project has been advanced with final standards slated for issuance in 2014. Our review of the FY 2014 plan shows that the Risk Assumed project has been divided into three phases. Phase I will address Explicit Indemnification Arrangements (insurance and guarantees other than loans), Phase II will address other types of risks (entitlements other than social insurance, natural disasters, implicit risks, etc.). Phase III would address other reporting commitments. We note that there are also plans for a pilot test on the Phase I guidance as well as a public hearing on the Phase I project. We believe that this represents a prudent approach to this complex topic and look forward to the ED's and the opportunity to testify on the topic.

Public Private Partnerships Project - In our comments last year, we noted that the FMSB was generally aware of the extent to which state and local governments have engaged in public private partnerships but were uninformed of the extent to which federal agencies have engaged in such projects. We suggested that FASAB make available any information that it has obtained from its research on this topic to aid in the efforts to consider this topic. We repeat this request and suggest that the FASAB publish some type of background information on this topic to assist stakeholders in developing their thoughts on this matter. This would increase appreciation of the efforts being undertaken and provide better context for future comments by the federal financial community. We also believe that since the Public-Private Partnerships are having a long term timeframe and involvement of various types of organizations, the Project should identify the necessary accounting treatments and disclosures to provide comprehensive and understandable information on cost and benefits, valuation of assets and liabilities, and impact to the budget.

Research Projects

Managerial Cost Accounting and Linking Cost to Performance - The FMSB is pleased with the addition of the new research project and supports its inclusion in the FY 2014 plan. The cost of government services and linking these cost to performance is a project that will greatly assist in assessing the effectiveness of government operations. Although this project is just beginning, the general approach outlined in Figure 2, on page 19 of the 2014 FY plan appears to be a sound approach to the project.

Tax Expenditures – The growth of tax expenditures has been significant and we agree that standards should developed to improve the quality of information provided in the government's financial statements on this matter. The amount of resources forgone by government to support specific programs should be captured in a logical, consistent manner in the financial statements. Decisions regarding what revenues have been forgone should be provided to the users of government financial information to present the full picture of resources have been committed to government programs. We shall be interested in the development of this research project and look forward to hearing what specific approach will be used to determine what information will be helpful to users and the ways it can be captured for presentation. The FASAB should consider soliciting input through both formal means, such as issuing a preliminary views type of document to capture input as well as through less formal means such as meeting with users. We also recommend that the FASAB reach out to the key Congressional committees on this area of research as Congress has approved these tax expenditures.

Reconciling Budget and Accrual Information - The FMSB supports the addition of this new research project to the FY 2014 plan as well and we look forward to the results of the research efforts. The document cites an AGA research project and the need for improved information in this area of financial reporting. We look forward to this effort.

Natural Resources Project -The FMSB has no comments regarding this project at this time.

Other General Comments

Seeking Input from Congress and Other Stakeholders

In our letter of comments on last year's plan we stated that, "We also believe that it is important to continue research on the needs of decision makers, particularly those of members of Congress and their staff." As work progresses on the Reporting Model project and the related research projects on Managerial Cost Accounting and Linking Cost to Performance, Tax Expenditures and Reconciling Budget and Accrual Information, we believe that the FASAB needs to continue its efforts to seek input from key Congressional committees and the Congressional Budget Office. Congress remains an important user of financial information and its needs should be considered. Therefore we are repeating our suggestion that FASAB consider establishing an on-going liaison group that meets with Congressional committees to discuss their needs and inform FASAB's research efforts.

FASAB Budget Matters

The research being planned and the significant issues being addressed will require significant resource commitments over a sustained period of time. We hope that the FASAB will be able to hire the necessary resources to complete these projects. We believe that the benefits provided by the FASAB's work to the government community will far outweigh the costs of the planned efforts.

Concluding Comments - The Three-Year Plan for FY 2014 addresses important areas and the topics being addressed are significant and complex. Given the challenges before the FASAB, we believe and strongly encourage the FASAB to consider establishing a formal advisory group similar to the Government Accounting Standards Advisory Committee (GASAC) used by GASB. The GASAC is responsible for consulting with the GASB on technical issues on the Board's agenda, project priorities, matters likely to require the attention of the GASB, selection and organization of task forces, and such other matters as may be requested by the GASB or its chairman. We believe that this would be helpful to FASAB.

We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. A majority of the FMSB members approved of the issuance of this letter of comments. If there are any questions regarding the comments in this letter, please contact Steven E. Sossei, CPA, and AGA's staff liaison for the FMSB, at ssossei@agacgfm.org.

Sincerely,

Eric S. Berman, CPA, Chair
AGA Financial Management Standards Board

Association of Government Accountants
Financial Management Standards Board

July 2013 – June 2014

Eric S. Berman, Chair
Devi Bala
Frank D. Banda
Robert L. Childree
Irwin T. David
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David R. Hancox
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Craig M. Murray, Vice Chair
Suesan R. Patton
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Stephen B. Watson
Sheila Weinberg
Brittney Williams-Spross

Relmond P. Van Daniker, Executive Director, AGA (Ex-Officio Member)
Steven E. Sossei, Staff Liaison, AGA
Lealan I. Miller, GASAC member

In late January and early February, staff met, in groups or individually, with auditors from independent public accounting (IPA) firms to discuss FASAB's three-year plan. Participants were from Acuity, CliftonLarsonAllen, Ernst and Young, Grant Thornton, Kearney & Co., KPMG, and PwC. In addition to the information in the three-year plan, the following questions were posed at the roundtable:

- What existing standards are in need of improvement or implementation guidance?
- What trends or emerging issues have you encountered that may require the Board's attention?
- How can we improve the process for establishing standards and/or the clarity of resulting standards?

Participants expressed appreciation for the chance to offer informal feedback and acknowledged its benefits. Making this a routine practice would improve the process of establishing standards. Staff will schedule additional roundtables in the near future.

The following paragraphs present topics raised by individual roundtable participants for the Board's consideration. Topics presented earliest in the list received the most discussion but that does not imply that a consensus existed regarding what the Board should do. We did not attempt to reach consensus on each topic or to prioritize among the final list of topics. Priority may be implied by the sequence since more discussion focused on the earlier topics.

CUSTOMIZATION

Some participants noted that the art of financial reporting is revealed through customization yet customization does not thrive in federal financial reports. Some believe the financial statements could be more useful if agencies customized the reports by better aligning the presentation to the agency mission and key activities.

Some attributed the failure to customize to one or more of the following:

- time pressures
- audit concerns
- compliance orientation

Those who focused on compliance orientation to explain the lack of customization thought the form and content guidance (Circular A-136) provided by the Office of Management and Budget reinforces the compliance aspects of reporting. Some wondered why the circular is as detailed as it is and whether it should focus on selected items rather than being comprehensive. They believed it could be streamlined because its detailed guidance sometimes repeats existing standards. Such detailed OMB guidance combined with the compliance orientation of federal managers may hinder desirable customization.

Some noted that FASAB should provide a vision for financial reporting. A clearer statement of this vision would help agencies customize their reports.

Some noted that the statement of budgetary resources (SBR) is a direct result of OMB Circular A-11[1] and provides integrity to the budget data but does not offer information to the general user. Improved presentation – perhaps customized to the entity – may make it a more informative statement. Presently, some view the SBR as a data integrity exercise.

Some opined that auditors do not adjust well to customization and this may constrain customization efforts.

BUDGET INFORMATION

Statement of Budgetary Resources

To improve the understandability of the SBR, some supported:

1. adding note disclosures to explain the statement,
2. considering presentation of the schedule of spending in a note to the SBR,
3. a budget to actual comparison where the “actual” is the accrual based net cost,
4. presenting and auditing at a lower level such as program, fund, or appropriation level, or
5. developing a statement that looks more like a cash flow statement showing how activities are financed and funding is used.

Others noted that the SBR is an agency level report that does not align to or support any information in the consolidated financial report.

Reconciliation of net cost to net obligations

Participants noted that the note on reconciliation--formerly the Statement of Financing--offers two types of value – integrity value and informational value. Some believe the note is losing both types of value in contrast to earlier presentations. Since the transition to presentation as a note, the presentation has become:

1. more aggregated,
2. less consistent across agencies, and
3. more generic in its descriptions of reconciling items

While most agreed the statement of financing was difficult to understand, some believed it offered informational value. It explained the difference between amounts relied upon in the budget process and the accrual accounting “net cost” amount. In addition, many noted that the reconciliation and the SBR do not “roll up” to a statement at the government-wide level and do not appropriately support the required government-wide statements.

[1] Circular A-11, *Preparation, Submission and Execution of the Budget*, provides instructions as well as the format for standard form (SF) 133, Report on Budget Execution and Budgetary Resources, which is the basis for the SBR.

Some participants suggested considering:

1. changes that would support preparation of the consolidated financial report of the US Government,[2]
2. presentations at a lower level such as the appropriation level, or
3. improved presentation through better descriptions and requirements for more consistency in the note presentation.

Some participants doubted whether the informational value could be improved.[3]

COST INFORMATION

Some participants noted the ongoing cultural shift towards a greater focus on performance including cost. Some acknowledge that this shift is challenging because decisions are not based on cost and performance. Rather, decisions are based on political reasoning. Some considered the Government Performance and Results Act and the recent GPRA Modernization Act failures.

Generally, participants expressed a need for better cost information at client agencies. Some noted that managers at the general schedule 13 through 15 level should be asked about their information needs. Some doubted that agency staff know the cost of operations or understand the notion of full cost of programs and outputs.

Some believed that direct costs are the most significant. Improved assignment of direct cost to activities (or programs) would provide information needed to support decisions. Few decisions are based on allocation of joint or indirect costs. In addition, such costs are shrinking due to cost savings initiatives in real estate and shared services. Focusing on direct cost would provide 80-90 percent of needed information. The remaining 10% would be addressed as demand for improved performance information increases. Perhaps having a few “role model” programs lead the way would be helpful.

Participants offered the following ideas for improving cost information:

1. provide a supplemental guide addressing:
    a. how to select the most useful (and cost-beneficial) techniques from among the available techniques
    b. how to employ useful cost techniques
2. provide authoritative implementation guidance for SFFAS 4 (Managerial Cost Accounting)
3. establish minimum requirements for the statement of net cost disaggregation of cost

[2] Some referenced the July 2012 AGA research report entitled *Government-wide Financial Reporting* for more detailed suggestions.

[3] See appendix A for sample FY2013 notes as well as the format developed as implementation guidance.

4. disaggregate information similar to the schedule of spending – perhaps by object class or budget function
5. require unit cost information where relevant
6. establish that FASAB's domain includes the financial aspects of performance information and make addressing this a high priority; this may entail:
    a. data standards to support access to cost information at various levels of aggregation (at levels within financial statements as well as accessible in online transparency systems)
    b. minimum requirements for audited financial statements and accompanying notes to provide information supportive of performance reporting

Those participants endorsing GAAP requirements expressed the view that without some structure and audit we would not see improvements in the availability of useful cost information. In addition, some participants noted FASAB's unique position as a deliberative body that could engage users, experts, and government officials from both executive and legislative branches. They viewed this as beneficial in guiding development of cost information.

Other participants believed OMB should be driving the development of managerial cost information. Cost information that comes from outside financial systems is of questionable reliability and OMB is a key user of cost information. Systems requirements established by OMB would likely be more responsive to user needs for more detailed and timely cost information than that found in financial statements. This approach may drive cultural change more effectively than a compliance requirement by demonstrating user interest in cost information.

AUDIT VALUE AND COST

Some participants noted the following regarding audit:

1. data from the systems producing the financial statements have more integrity
2. audits should become less expensive over time rather than more expensive because auditors should focus on changes each year
3. the work is heavily weighted to auditing environmental liabilities and actuarial liabilities and the cost-benefit is questionable – could we free up audit resources to put to more operational activities?
4. agencies have different procedures for authorizing obligations – is this necessary and would consistency reduce audit cost?

GENERAL IMPROVEMENTS TO EXISTING FASAB LITERATURE

Some saw a need for:

1. A topical codification of the accounting standards and related guidance which may lead to streamlined guidance
2. A simplified conceptual framework telling preparers what they need to tell people (straight forward objectives for reporting)

3. A commitment to streamlining when a requirement is added – that is, adding something new without taking something away is no longer an option
4. Streamlined disclosure requirements (for example direct loan/loan guarantees)

SUGGESTIONS ON SPECIFIC PROJECTS OR STANDARDS

Leases

1. Under present standards, guidance is needed regarding treatment of:
    a. lease incentive payments
    b. enhanced use leases
    c. tenant lease allowance
2. With respect to FASB/IASB changes, some questioned whether there is a need for standards unique to the federal government and encouraged the Board to adopt standards developed by GASB or FASB so that resources could be devoted to higher priority projects.
3. Some noted that standards on leases and P3s are not a high priority since people do not make high stakes decisions about property.

Reporting Model

Some participants believed this is a high priority project. In addition to the comments summarized earlier, comments specific to the ongoing project included:

1. The reporting model should be more user friendly and focused to everyday people.
2. Fiscal sustainability information is a foundation but more needs to be done to make it meaningful to users. Ideas included:
    a. Translate the information to explain distributions of benefits and burdens among generations, different income levels (by quartile or even finer – top 1%), and second/third tier effects.
    b. Improve citizens' understanding of the economics of government redistribution (multiplier effect of transfer versus other types of payments, how health care funds cycle through the economy) and how that relates to government debt (what level of debt is unsustainable and why)
    c. How wealth may be created through natural resources and related productivity improvements
3. Because of the absence of a cadre of analysts using the statements, it is more important that they be accessible to the average reader.
4. The reporting model should bring integrity to the budget data but budget data is not enough.

Some noted that strategic thinkers are not engaged in developing the management's discussion and analysis. The MD&A should tell readers "here's what this means." The impression is that current reports could be improved and made useful with greater effort and more customization.

With regard to summary reporting, people questioned what role FASAB could play.

Social Insurance

The statement of social insurance is based on current law and a disclaimer has been issued for several years. The Board should consider allowing for a "best estimate" approach rather than a "current law" approach.

Risk Assumed

Some supported this as a high priority project because users should know when we reach the tipping point on assuming risk.

Implementation Guidance

Some recognized that recent guidance has reduced the burden on DoD for implementing PP&E standards. Additional implementation guidance may be needed as DoD approaches auditability. Specifically, guidance on major construction projects, reporting entity, and cost accounting. Some believed DoD would see the value of financial statements if cost accounting improved.

Reporting Entity

Some noted that the new reporting entity standards were potentially problematic – particularly for DoD in light of the potential that components will be grouped for audit purposes.

Some suggested a dry run for the reporting entity standards due to concerns about unintended consequences and costs.

Direct Loans/Loan Guarantees

Some suggested considering the following:

1. moving to fair value for loans and loan guarantees to provide a better indication of the risk assumed
2. applying the guidance on presentation of actuarial gains and losses to the revaluations of direct loans/loan guarantees (a broader question posed was 'should there be other "below the line" amounts on the statement of net costs')

Figure 3: Illustrative Statement of Financing from OMB Bulletin 01-09 (Sections 1 and 2)

Department/Agency/Reporting Entity
CONSOLIDATED STATEMENT OF FINANCING (Page 1 of 2)
For the Years Ended September 30, 20x2 and 20x1
(in dollars/thousands/millions)

Resources Used to Finance Activities:	
Budgetary Resources Obligated	
1. Obligations incurred	$ xxx
2. Less: Spending authority from offsetting collections & recoveries	xxx
3. Obligations net of offsetting collections and recoveries	xxx
4. Less: Offsetting receipts	xxx
5. Net obligations	xxx
Other Resources	
6. Donations and forfeitures of property	xxx
7. Transfers in/out without reimbursement (+/-)	xxx
8. Imputed financing from costs absorbed by others	xxx
9. Other (+/-)	xxx
10. Net other resources used to finance activities	xxx
11. *Total resources used to finance activities*	x,xxx
Resources Used to Finance Items not Part of the Net Cost of Operations	
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided (+/-)	xxx
13. Resources that finance expenses recognized in prior periods	xxx
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	
14a. Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	xxx
14b. Other	xxx
15. Resources that finance the acquisition of assets	xxx
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations (+/-)	xxx
17. *Total resources used to finance items not part of the net cost of operations*	xxx
18. *Total resources used to finance the net cost of operations*	x,xxx

Appendix A to Attachment 2

Figure 3: Illustrative Statement of Financing from OMB Bulletin 01-09 (Section 3)

Department/Agency/Reporting Entity
CONSOLIDATED STATEMENT OF FINANCING (Page 2 of 2)
For the Years Ended September 30, 20x2 and 20x1
(in dollars/thousands/millions)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	
Components Requiring or Generating Resources in Future Periods:	
19. Increase in annual leave liability	xxx
20. Increase in environmental and disposal liability	xxx
21. Upward/Downward re-estimates of credit subsidy expense (+/-)	xxx
22. Increase in exchange revenue receivable from the public	xxx
23. Other (+/-)	xxx
24. Total components of net cost of operations that will require or generate resources in future periods	xxx
Components not Requiring or Generating Resources:	
25. Depreciation and amortization	xxx
26. Revaluation of assets or liabilities (+/-)	xxx
27. Other (+/-)	xxx
28. Total components of net cost of operations that will not require or generate resources	xxx
29. *Total components of net cost of operations that will not require or generate resources in the current period*	x,xxx
30. *Net cost of operations*	$ x,xxx

Appendix A to Attachment 2

Note 29. Fiduciary Activities

Rural Housing Insurance Fund (RHIF) was established by Public Law 89-117 pursuant to section 517 of title V of the Housing Act of 1949, which authorized RD to collect escrow payments on behalf of new and existing Single Family Housing borrowers. Other fiduciary activities by RD include but are not limited to collections from borrowers, interest paid on escrow accounts, payments to insurance agencies and taxing authorities.

Schedule of Fiduciary Activity
For the Years Ended September 30, 2013 and 2012

	Rural Housing Insurance Fund 2013	Rural Housing Insurance Fund 2012
Fiduciary net assets, beginning of year	$ 107	$ 107
Fiduciary revenues	-	-
Contributions	389	376
Investment earnings	-	-
Gain (Loss) on disposition of investments, net	-	-
Administrative and other expenses	-	-
Disbursements to and on behalf of beneficiaries	(395)	(376)
Increases/(Decrease) in fiduciary net assets	(6)	-
Fiduciary net assets, end of year	$ 101	$ 107

Fiduciary Net Assets
As of September 30, 2013 and 2012

	Rural Housing Insurance Fund 2013	Rural Housing Insurance Fund 2012
Fiduciary Assets		
Cash and cash equivalents	$ 5	$ 6
Investments	96	101
Other assets	-	-
Fiduciary Liabilities		
Less: Liabilities	-	-
Total Fiduciary Net Assets	$ 101	$ 107

Note 30. Reconciliation of Budgetary Resources Obligated to Net Cost of Operations

Budgetary and proprietary accounting information are inherently different because of the types of information and the timing of their recognition. The reconciliation of budgetary resources obligated and the net cost of operations provides a link between budgetary and proprietary accounting information. It serves not only to explain how information on net obligations relates to the net cost of operations but also to assure integrity between budgetary and proprietary accounting.

Net obligations and the net cost of operations are different because (1) the net cost of operations may be financed by non-budgetary resources (e.g. imputed financing); (2) the budgetary and non-budgetary resources used may finance activities which are not components of the net cost of operations; and (3) the net cost of operations may contain components which do not use or generate resources in the current period.

	2013	2012
Resources Used to Finance Activities:		
Budgetary Resources Obligated -		
Obligations Incurred	$ 200,708	$ 186,502
Less: Spending authority from offsetting collections and recoveries	43,505	40,179
Obligations net of offsetting collections and recoveries	157,203	146,323
Less: Distributed Offsetting receipts	2,277	2,033
Net Obligations	154,926	144,290
Other Resources -		
Donations and forfeitures of property	1	-
Transfers in(out) without reimbursement	(187)	86
Imputed financing from costs absorbed by others	845	913
Other	(5,285)	(1,315)
Net other resources used to finance activities	(4,626)	(316)
Total resources used to finance activities	150,300	143,974
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in undelivered orders	2,657	2,571
Resources that fund expenses recognized in prior periods	(17,113)	(4,033)
Budgetary offsetting collections and receipts that do not affect net cost of operations -		
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	17,066	16,192
Change in Unfilled Customer Orders	2,687	2,116
Decrease in exchange revenue receivable from public	9,356	3,071
Other	48	(235)
Resources that finance the acquisition of assets	(22,571)	(21,771)
Other resources or adjustments to net obligated resources that do not affect net cost of operations	1,103	(1,359)
Total resources used to finance items not part of the net cost of operations	(6,767)	(3,448)
Total resources used to finance the net cost of operations	143,533	140,526
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods -		
Increase in annual leave liability	190	5
Increase in environmental and disposal liability	3	1
Upward/Downward reestimates of credit subsidy expense	2,194	2,009
Increase in exchange revenue receivable from the public	-	-
Other	165	7,675
Total components of Net Cost of Operations that will require or generate resources in future periods	2,552	9,690
Components not Requiring or Generating Resources -		
Depreciation and amortization	248	408
Revaluation of assets or liabilities	4	4
Other Components not Requiring or Generating Resources:		
Bad Debt Expense	(4,067)	(1,102)
Cost of Goods Sold	56	-
Other	1,812	1,420
Total components of Net Cost of Operations that will not require or generate resources	(1,947)	730
Total components of Net Cost of Operations that will not require or generate resources in the current period	605	10,420
Net Cost of Operations	$ 144,138	$ 150,946

The ***NTIA Digital Television Transition and Public Safety Fund*** makes digital television available to every home in America, improves communications between local, state, and federal agencies, allows smaller television stations to broadcast digital television, and improves how warnings are received when disasters occur. NTIA received funding from borrowings from the Bureau of Public Debt, and repaid the Bureau of Public Debt from the proceeds of the auction of recovered analog spectrum which was completed in March 2008. The proceeds from the auction provide funding for several programs, and has been and is expected to be further used to reduce the National Deficit. The law establishing this program can be found in the Deficit Reduction Act of 2005 (Public Law 109-171), Sections 3001-3014.

The ***Damage Assessment and Restoration Revolving Fund*** receives monies for the reimbursement of expenses related to oil or hazardous substance spill response activities, or natural resource damages assessment, restoration, rehabilitation, replacement, or acquisition activities conducted by NOAA. The recovered sums by a federal, state, indian, or foreign trustee for natural resource damages is retained by the trustee and is only used to reimburse or pay costs incurred by the trustee for the damaged natural resources. The law establishing the Damage Assessment and Restoration Revolving Fund can be found in 33 USC Section 2706.

The ***Environmental Improvement and Restoration Fund*** makes available interest that was earned in the Fund in the previous fiscal year. 80 percent of such amounts shall be made available to be equally divided among the Directors of the National Park Service, the United States Fish and Wildlife Service, the Bureau of Land Management, and the Chief of the Forest Service for high-priority deferred maintenance and repairs and modernization of facilities that directly enhance the experience of visitors, including natural, cultural, recreational, and historic resources protection projects in National Parks, National Wildlife Refuges, and the public lands, and for payment to the State of Louisiana and its lessees for oil and gas drainage in the West Delta field. 20 percent of such amounts shall be made available to the Secretary of Commerce for the purpose of carrying out marine research activities in the North Pacific. The law establishing the Environmental Improvement and Restoration Fund can be found at 43 USC Section 1474d.

NOTE 22. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The Reconciliation of Net Cost of Operations to Budget reconciles the Department's *Resources Used to Finance Activities* (first section), which consists of the budgetary basis of accounting Net Obligations plus the proprietary basis of accounting Other Resources, to the proprietary basis of accounting Net Cost of Operations. The second section, *Resources Used to Finance Items Not Part of Net Cost of Operations*, reverses out items included in the first section that are not included in Net Cost of Operations. The third section, *Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period*, adds items included in Net Cost of Operations that are not included in the first section.

The third section's subsection, Components Requiring or Generating Resources in Future Periods, includes costs reported in the current period that are included in the Liabilities Not Covered by Budgetary Resources reported in Note 15. This subsection does not include costs reported in prior fiscal years that are also included in Liabilities Not Covered by Budgetary Resources.

The reconciliations of Net Cost of Operations to Budget for the years ended September 30, 2013 and 2012 are as follows:

	FY 2013	FY 2012
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	$ 12,354,766	$ 12,238,097
Less: Spending Authority From Offsetting Collections and Actual Recoveries of Prior-years Unpaid Obligations	(4,531,305)	(4,607,196)
Obligations Net of Offsetting Collections and Actual Recoveries	7,823,461	7,630,901
Less: Distributed Offsetting (Receipts)/Outlays, Net	(46,853)	(62,667)
Net Obligations	7,776,608	7,568,234
Other Resources:		
Donations and Forfeitures of Property	856	579
Transfers In/(Out) Without Reimbursement, Net	(56,353)	182,220
Imputed Financing Sources From Cost Absorbed by Others	295,288	297,694
Other Financing Sources/(Uses), Net	(1,818)	(8,483)
Net Other Resources Used to Finance Activities	237,973	472,010
Total Resources Used to Finance Activities	**8,014,581**	**8,040,244**
Resources Used to Finance Items Not Part of Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	1,619,746	3,088,147
Resources that Fund Expenses Recognized in Prior Periods	(1,819)	(5,718)
Budgetary Obligations for Downward Subsidy Reestimates Payable to Treasury	(21,447)	(6,375)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:		
Distributed Offsetting (Receipts)/Outlays, Net (excludes Clearing Accounts' Gross Costs)	46,853	62,667
Credit Program Collections which Increase Loan Guarantee Liabilities or Allowance for Subsidy Cost	68,158	68,138
Budgetary Financing Sources/(Uses), Net	(113,241)	137,002
Resources that Finance the Acquisition of Assets	(2,032,544)	(2,231,293)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations:		
Change in Unfilled Customer Orders	4,502	(15,472)
Donations and Forfeitures of Property	(856)	(579)
Transfers In/(Out) Without Reimbursement, Net	56,353	(182,220)
Other Financing Sources/(Uses), Net	1,818	8,483
Other	(5,027)	(3,409)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	**(377,504)**	**919,371**
Total Resources Used to Finance Net Cost of Operations	**7,637,077**	**8,959,615**

(continued on next page)

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	FY 2013	FY 2012
Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Accrued Annual Leave Liability	1,395	394
Increase in Federal Employee Benefits	45,980	42,729
Increase in Environmental and Disposal Liabilities	4,473	-
Increase (Decrease) in Contingent Liabilities	123	(2,900)
Reestimates of Credit Subsidy Expense	1,801	3,440
Other	13,810	5,545
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	67,582	49,208
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	736,100	551,210
NOAA Impairment of Construction-in-progress (Note 16)	-	98,260
NOAA Issuances of Materials and Supplies	12,729	21,581
Revaluation of Assets or Liabilities	24,186	20,728
Other	9,361	(18,581)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	782,376	673,198
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**849,958**	**722,406**
NET COST OF OPERATIONS	**$ 8,487,035**	**$ 9,682,021**

NOTE 23. STEWARDSHIP PROPERTY, PLANT, AND EQUIPMENT

This note provides information on certain resources entrusted to the Department and certain stewardship responsibilities assumed by the Department. The physical properties of Stewardship Property, Plant, and Equipment (Stewardship PP&E) resemble those of the General PP&E that is capitalized traditionally in the financial statements of federal entities. Due to the nature of these assets, however, valuation would be difficult and matching costs with specific periods would not be meaningful. Therefore, federal accounting standards require the disclosure of the nature and quantity of these assets. NOAA, NIST, and the Census Bureau are the only entities within the Department that have Stewardship PP&E. Additional information on Stewardship PP&E is presented in the Required Supplementary Information section.

Stewardship Marine Sanctuaries, Marine National Monuments, Conservation Area, and Habitat Focus Area:

Written policy statements or permit guidelines for the National Marine Sanctuaries and Marine National Monuments have been developed for the areas of acoustic impacts, artificial reefs, climate change, invasive species, and marine debris. The Office of Marine National Sanctuaries answers the most frequently asked questions related to alternative energy and oil and gas policy decisions for national marine sanctuaries.

NOAA maintains the following Stewardship PP&E, which are similar in nature to stewardship land:

National Marine Sanctuaries: In 1972, Congress passed the Marine Protection, Research, and Sanctuaries Act (Act) in response to a growing awareness of the intrinsic environmental and cultural value of coastal waters. The Act authorized the Secretary of Commerce to designate special nationally-significant areas of the marine environment as national marine sanctuaries. These protected waters provide a secure habitat for species close to extinction, and also protect historically significant shipwrecks and prehistoric artifacts. National marine sanctuaries are also used for recreation (e.g., boating, diving, and sport fishing), and support valuable commercial industries such as fishing and kelp harvesting. As of September 30, 2013, 13 National Marine

NOTE 21. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

Reconciliation of Net Cost of Operations to Budget *As of September 30*	*Dollars in Millions* **2013**	**2012**
Resources Used to Finance Activities		
Budgetary Resources Obligated:		
Obligations incurred	$ 954,067.2	$ 1,059,305.0
Less: Spending authority from offsetting collections and recoveries (-)	(230,340.8)	(258,964.9)
Obligations net of offsetting collections and recoveries	**$ 723,726.4**	**$ 800,340.1**
Less: Offsetting receipts (-)	(82,767.6)	(79,238.4)
Net obligations	**$ 640,958.8**	**$ 721,101.7**
Other Resources:		
Donations and forfeitures of property	$ 9.9	$ 37.5
Transfers in/out without reimbursement (+/-)	(14.6)	66.1
Imputed financing from costs absorbed by others	4,896.8	5,048.1
Other (+/-)	32,173.5	(10,465.7)
Net other resources used to finance activities	**$ 37,065.6**	**$ (5,314.0)**
Total resources used to finance activities	**$ 678,024.4**	**$ 715,787.7**
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
Undelivered Orders (-)	$ 28,064.4	$ (16,379.3)
Unfilled Customer Orders	(1,767.8)	3,715.0
Resources that fund expenses recognized in prior Periods (-)	(92,516.0)	(19,822.5)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	2,122.8	966.1
Resources that finance the acquisition of assets (-)	(105,940.4)	(105,865.0)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0.0	0.0
Other (+/-)	(32,309.2)	10,323.4
Total resources used to finance items not part of the Net Cost of Operations	**$ (202,346.2)**	**$ (127,062.3)**
Total resources used to finance the Net Cost of Operations	**$ 475,678.2**	**$ 588,725.4**
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Period:		
Increase in annual leave liability	$ 189.5	$ 253.6
Increase in environmental and disposal liability	624.1	657.2
Upward/Downward reestimates of credit subsidy expense (+/-)	(24.8)	(12.0)
Increase in exchange revenue receivable from the public (-)	194.0	84.6
Other (+/-)	42,826.9	124,388.8
Total components of Net Cost of Operations that will Require or Generate Resources in future periods	**$ 43,809.7**	**$ 125,372.2**
Components not Requiring or Generating Resources:		
Depreciation and amortization	$ 44,524.6	$ 47,978.8
Revaluation of assets or liabilities (+/-)	3,528.3	2,693.3
Other (+/-)		
Trust Fund Exchange Revenue	(51,893.3)	(50,977.7)

Reconciliation of Net Cost of Operations to Budget *As of September 30*	*Dollars in Millions* **2013**		**2012**	
Cost of Goods Sold		66,612.8		78,140.6
Operating Materiel and Supplies Used		12,936.2		27,873.0
Other		(37,188.7)		(50,952.0)
Total Components of Net Cost of Operations that will not Require or Generate Resources	**$**	**38,519.9**	**$**	**54,756.0**
Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	**$**	**82,329.6**	**$**	**180,128.2**
Net Cost of Operations	**$**	**558,007.8**	**$**	**768,853.6**

Other Disclosures

Due to the Department's financial systems limitations, budgetary data does not agree with proprietary expenses and capitalized assets. This difference is a previously identified deficiency. The following adjustments (absolute value) were made to balance the Reconciliation of Net Cost of Operations to Budget:

	Dollars in Millions	
Resources that Finance the Acquisition of Assets	$	6,308.4
Other Components not Requiring or Generating Resources	$	79,345.8
Total Amount	**$**	**85,654.2**

The following Reconciliation of Net Cost of Operations to Budget lines are presented as combined instead of consolidated due to intra-agency budgetary transactions not being eliminated:

- Obligations Incurred
- Less: Spending Authority from Offsetting Collections and Recoveries
- Obligations Net of Offsetting Collections and Recoveries
- Less: Offsetting Receipts
- Net Obligations
- Undelivered Orders
- Unfilled Customer Orders

Other Resources, Other primarily consists of non-exchange gains and losses necessary to reconcile the proprietary and budgetary amounts, as well as gains and losses from disposition of assets.

Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations, Other primarily consists of non-exchange gains and losses necessary to reconcile the proprietary and budgetary amounts.

Components Requiring or Generating Resources in Future Period, Other consists primarily of future funded expenses.

Components not Requiring or Generating Resources, Other primarily consists of cost capitalization offsets and other expenses not requiring budgetary resources.

Note 17. Reconciliation of Budgetary Obligations to Net Cost of Operations

The Reconciliation of Budgetary Obligations to Net Cost of Operations provides information on how budgetary resources obligated during the period relate to the net cost of operations by: (1) removing resources that do not fund net cost of operations, and (2) including components of net cost of operations that did not generate or use resources during the year.

The Reconciliation of Budgetary Obligations to Net Cost of Operations, as of September 30, 2013 and 2012, are presented below:

Reconciliation of Budgetary Obligations to Net Cost of Operations

(Dollars in Millions)

	2013	2012
Resources Used to Finance Activities:		
Obligations Incurred	$ 332,417	$ 343,369
Spending Authority from Offsetting Collections and Recoveries	(110,224)	(85,170)
Offsetting Receipts	(48,725)	(40,612)
Net Budgetary Resources Obligated	**173,468**	**217,587**
Imputed Financing from Costs Absorbed by Others	34	34
Other Financing Sources	(51,054)	(37,522)
Net Other Resources	**(51,020)**	**(37,488)**
Net Resources Used to Finance Activities	**122,448**	**180,099**
Resources Used or Generated for Items Not Part of the Net Cost of Operations:		
Increase/(Decrease) in Budgetary Resources Obligated but Not Yet Provided	14,721	(997)
Resources that Fund Subsidy Re-estimates Accrued in Prior Period	(3,922)	3,329
Credit Program Collections	58,352	52,238
Acquisition of Fixed Assets	(1)	-
Acquisition of Net Credit Program Assets or Liquidation of Liabilities for Loan Guarantees	(191,789)	(198,020)
Resources from Non-Entity Activity	51,229	37,447
Net Resources That Do Not Finance the Net Cost of Operations	**(71,410)**	**(106,003)**
Net Resources Used to Finance the Net Cost of Operations	**51,038**	**74,096**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Depreciation	6	9
Subsidy Amortization and Interest on the Liability for Loan Guarantees	8,109	4,259
Other	27	(17)
Total Components Not Requiring or Generating Resources	**8,142**	**4,251**
Increase/(Decrease) in Annual Leave Liability	(1)	(1)
Accrued Re-estimates of Credit Subsidy Expense	(2,382)	3,922
Increase in Exchange Revenue Receivable from the Public	(22,288)	(18,448)
Change in Accrued Interest with Treasury	2	1
Other	(39)	(48)
Total Components Requiring or Generating Resources in Future Periods	**(24,708)**	**(14,574)**
Total Components That Will Not Require or Generate Resources in the Current Period	**(16,566)**	**(10,323)**
Net Cost of Operations	**$ 34,472**	**$ 63,773**

26. Reconciliation of Net Cost of Operations to Budget

($ IN MILLIONS)	FY 2013		FY 2012	
RESOURCES USED TO FINANCE ACTIVITIES				
Obligations incurred (Note 27)	$ 36,740		$ 37,662	
Less spending authority from offsetting collections and recoveries	(11,893)		(11,558)	
Less offsetting receipts (Note 27)	(4,185)		(4,132)	
Net obligations		**$ 20,662**		**$ 21,972**
Imputed financing from costs absorbed by others				
Increase in occupational illnesses liability (Notes 20 and 25)	$ 1,628		$ 1,651	
OPM imputed costs (Note 20)	98		102	
Payments made from Treasury's Judgment Fund (Notes 20 and 25)	1,127		976	
Total imputed costs absorbed by others		$ 2,853		$ 2,729
Transfers-in/(out) without reimbursement		(154)		(189)
Nuclear Waste Fund offsetting receipts, deferred		2,838		2,879
Other		16		30
Total resources used to finance activities		**$ 26,215**		**$ 27,421**
RESOURCES USED TO FINANCE ACTIVITIES NOT PART OF NET COST OF OPERATIONS				
Change in budgetary resources obligated for orders but not yet provided	$ 6,545		$ 15,065	
Resources that finance the acquisition of assets	(8,546)		(12,700)	
Credit program collection and receipts that increase liabilities	1,749		2,051	
Resources that fund expenses recognized in prior periods	(4,654)		(5,508)	
Other resources and adjustments	1,552		1,427	
Total resources used to finance items not part of Net Cost of Operations		**$ (3,354)**		**$ 335**
NET COST OF ITEMS THAT DO NOT REQUIRE OR GENERATE RESOURCES IN CURRENT PERIOD				
Contractor Pension and PRB plans				
Contractor pension and PRB estimate changes (Note 25)	$ (9,864)		$ 1,851	
Current year pension and PRB service costs (Notes 16 and 25)	1,357		1,248	
Current year pension and PRB employer contributions (Note 16)	(1,576)		(1,887)	
Total pension and PRB plans	$ (10,083)		$ 1,212	
Change in environmental liability estimates (Note 25)	18,003		25,262	
Change in spent nuclear fuel contingency (Note 25)	1,631		620	
Change in unfunded safety and health liabilities (Notes 11, 14 and 25)	(110)		(541)	
Upward/Downward reestimates of credit subsidy expense	(124)		(1,310)	
Change in other unfunded liabilities	66		101	
Depreciation of property, plant and equipment	1,807		1,839	
Amortization of premiums and discounts on Treasury investments	(683)		(736)	
Revaluation of assets and liabilities for loans	(50)		(98)	
Other amortization	166		181	
Other	86		1,124	
Total net cost of items that do not require or generate resources in current period		**$ 10,709**		**$ 27,654**
NET COST OF OPERATIONS		**$ 33,570**		**$ 55,410**

NUCLEAR WASTE FUND OFFSETTING RECEIPTS, DEFERRED

The Department defers the recognition of revenues related to the fees paid by owners and generators of spent nuclear fuel, and the interest earned on the invested balance of these funds, to the extent that the receipts exceed current year costs for developing and managing a permanent repository for spent nuclear fuel generated by civilian reactors. In addition, market value adjustments for Treasury securities of the NWF are not recognized as revenues in the current period unless redeemed by the Department. The gross amount of receipts and interest collected are reported as offsetting receipts on the *Combined Statements of Budgetary Resources*. Therefore, a reconciling amount is reported for the portion of the offsetting receipts for which revenues are not recognized in the current period.

Note 35. Reconciliation of Net Cost of Operations to Budget

		FY 2013		FY 2012
RESOURCES USED TO FINANCE ACTIVITIES				
Budgetary Resources Obligated				
Obligations Incurred	$	10,090,120	$	13,782,833
Less: Spending Authority from Offsetting Collections and Recoveries		(950,430)		(1,154,627)
Obligations, Net of Offsetting Collections	$	9,139,690	$	12,628,206
Less: Offsetting Receipts		(1,155,006)		(3,544,465)
Net Obligations	$	7,984,684	$	9,083,741
Other Resources				
Imputed Financing Sources	$	150,927		168,142
Other Resources to Finance Activities		-		(76)
Net Other Resources Used to Finance Activities	$	150,927	$	168,066
Total Resources Used to Finance Activities	$	8,135,611	$	9,251,807
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:				
Change in Budgetary Resources Obligated	$	1,374,392	$	1,138,862
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:				
Credit Program Collections Increasing Loan Liabilities for Guarantees or Subsidy Allowances:		819		6,777
Offsetting Receipts Not Affecting Net Cost		67,917		69,098
Resources that Finance Asset Acquisition		(106,802)		(145,656)
Other Resources Not Affecting Net Cost		-		76
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$	1,336,326	$	1,069,157
Total Resources Used to Finance the Net Cost of Operations	$	9,471,937	$	10,320,964

		FY 2013		FY 2012
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD:				
Components Requiring or Generating Resources in Future Periods:				
Increase in Annual Leave Liability	$	(525)	$	(4,590)
Increase in Environmental and Disposal Liability		(10)		722
Increase in Unfunded Contingencies		20		15,000
Upward/ Downward Reestimates of Credit Subsidy Expense		(730)		189
Increase in Public Exchange Revenue Receivables		(237,175)		(35,266)
Increase in Workers Compensation Costs		5,180		2,429
Other		(49)		1,242
Total Components of Net Cost of Operations that Require or Generate Resources in Future Periods	$	(233,289)	$	(20,274)
Components Not Requiring/ Generating Resources:				
Depreciation and Amortization	$	81,041	$	96,481
Expenses Not Requiring Budgetary Resources		105,622		(13,725)
Total Components of Net Cost that Will Not Require or Generate Resources	$	186,663	$	82,756
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	$	(46,626)	$	62,482
Net Cost of Operations	$	9,425,311	$	10,383,446

by GSA to OPM do cover a significant portion of the normal cost of retirement benefits, the contribution rates defined in law do not cover the full normal cost of those retirement benefits. To achieve the recognition of the full normal cost required by SFFAS No. 5, GSA records the combination of funded cost for the amount of agency contributions, and imputed cost for the portion of normal costs not covered by contributions. Amounts recognized as normal cost related to contributions, as well as imputed costs are further provided below.

B. Civil Service Retirement System

At the end of FY 2013, 12.2 percent (down from 14.2 percent in FY 2012) of GSA employees were covered by the CSRS, a defined benefit plan. Total GSA (employer) contributions (7.5 percent of base pay for law enforcement employees, and 7.0 percent for all others) to CSRS for all employees totaled $11 million and $14 million in FYs 2013 and 2012, respectively.

C. Federal Employees Retirement System

On January 1, 1987, the FERS, a mixed system of defined benefit and defined contribution plans, went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, were automatically covered by FERS and Social Security while employees hired before January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. As of September 30, 2013, 87.6 percent (up from 85.5 percent in FY 2012) of GSA employees were covered under FERS. One of the primary differences between FERS and CSRS is that FERS offers automatic and matching contributions into the federal government's Thrift Savings Plan (TSP) for each employee. All employees could invest up to $17,500 and $17,000 in their TSP account in calendar years 2013 and 2012, respectively. In addition, for FERS employees, GSA automatically contributes one percent of base pay and matches employee contributions up to an additional four percent of base pay. For calendar years 2013 and 2012, total contributions made on behalf of an employee could not exceed $51,000 and $50,000, respectively. During FYs 2013 and 2012, GSA (employer) contributions to FERS (26.3 percent of base pay for law enforcement employees and 11.9 percent for all others) totaled $115 million and $114 million, respectively. Additional GSA contributions to the TSP totaled $42 million in FYs 2013 and 2012.

D. Social Security System

GSA also makes matching contributions for programs of the Social Security Administration (SSA) under the Federal Insurance Contributions Act (FICA). For employees covered by FERS, GSA contributed 6.2 percent of gross pay (up to $113,700 and $110,100 in calendar years 2013 and 2012, respectively) to SSA's Old-Age, Survivors, and Disability Insurance (OASDI) program in calendar year 2013. Additionally, GSA makes matching contributions for all employees of 1.45 percent of gross pay to the Medicare Hospital Insurance program in calendar year 2013. In FYs 2013 and 2012, 0.2 percent and 0.3 percent, respectively, of GSA employees are covered exclusively by these programs. Payments to these programs in FYs 2013 and 2012, amounted to $73 million and $75 million, respectively.

E. Schedule of Unfunded Benefit Costs

Amounts recorded in FYs 2013 and 2012, in accordance with FASAB SFFAS No. 5, for imputed post-employment benefits were as follows (dollars in millions):

	PENSION BENEFITS	HEALTH/LIFE INSURANCE	TOTAL
2013			
FBF	**$19**	**$28**	**$47**
ASF	**14**	**16**	**30**
Other Funds	**9**	**9**	**18**
Total Unfunded Benefit Costs	**$42**	**$53**	**$95**
2012			
FBF	$17	$33	$50
ASF	13	19	32
Other Funds	9	11	20
Total Unfunded Benefit Costs	$39	$63	$102

17. RECONCILIATION OF NET COSTS OF OPERATIONS TO BUDGET

The recognition of earning reimbursable budgetary resources and spending budgetary resources on the CSBR generally has a direct or causal relationship to revenues and expenses recognized on the Consolidating Statements of Net Cost. The reconciliation schedules below bridge the gap between these sources and uses of budgetary resources with the operating results reported on the Consolidating Statements of Net Cost for the fiscal years ending on September 30, 2013, and 2012 (dollars in millions):

	FEDERAL BUILDINGS FUND 2013	FEDERAL BUILDINGS FUND 2012	ACQUISITION SERVICES FUND 2013	ACQUISITION SERVICES FUND 2012	OTHER FUNDS 2013	OTHER FUNDS 2012	LESS: INTRA-GSA ELIMINATIONS 2013	LESS: INTRA-GSA ELIMINATIONS 2012	GSA CONSOLIDATED TOTALS 2013	GSA CONSOLIDATED TOTALS 2012
RESOURCES USED TO FINANCE ACTIVITIES										
Obligations Incurred	**$ 10,774**	$ 10,985	**$ 9,773**	$ 10,912	**$ 748**	$ 796	**$ -**	$ -	**$ 21,295**	$ 22,693
Less: Spending Authority From Offsetting Collections and Adjustments	**(11,705)**	(11,576)	**(9,989)**	(11,030)	**(482)**	(531)	**-**	-	**(22,176)**	(23,137)
Financing Imputed for Cost Subsidies	**66**	56	**46**	44	**21**	23	**37**	15	**96**	108
Other	**(200)**	3	**11**	7	**(60)**	205	**-**	-	**(249)**	215
Total Resources Used to Finance Activities	**(1,065)**	(532)	**(159)**	(67)	**227**	493	**37**	15	**(1,034)**	(121)
RESOURCES USED THAT ARE NOT PART OF THE NET COST OF OPERATIONS										
(Increase)/Decrease in Goods and Services Ordered But Not Yet Received	**982**	2,153	**727**	210	**(4)**	(47)	**-**	-	**1,705**	2,316
Increase/(Decrease) in Unfilled Customer Orders	**(401)**	(285)	**(764)**	(204)	**(5)**	36	**-**	-	**(1,170)**	(453)
Costs Capitalized on the Balance Sheet	**(1,862)**	(3,062)	**(692)**	(759)	**(16)**	(38)	**-**	-	**(2,570)**	(3,859)
Financing Sources Funding Prior Year Costs	**149**	(185)	**(6)**	2	**(5)**	(11)	**-**	-	**138**	(194)
Other	**192**	78	**(1)**	(2)	**64**	(194)	**-**	-	**255**	(118)
Total Resources Used That Are Not Part of the Net Cost of Operations	**(940)**	(1,301)	**(736)**	(753)	**34**	(254)	**-**	-	**(1,642)**	(2,308)
COSTS FINANCED BY RESOURCES RECEIVED IN PRIOR PERIODS										
Depreciation and Amortization	**1,460**	1,367	**499**	495	**16**	19	**-**	-	**1,975**	1,881
Net Book Value of Property Sold	**53**	3	**311**	250	**-**	-	**-**	-	**364**	253
Other	**24**	91	**-**	-	**-**	-	**-**	-	**24**	91
Total Costs Financed by Resources Received in Prior Periods	**1,537**	1,461	**810**	745	**16**	19	**-**	-	**2,363**	2,225
COSTS REQUIRING RESOURCES IN FUTURE PERIODS										
Unfunded Capitalized Costs	**51**	59	**-**	-	**-**	-	**-**	-	**51**	59
Unfunded Current Expenses	**(17)**	3	**-**	1	**(27)**	5	**-**	-	**(44)**	9
Total Costs Requiring Resources in Future Periods	**34**	62	**-**	1	**(27)**	5	**-**	-	**7**	68
Net (Income From) Cost of Operations	**$ (434)**	$ (310)	**$ (85)**	$ (74)	**$ 250**	$ 263	**$ 37**	$ 15	**$ (306)**	$ (136)

18. SUBSEQUENT EVENTS

GSA recognized the following two subsequent events that occurred after September 30, 2013; however, prior to the issuance of the financial statements for FY 2013:

- In an effort to modernize its supply chain, GSA decided on November 8, 2013, to cease operations at its two distribution centers. The western distribution facility in French Camp, CA and the eastern distribution facility in Burlington, NJ are scheduled to close on September 30, 2014 and December 31, 2014, respectively. This decision is based on declining demand, high overhead expenses, and operational inefficiencies that create difficulties in achieving desired delivery times. For FY 2013, the Stock and Stock Direct Delivery programs combined to generate a net loss of $46 million. Through advances in technology and business practices, GSA is transitioning from stocking inventory in distribution centers to establishing a vendor direct delivery supply method known as strategic partner delivery. The new business model is expected to yield in excess of $100 million annually in cost savings related to leasing, labor, infrastructure, maintenance, storage, and transportation, while significantly reducing delivery times. GSA expects to incur approximately $68 million in expenses related to the transition to include: $44 million for the early termination of the lease agreement for the Burlington

Note 25. Reconciliation of Net Cost of Operations (Proprietary) to Budget (in Millions)

	2013	2012
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 1,282,036	$ 1,205,880
Spending Authority from Offsetting Collections and Recoveries	(49,640)	(47,415)
Obligations Net of Offsetting Collections and Recoveries	1,232,396	1,158,465
Distributed Offsetting Receipts	(336,655)	(317,777)
Net Obligations	$ 895,741	$ 840,688
Other Resources		
Net Non-Budgetary Resources Used to Finance Activities	58	21
Total Resources Used to Finance Activities	$ 895,799	$ 840,709
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but Not Yet Provided	$ (3,623)	$ (13,909)
Resources That Fund Expenses Recognized in Prior Periods	54	138
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations	(1,202)	(1,255)
Resources That Finance the Acquisition of Assets or Liquidations of Liabilities	1,314	1,652
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	7,089	1,995
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	3,632	(11,379)
Total Resources Used to Finance the Net Cost of Operations	$ 892,167	$ 852,088
Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods	$ 2,495	$ 2,870
Components Not Requiring or Generating Resources	1,588	589
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	4,083	3,459
Net Cost of Operations	$ 896,250	$ 855,547

The disbursement totals for refunds include antidumping and countervailing duties collected that are refunded pursuant to rulings by the Department of Commerce. These duties are refunded when the Department of Commerce issues a decision in favor of the foreign industry. See Note 18, Other Liabilities, for more information.

31. Reconciliation of Net Cost of Operations (Proprietary) to Budget

The Reconciliation of Net Cost of Operations to Budget reconciles the Department's Resources Used to Finance Activities (first section), which consists of the budgetary basis of accounting Net Obligations plus the proprietary basis of accounting Other Resources, to the proprietary basis of accounting Net Cost of Operations. The second section, Resources Used to Finance Items Not Part of the Net Cost of Operations, reverses out items included in the first section that are not included in Net Cost of Operations. The third section, Components of Net Cost of Operations that Will Not Require or Generate Resources in the current period, adds items included in the Net Cost of Operations that are not included in the first section.

The third section's subsection, Components Requiring or Generating Resources in future periods, includes costs reported in the current period that are included in the Liabilities Not Covered by Budgetary Resources reported in Note 14. This subsection does not include costs reported in prior fiscal years that are also included in Liabilities Not Covered by Budgetary Resources.

The reconciliations of net cost of operations to budget for FY 2013 and FY 2012 are as follows:

	2013	2012 (Restated)
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred (Note 24)	$ 76,565	$ 67,173
Less: Spending Authority from Offsetting Collections and Recoveries	(14,161)	(13,650)
Obligations Net of Offsetting Collections and Recoveries	62,404	53,523
Less: Offsetting Receipts	(7,518)	(7,481)
Net Obligations	54,886	46,042
Other Resources		
Transfers In (Out) Without Reimbursement	92	(14)
Imputed Financing from Costs Absorbed by Others	1,337	1,386
Other	3,084	2,448
Net Other Resources Used to Finance Activities	4,513	3,820
Total Resources Used to Finance Activities	**$ 59,399**	**$ 49,862**

	2013	2012 (Restated)
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but Not Yet Provided	$ (2,739)	$ (3,930)
Resources that Fund Expenses Recognized in Prior Periods	989	4,367
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:		
Other	(951)	(891)
Resources that Finance the Acquisition of Assets	2,640	3,323
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	1,358	2,089
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	1,297	4,958
TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS	**$ 58,102**	**$ 44,904**
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	$ 17	$ 31
Increase in Environmental and Disposal Liability	87	99
Increase in Exchange Revenue Receivable from the Public	7	(2)
Upward/Downward Re-estimates of Credit Subsidy Expense	3	(327)
Other		
Increase in Actuarial Pension Liability	-	3,784
Increase in USCG Military Post-Employment Benefits and Other	-	1
Other	-	108
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	114	3,694
Components not Requiring or Generating Resources		
Depreciation and Amortization	1,894	1,988
Revaluation of Assets or Liabilities	91	52
Other	339	(688)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	2,324	1,352
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**2,438**	**5,046**
NET COST OF OPERATIONS	**$ 60,540**	**$ 49,950**

32. Adjustments to Beginning Balances

In FY 2013, Congress approved a substantial increase in borrowing authority for FEMA to pay claims related to Hurricane Sandy. Due to the significance of this new borrowing authority, FEMA management obtained further guidance on the availability of unobligated budgetary resources at year-end for funding of this nature, and determined that NFIP has indefinite borrowing authority to pay flood claims and claims-related expenses to flood insurance policyholders as a result of flood disasters. Accordingly, in FY 2013, FEMA recorded borrowing authority as a budgetary resource for an amount equal to obligations incurred to pay flood insurance claims and expenses. Prior to FY 2013, FEMA presented the total unused borrowing authority as a budgetary resource regardless of the value of flood claims-related obligations. DHS reduced unobligated balances, brought forward, October 1, 2012, as presented on the Statement of Budgetary Resources, by $1,077 million to reflect this change in treatment of NFIP borrowing authority from definite to indefinite. This downward adjustment to unobligated balances was recorded in accordance with instructions issued by Treasury and OMB in June 2013, *Reduction of Prior Year Unobligated Indefinite Borrowing Authority*.

Starting in FY 2012, CBP began reporting COBRA user fees resulting from elimination of the North American Free Trade Agreement country exemptions from 1994 to 1997 as “Non-budgetary” Fund Balance with Treasury, as a result of new guidance issued by OMB in August 2012. These fees are restricted by law until made available as provided in appropriation acts. The change resulted in an adjustment to the Statement of Budgetary Resources unobligated balance brought forward, October 1, 2011, and Statement of Changes in Net Position beginning cumulative results of operations of $640 million.

Also in FY 2012, the USCG began reporting existing reparable spare parts, previously classified as General PP&E, as OM&S. Accordingly, balances are presented net of an allowance for repair, and removed from OM&S using the consumption method. The adjustments to FY 2012 beginning balances resulted in a net increase to OM&S of $1,218 million and a net decrease to PP&E of $507 million on the Balance Sheet, and an adjustment to Statement of Changes in Net Position beginning cumulative results of operations totaling $711 million. This change more clearly represents the actual and reasonable utilization and classification of the assets.

Note 29: Reconciliation of Net Cost of Operations to Budget

This note (formerly the Statement of Financing) links the proprietary data to the budgetary data. Most transactions are recorded in both proprietary and budgetary accounts. However, because different accounting bases are used for budgetary and proprietary accounting, some transactions may appear in only one set of accounts. The Reconciliation of Net Cost of Operations to Budget is as follows for the periods ending September 30, 2013 and September 30, 2012 (dollars in millions):

	2013	2012
Budgetary Resources Obligated		
Obligations Incurred	$ 138,378	$ 100,401
Spending Authority from Offsetting Collections and Recoveries	(88,899)	(51,665)
Obligations Net of Offsetting Collections	$ 49,479	$ 48,736
Offsetting Receipts	(1,495)	(3,425)
Net Obligations	$ 47,984	$ 45,311
Other Resources		
Transfers In/Out Without Reimbursement	$ (564)	$ (1,440)
Imputed Financing from Costs Absorbed by Others	78	80
Other Resources	1	3
Net Other Resources Used to Finance Activities	$ (485)	$ (1,357)
Total Resources Used to Finance Activities	$ 47,499	$ 43,954
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods/Services/Benefits Services Ordered but Not Yet Provided	$ 4,989	$ 8,095
Credit Program Resources that Increase LLG or Allowance for Subsidy	80,982	47,527
Credit Program Resources not Included in Net Cost (Surplus) of Operations	(55,840)	-
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	(33,354)	(10,429)
Resources that Fund Expenses from Prior Periods	(21)	(1)
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	(51)	(14,619)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	$ (3,295)	$ 30,573
Total Resources Used to Finance the Net Cost of Operations	$ 44,204	$ 74,527
Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period		
Upward/Downward Re-estimates of Credit Subsidy Expense	$ 8,723	$ 27,148
Increase in Exchange Revenue Receivable from the Public	(208)	(218)
Change in Loan Loss Reserve	(3)	(3)
Revaluation of Assets or Liabilities	1	5
Depreation and Amortization	16	18
Changes in Bad Debt Expenses Related to Credit Reform Receivables	(440)	(303)
Reduction of Credit Subsidy Expense from Guarantee Endorsements and Modifications	(18,358)	(5,977)
Increase in Annual Leave Liability	-	-
Other	4,453	(24,464)
Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period	$ (5,816)	$ (3,794)
Net Cost of Operations	**$ 38,388**	**$ 70,733**

Reconciliation of the Statement of Budgetary Resources to the Budget of the United States Government (dollars in millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
FY 2012 Combined Statement of Budgetary Resources	**$ 30,671**	**$ 24,120**	**$ (5,553)**	**$ 18,407**
Office of the Special Trustee for American Indians Fiduciary activity included in the Budget of the US Government that is excluded from the SBR	585	479	(411)	479
National Park Service Concessionaire activity included in the Budget of the US Government that is excluded from the SBR	38	16	(14)	16
Subtotal	623	495	(425)	495
Budget of the U.S. Government	**$ 31,294**	**$ 24,615**	**$ (5,978)**	**$ 18,902**

NOTE 19. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

As required by SFFAS No. 7, *Accounting for Revenue and Other Financial Sources*, DOI has reconciled the Net Cost of Operations (reported in the Statement of Net Cost), to the current year obligations, reported on the Statement of Budgetary Resources.

The schedule below illustrates this reconciliation by listing the inherent differences in timing and recognition between the accrual proprietary accounting method used to calculate net cost and the budgetary accounting method used to calculate budgetary resources and obligations. Note that the large variance in the "Re-evaluation of liabilities" between FY 2013 and FY 2012 is mainly due to the decrease in contingent liabilities resulting from the Judgment Fund payment of $1.5 billion to class members in the Cobell Settlement, and the difference between imputed financing sources and imputed costs is due to capitalized projects at DO and BOR.

Notes to the Principal Financial Statements
(Dollars in Thousands, Except as Noted)

Note 23. Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing)

For the Fiscal Years Ended September 30, 2013 and 2012

	2013	2012
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 35,501,730	$ 41,251,276
Less: Spending Authority from Offsetting Collections and Recoveries	6,304,918	8,071,018
Obligations Net of Offsetting Collections and Recoveries	29,196,812	33,180,258
Less: Offsetting Receipts	933,877	1,425,127
Net Obligations	28,262,935	31,755,131
Other Resources		
Donations and Forfeitures of Property	185,772	120,275
Transfers-In/Out Without Reimbursement	2,080	(12,623)
Imputed Financing from Costs Absorbed by Others (Note 19)	801,659	878,014
Other	(6,166)	(5,199)
Net Other Resources Used to Finance Activities	983,345	980,467
Total Resources Used to Finance Activities	29,246,280	32,735,598
Resources Used to Finance Items not Part of the Net Cost of Operations		
Net Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not Yet Provided	1,664,943	1,565,963
Resources That Fund Expenses Recognized in Prior Periods (Note 24)	(106,481)	(68,557)
Budgetary Offsetting Collections and Receipts That do not Affect Net Cost of Operations	99,050	700,546
Resources That Finance the Acquisition of Assets	(905,379)	(1,069,993)
Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations	(15,500)	24,810
Total Resources Used to Finance Items not Part of the Net Cost of Operations	736,633	1,152,769
Total Resources Used to Finance the Net Cost of Operations	$ 29,982,913	$ 33,888,367

These notes are an integral part of the financial statements.

Notes to the Principal Financial Statements
(Dollars in Thousands, Except as Noted)

Note 23. Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing) (continued)

For the Fiscal Years Ended September 30, 2013 and 2012	2013	2012
Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods		
Components That will Require or Generate Resources in Future Periods (Note 24)	$ 260,293	$ 3,174,134
Depreciation and Amortization	854,143	1,059,391
Revaluation of Assets or Liabilities	(1,912)	35,468
Other	55,593	37,210
Total Components of Net Cost of Operations That will not Require or Generate Resources	907,824	1,132,069
Total Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period	1,168,117	4,306,203
Net Cost of Operations	$ 31,151,030	$ 38,194,570

These notes are an integral part of the financial statements.

NOTE 19 - RECONCILIATION OF BUDGETARY RESOURCES OBLIGATED TO NET COST OF OPERATIONS

(Dollars in thousands)	FY 2013	FY 2012
Resources used to finance activities		
Budgetary resources obligated		
Obligations incurred	$ 118,111,427	$ 156,284,367
Recoveries of prior year obligations	(461,549)	(369,860)
Less spending authority from offsetting collections	(7,826,120)	(8,460,059)
Obligations, net of offsetting collections and recoveries	109,823,758	147,454,448
Other resources		
Imputed financing from costs absorbed by others	112,929	125,142
Transfers, net	4,764	966
Exchange revenue not in budget	(985,901)	(1,346,690)
Total resources used to finance activities	108,955,550	146,233,866
Resources used to finance items not part of the net cost of operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet received or provided	(160,936)	(237,196)
Resources that finance the acquisition of assets	(66,477)	(141,648)
Transfers that do not affect the net cost of operations	(26,393,701)	(40,693,007)
Total resources used to finance items not part of the net cost of operations	(26,621,114)	(41,071,851)
Total resources used to finance the net cost of operations	82,334,436	105,162,015
Components of the net cost of operations that will not require or generate resources in the current period		
Components requiring or generating resources in other periods		
Increase (decrease) in annual leave liability	(39)	5,057
Increase in benefits liabilities	299,882	431,371
Increase in capitalized interest and other	196,245	67,513
Total	496,088	503,941
Components not requiring or generating resources		
Depreciation and amortization	73,501	76,507
Revaluation of assets and liabilities	1,062,620	1,461,338
Benefit overpayments	(1,095,362)	(1,551,915)
Total	40,759	(14,070)
Total components of the net cost of operations that will not require or generate resources in the current period	536,847	489,871
Net cost of operations	$ 82,871,283	$ 105,651,886

Note 17: Reconciliation of Net Cost to Budget

SFFAS No.7, *Accounting for Revenues and Other Financing Concepts for Reconciling Budgetary and Financial Accounting*, requires a reconciliation of proprietary and budgetary accounting information. Accrual-based measures used in the Statement of Net Cost differ from the obligation-based measures used in the Statement of Budgetary Resources. This reconciliation shows the relationship between the net obligations derived from the Statement of Budgetary Resources and net costs of operations derived from the Statement of Net Cost by identifying and explaining key items that affect one statement but not the other.

(In Millions of Dollars)	2013	2012
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 19,711	$ 20,685
Less: Spending Authority from Offsetting Collections and Recoveries	2,968	3,207
Obligations Net of Offsetting Collections and Recoveries	16,743	17,478
Less: Offsetting Receipts	—	(6)
Net Obligations	16,743	17,484
Other Resources		
Donations & Forfeitures of Property	3	4
Transfers In/Out Without Reimbursements	109	100
Imputed Financing from Costs Absorbed by Others	150	176
Net Other Resources Used to Finance Activities	262	280
Total Resources Used to Finance Activities	**17,005**	**17,764**
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered But Not Yet Provided	207	(440)
Resources that Fund Expenses Recognized in Prior Periods	(3)	(294)
Budgetary Offsetting Collections and Receipts that Do Not Affect the Net Costs of Operations—Other	—	(6)
Resources that Finance the Acquisition of Assets	(1,155)	(1,113)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	(3)	(4)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**(954)**	**(1,857)**
Total Resources Used to Finance the Net Cost of Operations	**$ 16,051**	**$ 15,907**
Components of Net Cost that Will Not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods		
Increases in Environmental and Disposal Liability	$ 74	$ —
Other	3	—
Total Components of Net Cost that Will Require or Generate Resources in Future Periods	77	—
Components Not Requiring or Generating Resources		
Depreciation	1,569	1,443
Revaluation of Assets or Liabilities	1	(8)
Other	236	613
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	1,806	2,048
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**1,883**	**2,048**
Net Cost of Operations	**$ 17,934**	**$ 17,955**

Note 14. Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the U.S. Government

The SFFAS No. 7, "Accounting for Revenue and Other Financing Sources," requires the NRC to reconcile the budgetary resources reported on the Statement of Budgetary Resources to the prior fiscal year actual budgetary resources presented in the Budget of the U.S. Government and explain any material differences. The NRC does not have any material differences between the Statement of Budgetary Resources and the Budget of the U.S. Government.

Note 15. Reconciliation of Net Cost of Operations to Budgetary Resources

For the years ended September 30,	2013	2012
Budgetary Resources Obligated		
Obligations incurred (Note 12)	**$ 1,027,051**	$ 1,045,152
Less: Spending authority from offsetting collections and recoveries	**(21,475)**	(21,342)
Less: Distributed offsetting receipts	**(851,891)**	(894,399)
Net Obligations	**153,685**	129,411
Other Resources		
Imputed financing from costs absorbed by others	**35,157**	33,705
Non-Exchange Revenue	**482**	697
Funds returned to U.S. Treasury General Fund	**(482)**	(697)
Net Other Resources Used to Finance Activities	**35,157**	33,705
Total Resources Used to Finance Activities	**188,842**	163,116
Resources Used to Finance Items Not Part of the Net Cost of Operations	**(3,908)**	(26,311)
Total Resources Used to Finance the Net Cost of Operations	**184,934**	136,805
Components of the Net Cost of Operations that will not require or generate resources in the current period	**25,949**	10,955
Net Cost of Operations	**$ 210,883**	$ 147,760

Note 16. Contingencies

The NRC is subject to potential liabilities in various administrative proceedings, legal actions, environmental suits, and claims brought against it. In the opinion of the NRC's management and legal counsel, the ultimate resolution of these proceedings, actions, suits, and claims will not materially affect the financial position or net costs of the NRC.

Reasonably Possible Likelihood of an Adverse Outcome:

As of September 30, 2013, the NRC was not a party to a case in which an adverse outcome was probable or reasonably possible. The NRC was a party to a case as of September 30, 2012, where an adverse outcome was reasonably possible. The upper range of the loss on the potential liability was $2.5 million as of September 30, 2012.

Note 14 – Consolidating Reconciliation of Net Cost of Operations to Budget

SFFAS No. 7 requires a reconciliation of proprietary and budgetary information in a way that helps users relate the two. The FY 2013 reconciliation and comparative FY 2012 reconciliation are as follows:

FY 2013 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Total 2013
RESOURCES USED TO FINANCE ACTIVITIES						
Budgetary Resources Obligated:						
Obligations Incurred	$110,508	$54,720	$2,869	$1,655	$392	$170,144
Less: Spending Authority from Offsetting Collections and Recoveries, Excluding One Million Temporary Reduction for Health Benefits Program	–	45,943	3,773	1,517	310	51,543
Less: Appropriated Trust Fund Receipts	93,447	1,578	–	–	–	95,025
Obligations Net of Offsetting Collections and Recoveries	17,061	7,199	(904)	138	82	23,576
Less: Offsetting Receipts	33,051	1,578	–	10	–	34,639
Net Obligations	**($15,990)**	**$5,621**	**($904)**	**$128**	**$82**	**($11,063)**
Other Resources	–	–	–	21	15	36
Total Resources Used to Finance/Generated from Activities	***($15,990)***	***$5,621***	***($904)***	***$149***	***$97***	***($11,027)***
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS						
Transfer-In from General Fund	$32,995	–	–	–	–	$32,995
Other	56	$1,667	(273)	(37)	54	1,467
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**33,051**	**1,667**	**(273)**	**(37)**	**54**	**34,462**
Total Resources Used to Finance/Generated From the Net Cost of Operations	**$17,061**	**$7,288**	**($1,177)**	**$112**	**$151**	**$23,435**
COMPONENTS OF NET COST OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD						
Components Requiring or Generating Resources in Future Periods:						
Increase in Actuarial Liabilities	$95,300	($902)	$291	–	–	$94,689
Exchange Revenue Not in the Budget	460	(5,570)	(3)	1	–	(5,112)
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	95,760	(6,472)	288	1	–	89,577
Components Not Requiring or Generating Resources						
Other	(29)	9	–	5	(5)	(20)
Total Components of Net Cost of Operations that Do Not Require or Generate Resources	(29)	9	–	5	(5)	(20)
Total Components of Net Cost of Operations that Do Not Require or Generate Resources in the Current Period	**$95,731**	**($6,463)**	**$288**	**$6**	**$(5)**	**$89,557**
NET COST OF OPERATIONS	***$112,792***	***$825***	***($889)***	***$118***	***$146***	***$112,992***

FY 2012 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Total 2012
RESOURCES USED TO FINANCE ACTIVITIES						
Budgetary Resources Obligated:						
Obligations Incurred	$107,529	$53,489	$2,764	$2,145	$381	$166,308
Less: Spending Authority from Offsetting Collections and Recoveries	–	44,736	4,260	2,137	295	51,428
Less: Appropriated Trust Fund Receipts	96,780	1,640	–	–	–	98,420
Obligations Net of Offsetting Collections and Recoveries	10,749	7,113	(1,496)	8	86	16,460
Less: Offsetting Receipts	33,080	1,640	–	10	–	34,730
Net Obligations	**($22,331)**	**$5,473**	**($1,496)**	**($2)**	**$86**	**($18,270)**
Other Resources	–	–	–	25	16	41
Total Resources Used to Finance/Generated from Activities	**($22,331)**	**$5,473**	**($1,496)**	**$23**	**$102**	**($18,229)**
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS						
Transfer-In from General Fund	$33,023	–	–	–	–	$33,023
Other	57	$1,533	(140)	(9)	(8)	1,433
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**33,080**	**1,533**	**(140)**	**(9)**	**(8)**	**34,456**
Total Resources Used to Finance/Generated From the Net Cost of Operations	**$10,749**	**$7,006**	**($1,636)**	**$14**	**$94**	**$16,227**
COMPONENTS OF NET COST OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD						
Components Requiring or Generating Resources in Future Periods:						
Increase in Actuarial Liabilities	$145,600	($13,007)	$2,660	–	–	$135,253
Exchange Revenue Not in the Budget	1,582	(11,104)	14	1	–	(9,507)
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	147,182	(24,111)	2,674	1	–	125,746
Components Not Requiring or Generating Resources						
Other	(24)	28	–	(13)	20	11
Total Components of Net Cost of Operations that Do Not Require or Generate Resources	(24)	28	–	(13)	20	11
Total Components of Net Cost of Operations that Do Not Require or Generate Resources in the Current Period	**$147,158**	**($24,083)**	**$2,674**	**($12)**	**$20**	**$125,757**
NET COST OF OPERATIONS	***$157,907***	***($17,077)***	***$1,038***	***$2***	***$114***	***$141,984***

NOTE 15. Reconciliation of Net Cost of Operations to Budget

For the years ended September 30, 2013 and 2012:

(DOLLARS IN THOUSANDS)	FY 2013	FY 2012
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated:		
Obligations Incurred (Note 14)	$ 1,257,711	$ 1,192,385
Less: Spending Authority from Offsetting Collections, Recoveries, and Downward Adjustments to Prior Year Unfunded Lease Obligations	(1,307,044)	(1,457,761)
Less: Reserve Fund Appropriations	(50,000)	(50,000)
Net Obligations	(99,333)	(315,376)
Other Resources:		
Imputed Financing from Cost Absorbed by Others (Note 13)	32,958	30,588
Total Resources Used to Finance Activities	(66,375)	(284,788)
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered But Not Yet Provided	104,435	141,372
Resources that Finance the Acquisition of Assets Capitalized on the Balance Sheet	(83,218)	(40,684)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	21,217	100,688
Total Resources Used to Finance the Net Cost of Operations	(45,158)	(184,100)
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD:		
Components Requiring or Generating Resources in Future Periods:		
Change in Accrued Leave Liability	3,175	3,059
Change in Revenue Receivables Not Generating Resources Until Collected	16,684	18,814
Change in Lease Liability	(563)	(548)
Change in Legal Liability	—	(956)
Change in Unfunded Liability	(3,786)	2,674
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	15,510	23,043
Components not Requiring or Generating Resources:		
Depreciation and Amortization	53,801	36,607
Revaluation of Assets or Liabilities	117	446
Non-Entity Filing Fee Revenue, Net	(457,915)	(326,284)
Other Costs that will not Require or Generate Resources	(48)	(55)
Total Components of Net Cost of Operations that will not Require or Generate Resources in Future Periods	(404,045)	(289,286)
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	(388,535)	(266,243)
Net (Income) Cost from Operations	$ (433,693)	$ (450,343)

Components of net cost of operations that will not require or generate budgetary resources represent required timing differences in the Statement of Net Cost and the Statement of Budgetary Resources.

For example, as noted in *Note 1. M, Liabilities*, annual leave that is earned but not either taken or paid out to separating employees by the end of the fiscal year is required to be reported as an expense in the financial statements in the year when it is earned, but it is required to be funded by budgetary resources in the future fiscal year when it is either used or paid out to separating employees. In the reconciliation above, it is reported as a component of net cost that will not require resources in the current period. Another example is depreciation expense. In budgetary reporting, the entire cost of a depreciable asset is recognized in the period when the asset is purchased. However, in financial statement reporting, accrual accounting requires the cost of such assets to be allocated among the reporting periods that represent the estimated useful life of the asset. In the reconciliation above, depreciation is recognized as a "component not requiring or generating resources."

NOTE 16 RECONCILIATION OF BUDGETARY OBLIGATIONS INCURRED TO NET COST OF OPERATIONS

The SBA presents the Statement of Net Cost using the accrual basis of accounting. This differs from the obligation-based measurement of total resources supplied, both budgetary and from other sources, on the Statement of Budgetary Resources.

The Federal Financial Accounting Standard No. 7 requires "a reconciliation of proprietary and budgetary information in a way that helps users relate the two." The focus of this presentation is to reconcile budgetary net obligations to the net cost of operations. The objective of this information is to categorize the differences between budgetary and financial (proprietary) accounting.

CONSOLIDATED RECONCILIATION OF BUDGETARY OBLIGATIONS TO NET COST

(Dollars in Thousands)

For the years ended September 30,	2013	2012
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	$ 8,625,608	$ 8,767,794
Less: Spending Authority from Offsetting Collections and Recoveries	5,431,669	6,634,592
Obligations Net of Offsetting Collections and Recoveries	3,193,939	2,133,202
Less: Offsetting Receipts	1,696,979	868,367
Net Obligations	**1,496,960**	**1,264,835**
Other Resources		
Imputed Financing	19,955	20,453
Other Financing Sources	(1,127,912)	(1,647,144)
Net Other Resources Used to Finance Activities	**(1,107,957)**	**(1,626,691)**
Total Resources Used to Finance Activities	**389,003**	**(361,856)**
RESOURCES THAT DO NOT FINANCE NET COST OF OPERATIONS		
(Increase) Decrease in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered But Not Yet Provided	(371,232)	325,086
Resources that Fund Expenses Recognized in Prior Periods	(882,703)	(1,817,256)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations		
Credit Program Collections	4,540,597	6,016,599
Offsetting Receipts	1,696,979	868,367
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	(5,224,054)	(4,651,674)
Other - Current Year Liquidating Equity Activity	3,992	1,207
Other Resources that Do Not Affect Net Cost of Operations	(27)	257
Total Resources that Do Not Finance Net Cost of Operations	**(236,448)**	**742,586**
Total Resources Used to Finance the Net Cost of Operations	**152,555**	**380,730**
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods		
Change in Annual Leave Liability	1,113	(1,139)
Upward Reestimates of Credit Subsidy Expense	362,329	882,560
Change in Revenue Receivable from Public	(316)	(306)
Provision for Losses on Estimated Guaranties	8,423	2,221
Change in Unfunded Employee Benefits	2,112	961
Total Components Requiring or Generating Resources in Future Periods	**373,661**	**884,297**
Components Not Requiring or Generating Resources		
Depreciation or Amortization	459	632
Change in Bad Debt Expense - Pre-1992 Loans	(2,582)	8,517
Other (Income) Expenses Not Requiring Budgetary Resources	(7)	629
Total Components Not Requiring or Generating Resources	**(2,130)**	**9,778**
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**371,531**	**894,075**
Net Cost of Operations	**$ 524,086**	**$ 1,274,805**

Liabilities Not Covered by Budgetary Resources on the Balance Sheet (Note 8) differs from Components Requiring or Generating Resources in Future Periods in this reconciliation primarily due to reestimated subsidy costs of loan programs. The subsidy costs are shown in the Statement of Net Cost and are to be covered by budgetary resources but these resources, while available under permanent and indefinite authority, were not provided by year-end. Additionally, there will always be a difference for existing liabilities because the Reconciliation of Budgetary Obligations Incurred to Net Cost of Operations reports only current year changes, not balances.

The following table details these differences:

(Dollars in Thousands)

As of September 30,		**2013**		**2012**
Current Year Liabilities Not Covered By Budgetary Resources	$	99,012	$	87,637
Less: Prior Year		87,637		86,148
Change in Liabilities Not Covered By Budgetary Resources		11,375		1,489
Upward Reestimates of Credit Subsidy Expense		362,329		882,560
Change in Revenue Receivable from Public		(316)		(306)
All Other		273		554
Components (of Net Cost) Generating Resources in Future Periods (Per Reconciliation Above)	**$**	**373,661**	**$**	**884,297**

NOTE 17 SIGNIFICANT EVENT

Partial Government Shutdown

The SBA was affected by the partial government shutdown from October 1 through October 16, 2013. SBA's Disaster program plays a vital role in the aftermath of disasters and is funded entirely by no-year, continuing appropriations. Therefore, it was not subject to the lapse in appropriations. However, the rest of the Agency discontinued operations, including SBA's business loan making operations in its 7(a), 504, SBIC and Microloan programs. During the lapse in appropriations, the only personnel who worked were those funded by programs with continuing resources and a minimal number of people to ensure continued operation of activities critical to the protection of government assets and preservation of the financial system.

Although the shutdown disrupted SBA's operations in the first quarter of FY 2014 and also delayed the production of this report, the SBA does not expect the partial government shutdown to have a detrimental effect on SBA's financial position in future years. Once the lapse in appropriations ended, the SBA followed an orderly process to restart its programs and administrative activities and resume normal operations. The SBA will continue to fulfill its mission to serve the nation's small businesses.

16. Reconciliation of Net Cost of Operations to Budget

Reconciliation of Net Cost of Operations to Budget for the Years Ended September 30, 2013 and 2012

(Dollars in Millions)

	2013	2012
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ **944,019**	$ 983,741
Offsetting Collections and Recoveries	**(14,655)**	(15,145)
Obligations Net of Offsetting Collections and Recoveries	**929,364**	968,596
Offsetting Receipts	**(58,800)**	(143,469)
Net Obligations	**870,564**	825,127
Other Resources		
Imputed Financing	**562**	605
Other	**(309)**	(288)
Net Other Resources Used to Finance Activities	**253**	317
Total Resources Used to Finance Activities	**870,817**	825,444
Resources Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated, Not Yet Provided	**165**	313
Resources that Fund Expenses Recognized in Prior Periods	**(291)**	(13)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	**58,770**	143,439
Resources that Finance the Acquisition of Assets	**(913)**	(859)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	**(61,319)**	(145,772)
Total Resources Not Part of the Net Cost of Operations	**(3,588)**	(2,892)
Total Resources Used to Finance the Net Cost of Operations	**867,229**	822,552
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Other	**18**	378
Components Not Requiring or Generating Resources		
Depreciation and Amortization	**620**	635
Other	**(512)**	(633)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	**108**	2
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**126**	380
Net Cost of Operations	$ **867,355**	$ 822,932

Chart 16 presents a reconciliation between SSA's budgetary and proprietary accounting. This reconciliation shows the relationship between the net obligations derived from the Statement of Budgetary Resources and net costs of operations derived from the Statement of Net Costs by identifying and explaining key items that affect one statement, but not the other.

18 Reconciliation of Net Cost of Operations to Budget

Budgetary accounting used to prepare the Statement of Budgetary Resources and proprietary accounting used to prepare the other principal financial statements are complementary, but both the types of information about assets, liabilities, net cost of operations and the timing of their recognition are different. The reconciliation of budgetary resources obligated during the current period to the net cost of operations explains the difference between the sources and uses of resources as reported in the budgetary reports and in the net cost of operations.The first section of the reconciliation below presents total resources used in the period to incur obligations. Generally, those resources are appropriations, net of offsetting collections and receipts. The second section adjusts the resources. Some resources are used for items that will be reflected in future net cost. Some are used for assets that are reported on the Balance Sheet, not as net cost. The final section adds or subtracts from total resources those items reported in net cost that do not require or generate resources. As an example, the Department collects regular passport fees that are reported as revenue on the Statement of Net Cost. However, these fees are not shown as a resource because they are returned to Treasury and cannot be obligated or spent by the Department.

For the Year Ended September 30, *(dollars in millions)*	**2013**	**2012**
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 38,691	$ 40,052
Spending Authority from Offsetting Collections and Recoveries	(12,111)	(11,945)
Offsetting Receipts	(452)	(394)
Net Obligations	26,128	27,713
Imputed Financing	156	160
Other Resources	678	648
Total Resources Used to Finance Activities	**26,962**	**28,521**
Resources Used to Finance Items not Part of Net Cost:		
Resources Obligated for Future Costs - goods ordered but not yet provided	989	266
Resources that Finance the Acquisition of Assets	(2,468)	(2,311)
Resources that Fund Expenses Recognized in Prior Periods	(670)	(1,229)
Other	(14)	581
Total Resources Used to Finance Items not Part of Net Cost	**(2,163)**	**(2,693)**
Total Resources Used to Finance the Net Cost of Operations	**24,799**	**25,828**
Components of the Net Cost of Operations that will not require or generate Resources in the Current Period:		
Increase in Actuarial Liability	633	1,215
Passport Fees Reported as Revenue Returned to Treasury General Fund	(687)	(719)
Depreciation and Amortization	812	758
Interest Income of Trust Funds	(675)	(716)
Other	185	90
Total Components of the Net Cost of Operations that will not require or generate Resources in the Current Period	**268**	**628**
Net Cost of Operations	**$ 25,067**	**$ 26,456**

NOTE 21. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The objective of this information is to provide an explanation of the differences between budgetary and financial (proprietary) accounting. This is accomplished by means of a reconciliation of budgetary obligations and non-budgetary resources available to the reporting entity with its net cost of operations.

	2013	2012
Resources Used To Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$90,865,064	$86,554,746
Less: Spending Authority From Offsetting Collections, Recoveries and Other Changes to Obligated Balances	8,884,243	9,200,514
Obligations Net of Offsetting Collections and Recoveries	81,980,821	77,354,232
Less: Distributed Offsetting Receipts	(6,220,753)	(2,738,974)
Net Obligations	**75,760,068**	**74,615,258**
Other Resources		
Donations and Forfeitures of Property	78,599	158,117
Transfers in/out Without Reimbursement	107,172	96,186
Imputed Financing From Costs Absorbed by Others	693,558	641,782
Other	(369,902)	(152,944)
Net Other Resources Used To Finance Activities	**509,427**	**743,141**
Total Resources Used To Finance Activities	**76,269,495**	**75,358,399**
Resources Used To Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	(2,710,345)	(735,543)
Resources That Fund Expenses Recognized in Prior Periods	275,741	263,392
Credit Program Collections That Increase Liabilities for Loan Guarantees or Allowances for Subsidy	(459,718)	(466,944)
Other/Change in Unfilled Customer Orders	142,518	508,098
Special Transfers From the U.S. Treasury	(5,883,800)	(2,471,408)
Resources That Finance the Acquisition of Assets	3,592,394	3,059,374
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	6,051,271	(168,516)
Total Resources Used To Finance Items Not Part of the Net Cost of Operations	**1,008,061**	**(11,547)**
Total Resources Used To Finance the Net Cost of Operations	**75,261,434**	**75,369,946**

25. Reconciliation of Net Cost of Treasury Operations and Non-Entity Costs to Budget

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of Treasury operations and non-entity costs. For the fiscal years ended September 30, 2013 and 2012, the Reconciliation of Net Cost of Operations to Budget consisted of the following (in millions):

	2013	2012
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated:		
Obligations Incurred (Note 22)	**$ 487,431**	$ 476,463
Less: Spending Authority from Offsetting Collections and Recoveries of Prior Year Unpaid Obligations	**(67,901)**	(180,078)
Obligations Net of Offsetting Collections and Recoveries	**419,530**	296,385
Less: Distributed Offsetting Receipts	**(151,404)**	(73,881)
Net Obligations	**268,126**	222,504
Other Resources:		
Donations and Forfeiture of Property	**135**	174
Financing Sources for Accrued Interest and Discount on Debt	**10,905**	95,877
Financing Sources for Accrued Interest on Restoration of Federal Debt Principal (Note 16)	**801**	-
Transfers In/Out Without Reimbursement	**(42)**	(47)
Imputed Financing Sources from Cost Absorbed by Others	**776**	812
Transfers to the General Fund and Other (Note 20)	**(177,976)**	(46,341)
Net Other Resources Used to Finance Activities	**(165,401)**	50,475
Total Resources Used to Finance Activities	**102,725**	272,979
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF TREASURY OPERATIONS AND NON-ENTITY COSTS		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not yet Provided	**(12,595)**	(11,371)
Resources that Fund Expenses Recognized in Prior Periods	**(8,930)**	330,975
Budgetary Offsetting Collections & Receipts that do not affect Net Cost of Treasury Operations and Non-Entity Costs	**(175,527)**	(145,649)
Adjustment to Accrued Interest and Discount on the Debt	**1,381**	22,720
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	**(1,225)**	(69,359)
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Treasury Operations and Non-Entity Costs	**(332)**	(11,233)
Total Resources Used to Finance Items Not Part of the Net Cost of Treasury Operations and Non-Entity Costs	**(197,228)**	116,083
Total Resources Used to Finance the Net Cost of Treasury Operations and Non-Entity Costs	**299,953**	156,896
Total Components of Net Cost of Treasury Operations and Non-Entity Costs That Will Require or Generate Resources in Future Periods	**(18,865)**	(15,760)
Total Components of Net Cost of Treasury Operations and Non-Entity Costs That Will Not Require or Generate Resources[a]	**2,536**	4,045
Total Components of Net Cost of Treasury Operations and Non-Entity Costs That Will Not Require or Generate Resources in the Current Period	**(16,329)**	(11,715)
Net Cost of Treasury Operations and Non-Entity Costs	**$ 283,624**	$ 145,181

[a] *The Components not requiring or generating resources primarily include depreciation and amortization and revaluation of assets or liabilities.*

NOTE 19. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

USAID presents the Consolidated Statement of Net Cost using the accrual basis of accounting. This differs from the obligation-based measurement of total resources supplied, both budgetary and from other sources, on the Combined Statement of Budgetary Resources. The Federal Financial Accounting Standard No. 7 requires "a reconciliation of proprietary and budgetary information in a way that helps users relate the two." The focus of this presentation is to reconcile budgetary net obligations to the net cost of operations. The objective of this information is to categorize the differences between budgetary and financial (proprietary) accounting.

RECONCILIATION OF OBLIGATIONS INCURRED TO NET COST OF OPERATIONS

For the Years Ended September 30, 2013 and 2012

(In Thousands)

	2013	2012 (Restated)
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 12,252,505	$ 13,294,093
Spending Authority From Offsetting Collections (FY 2012 includes Change in Unfilled Customer Orders previously broken out in the SBR)	(1,524,943)	(1,021,625)
Change in Unfilled Customer Orders		
Downward Adjustments of Obligations	(639,888)	(472,020)
Offsetting Receipts	(381,293)	(923,914)
Net Obligations	9,706,381	10,876,534
Other Resources Used to Finance Activities	41,973	29,994
Resources Used to Finance Activities	9,748,354	10,906,528
Resources Used to Finance Items Not Part of Net Cost of Operations	1,038,657	1,029,033
Total Resources Used to Finance Net Cost of Operations	10,787,011	11,935,561
Components of the Net Cost of Operations:		
Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	(221,236)	(59,980)
Components of Net Cost of Operations That Will Not Require or Generate Resources	(206,157)	(384,463)
Net Cost of Operations	$ 10,359,618	$ 11,491,118

23. Reconciliation of Net Cost of Operations to Budget

The objective of the information shown below is to provide an explanation of the differences between budgetary and financial (proprietary) accounting. This is accomplished by means of a reconciliation of budgetary obligations and non-budgetary resources available to VA with its net cost of operations.

DEPARTMENT OF VETERANS AFFAIRS		
RECONCILIATION OF NET COSTS OF OPERATIONS TO BUDGET		
For the Years Ended September 30,	**2013**	**2012**
Resources Used to Finance Activities		
Obligations Incurred	$ 155,590	$ 142,664
Less Spending Authority from Offsetting Collections and Adjustments	(12,710)	(9,697)
Obligations Net of Offsetting Collections and Adjustments	142,880	132,967
Less Offsetting Receipts	(3,431)	(3,465)
Net Obligations	139,449	129,502
Donations of Property	22	23
Imputed Financing	1,971	1,795
Other Financing Sources	(125)	(367)
Total Resources Used to Finance Activities	**141,317**	**130,953**
Resources That Do Not Fund Net Cost of Operations		
Change in Amount of Goods, Services and Benefits Ordered But Not Yet Provided	(725)	(1,942)
Resources that Finance the Acquisition of Assets	(6,684)	(6,921)
Resources that Fund Expenses Recognized in Prior Periods	(1,598)	(2,332)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	4,665	4,892
Total Resources that Do Not Fund Net Cost of Operations	(4,342)	(6,303)
Total Resources Used to Finance the Net Cost of Operations	**136,975**	**124,650**
Costs That Do Not Require Resources in the Current Period		
Increase in Annual Leave Liability	60	51
Increase (Decrease) in Environmental and Disposal Liability	(28)	(33)
Reestimates of Credit Subsidy Expense	1,406	563
Increase in Exchange Revenue Receivable from the Public	(318)	39
Increase (Decrease) in Veterans Benefits and Other Noncurrent Liabilities	213,666	228,418
Depreciation and Amortization	2,103	1,895
Bad Debts Related to Uncollectible Non-Credit Reform Receivables	188	284
Loss on Disposition of Assets	100	101
Other	(147)	(111)
Total Costs That Do Not Require Resources in the Current Period	**217,030**	**231,207**
Net Cost (Benefit) of Operations	**$ 354,005**	**$ 355,857**

OPERATING/CAPITAL LEASE DISTINCTIONS TODAY

Operating Lease – OMB Circular A-11 – Budgetary Treatment

Operating lease means a lease that meets all the criteria listed below. If the criteria are not met, the lease will be considered to be a capital lease or a lease-purchase, as appropriate. Multi-year service contracts (e.g., grounds maintenance) and multi-year purchase contracts for expendable commodities (e.g., aspirin) are not considered to be operating leases.

- Ownership of the asset remains with the lessor during the term of the lease and is not transferred to the Government at or shortly after the end of the lease term;
- The lease does not contain a bargain-price purchase option;
- The lease term does not exceed 75 percent of the estimated economic life of the asset;
- The present value of the minimum lease payments over the life of the lease does not exceed 90 percent of the fair market value of the asset at the beginning of the lease term;
- The asset is a general purpose asset rather than being for a special purpose of the Government and is not built to the unique specification of the Government as lessee; and
- There is a private sector market for the asset.

Note: If a lease is not classified as operating, budget authority for the net present value of the lease payments is generally needed in the first year.

Capital Lease – Financial Accounting Treatment

Capital leases are leases that transfer substantially all the benefits and risks of ownership to the lessee. If, at its inception, a lease meets one or more of the following four criteria, the lease should be classified as a capital lease by the lessee:

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains an option to purchase the leased property at a bargain price.
- The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property.
- The present value of rental and other minimum lease payments, excluding that portion of the payments representing executory cost, equals or exceeds 90 percent of the fair value of the leased property.

Note: Classification does not affect budgetary treatment. Any lease not classified as a “capital lease” is treated as an operating lease. Expense for operating leases is reported for the amount paid during the reporting period (usually a year). Expense for capital leases has two components – amortization of the assets and the annual interest expense portion of the lease payment.

FASB PROPOSAL IN BRIEF

The Financial Accounting Standards Board (FASB) has proposed changes to lease accounting for non-governmental entities. This is relevant because (1) the budget guidance in Circular A-11 is based on current FASB standards and (2) US standards setters for governmental entities are considering the FASB proposal as a starting point in considering changes to standards.

The FASB proposal would have the lessee treat each lease longer than 12 months as:

1. Acquisition of an asset (a "right of use" asset) with the asset presented on the balance sheet.
2. Incurrence of a liability for the financing provided by the lessor (owner) of the asset with the liability presented on the balance sheet.

For leases of equipment, the proposal would require presentation of expenses on the income statement for:

1. Consumption of the asset (for example, if the asset was worth $100 and would last five years consuming one year of the asset's useful life costs $20)
2. Interest expense paid to the owner of the asset (for example, if the asset was $100 and the owner wanted a 5% return, the interest expense would be $5 the first year. In later years, the interest expense would be lower because the lessee would have paid an amount intended to cover consumption of the asset with each lease payment (similar to the principal portion of a mortgage payment).)

For leases of property, the proposal would require presentation of expenses in a single amount – the lease payment. Because property has a longer useful life and generally appreciates in value, the FASB has opted for a simplified approach.

What does the proposal mean for the federal government?

Some have asked whether the budgetary guidance in Circular A-11 will change. FASAB does not establish budgetary guidance. We have inquired about potential changes because this is generally the first question that arises when we discuss lease accounting. Our FASAB member from OMB recently indicated that no change is planned. If you have questions about budgetary guidance, we believe OMB can assist you.

For financial accounting (under generally accepted accounting principles (GAAP) developed by the Federal Accounting Standards Advisory Board (FASAB)), the FASB proposal provides an opportunity to review lease accounting and address long-standing criticism. Known concerns are:

1. Leases may be structured to avoid treatment as capital leases. This:
    a. obscures the nature of the costs involved,
    b. does not provide a complete presentation of the assets needed to support operations, and
    c. the liabilities for which future funding will be needed.
2. The federal accounting literature relies heavily on very detailed guidance FASB provided. This was appropriate when the federal accounting treatment was the same as FASB's but if FASB changes its treatment there will be a void in the accounting guidance.
3. Federal agencies have unique lease terminology and have questions about how to apply lease standards even with the extensive FASB guidance available today.

What is FASAB doing to address federal financial reporting for leases?

The FASAB is working with the Governmental Accounting Standards Board (GASB) to consider issues and options. The GASB establishes standards for state and local governments. The two Boards have not committed to establishing the same standards but are working together to minimize and explain differences.

While it is early in the deliberations, the FASAB tentatively believes that:

1. Leases create a right-of-use asset.
    a. An asset would be presented on the balance sheet.
    b. The expense associated with consuming that asset would be included in the statement of net cost.
2. Leases represent a liability.
    a. A liability for the net present value of the lease payments would be presented on the balance sheet.
    b. The expense associated with the liability is interest expense charged by the lessor. Interest expense would be included in the statement of net cost.

3. An exception for short-term leases is appropriate (12-month or less but possibly extended to 24-months). Expenses for such leases would be equal to the payment made during the period. No asset or liability would be presented on the balance sheet.

    NOTE: The above tentative decisions are quite similar to the FASB proposal regarding leases of equipment.

The Board is also considering what disclosures would be useful. For example; is it useful for readers of a general purpose financial report to know:

- the scheduled lease payments for a period of time
- the interest rate charged by the lessor
- the interest expense attributable to financing assets through leases
- the liabilities that will need to be settled with future budgetary resources
- the value of assets leased

Before making such decisions, the Board requested that staff meet with decision-makers regarding what information would be useful to them.

LEASE ILLUSTRATIONS: *On 01/01/20x0, ABC Federal Entity ("lessee") enters into a contract to lease office space from XYZ Landlord Co. ("lessor").*

EXAMPLE I: Operating Lease

KEY TERMS OF THE LEASE CONTRACT

Lease commencement date	**01/01/x0**
Lease term	10 years
Annual lease payments	$50,000
Payment date	12/31 at the end of each calendar year
Lessor's implicit interest rate	4.5%
Fair value of property	$2.5 million
Other options	None

LEASE EXPENSE REPORTED ON THE STATEMENT OF NET COST OF LESSEE

Year 1	**$50,000**
Years 2- 10	$50,000/year

EXAMPLE II: Capital Lease

KEY TERMS OF THE LEASE CONTRACT

Lease commencement date	**01/01/x0**
Lease term	10 years
Annual lease payments	$50,000
Payment date	12/31 at the end of each calendar year
Lessor's implicit interest rate	4.5%
Fair value of property	$2.5 million
Other options	Bargain Purchase Option

EXPENSES REPORTED ON THE STATEMENT OF NET COST OF LESSEE

	AMORTIZATION OF ASSET	INTEREST EXPENSE
Year 1	$39,564	$17,804
Year 2	$39,564	$16,355
Year 3	$39,564	$14,841
Year 4	$39,564	$13,259
Year 5	$39,564	$11,605
Year 6	$39,564	$9,877
Year 7	$39,564	$8,072
Year 8	$39,564	$6,185
Year 9	$39,564	$4,213
Year 10	$39,564	$2,154

CALCUALTION OF PRESENT VALUE OF LEASE PAYMENTS

Leased Asset	**$50,000 x 10 years= $500,000** **Present value of $500,000 @ 4.5% = $395,635**
Lease Liability	$50,000 x 10 years= $500,000 Present value of $500,000 @ 4.5% = $395,635

AMORTIZATION OF LEASED ASSET

($395,635/ 10 years= $39,564)

	Amortization expense	**Balance Sheet value of Leased Asset**
Yearend 1	$39,564	$356,072
Yearend 2	$39,564	$316,508
Yearend 3	$39,564	$276,944
Yearend 4	$39,564	$237,380
Yearend 5	$39,564	$197,816
Yearend 6	$39,564	$158,252
Yearend 7	$39,564	$118,688
Yearend 8	$39,564	$79,124
Yearend 9	$39,564	$39,560
Yearend 10	$39,560	$0

LIABILITY AND INTEREST CALCULATIONS

Year	Remaining cash payments	Discount	Liability Beginning Balance	Interest Expense	Lease Payment	Liability Ending Balance
1	$500,000	$104,365	$395,635	$17,804	$50,000	$363,439
2	$450,000	$86,561	$363,439	$16,355	$50,000	$329,793
3	$400,000	$70,207	$329,793	$14,841	$50,000	$294,634
4	$350,000	$55,366	$294,634	$13,259	$50,000	$257,893
5	$300,000	$42,107	$257,893	$11,605	$50,000	$219,498
6	$250,000	$30,502	$219,498	$9,877	$50,000	$179,375
7	$200,000	$20,625	$179,375	$8,072	$50,000	$137,447
8	$150,000	$12,553	$137,447	$6,185	$50,000	$93,632
9	$100,000	$6,368	$93,632	$4,213	$50,000	$47,846
10	$50,000	$2,154	$47,846	$2,154	$50,000	$0

1.M. Inventories and Related Property

The Department values approximately 84 percent of resale inventory using the moving average cost method. An additional 13 percent (fuel inventory) is reported using the first-in-first-out method. The Department reports the remaining 3 percent of resale inventories at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The latest acquisition cost method is used because legacy inventory systems were designed for materiel management rather than accounting. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with *Statement of Federal Financial Accounting Standards (SFFAS) No. 3, "Accounting for Inventory and Related Property."* Additionally, these systems cannot produce financial transactions using the USSGL, as required by the *Federal Financial Management Improvement Act of 1996 (PL 104-208)*. The Department is continuing to transition the balance of the inventories to the moving average cost method through the use of new inventory systems. Most transitioned balances, however, were not baselined to auditable historical cost and remain noncompliant with *SFFAS No. 3*.

The Department manages only military or government-specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as ships, tanks, self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in the Department's materiel management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The Department holds materiel based on military need and support for contingencies. The Department is currently developing a methodology to be used to account for "inventory held for sale" and "inventory held in reserve for future sale."

Related property includes OM&S and stockpile materiel. The OM&S, including munitions not held for sale, are valued at standard purchase price. The Department uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. When current systems cannot fully support the consumption method, the Department uses the purchase method. Under this method, materiel and supplies are expensed when purchased. During FY 2013 and FY 2012, the Department expensed significant amounts using the purchase method because the systems could not support the consumption method or management deemed that the item was in the hands of the end user. This is a material weakness for the Department and long-term system corrections are in process. Once the proper systems are in place, these items will be accounted for under the consumption method of accounting.

The Department determined that the recurring high dollar-value of OM&S in need of repair is material to the financial statements and requires a separate reporting category. Many high-dollar items, such as aircraft engines, are categorized as OM&S rather than military equipment.

The Department recognizes excess, obsolete, and unserviceable inventory and OM&S at a net realizable value of $0 pending development of an effective means of valuing such materiel.

Inventory available and purchased for resale includes consumable spare and repair parts, and repairable items owned and managed by the Department. This inventory is retained to support military or national contingencies. Inventory held for repair is damaged inventory that requires repair to make it suitable for sale. Often, it is more economical to repair these items rather than to procure them. The Department often relies on weapon systems and machinery no longer in production. As a result, the Department supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force. Work in process balances include: (1) costs related to the production or servicing of items, including direct material, labor, and applied overhead; (2) the value of finished products or completed services that are yet to be placed in service; and (3) munitions in production and depot maintenance work with associated costs incurred in the delivery of maintenance services.

1.N. Investments in U.S. Treasury Securities

The Department reports investments in U.S. Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts are amortized over the term of the investments using the effective interest rate method or another method that yields similar results. The Department's intent is to hold investments to maturity unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

The Department invests in nonmarketable market-based U.S. Treasury securities issued to federal agencies by the U.S. Treasury's Bureau of Fiscal Services. These securities are not traded on any financial exchange but are priced consistently with publically traded U.S. Treasury securities.

The Department's net investments are held by various trust and special funds. These funds include the Military Retirement Fund, Medicare-Eligible Retiree Health Care Fund, Other Defense Organizations General Fund trust and special funds, donations (gift funds), and the U.S. Treasury managed trust funds reported by USACE including the South Dakota Terrestrial Habitat Restoration, Inland Waterways, and Harbor Maintenance Trust Funds.

Other investments represent joint ventures with private developers constructing or improving military housing on behalf of the Department under the authority of MHPI, authorized by *PL 104-106, Section 2801*. These investments do not require market value disclosure. The Department's potential losses on these ventures are limited to the amounts invested.

1.O. General Property, Plant and Equipment

The Department uses the estimated historical cost for valuing military equipment. The Department identified the universe of military equipment by accumulating information relating to program funding and associated military equipment, equipment useful life, program acquisitions, and disposals to establish a baseline. The military equipment baseline is updated using expenditure, acquisition, and disposal information.

The Department's General Property, Plant, and Equipment (PP&E) capitalization threshold is $100 thousand except for real property, which is $20 thousand. The Department has not fully implemented the threshold for real property; therefore, the Department is primarily using the capitalization threshold of $100 thousand for General PP&E, and most real property.

NOTE 9. INVENTORY AND RELATED PROPERTY

Inventory and Related Property *As of September 30*		*Dollars in Millions* **2013**		**2012**
Inventory, Net	$	85,368.0	$	90,156.8
Operating Materiel & Supplies, Net		168,110.0		152,591.5
Stockpile Materiel, Net		519.5		551.4
Total Inventory and Related Property	**$**	**253,997.5**	**$**	**243,299.7**

Inventory, Net *As of September 30*	**2013** Inventory, Gross Value	Revaluation Allowance	Inventory, Net	*Dollars in Millions* **Valuation Method**
Inventory Categories				
Available and Purchased for Resale	$ 57,101.0	$ (3,402.3)	$ 53,698.7	FIFO,LAC, MAC
Held for Repair	34,312.3	(4,105.8)	30,206.5	LAC,MAC
Excess, Obsolete, and Unserviceable	6,967.1	(6,967.1)	0.0	NRV
Raw Materiel	1,412.4	0.0	1,412.4	MAC,SP,LAC
Work in Process	50.4	0.0	50.4	AC
Total Inventory, Net	**$ 99,843.2**	**$ (14,475.2)**	**$ 85,368.0**	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses
SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
MAC = Moving Average Cost
FIFO = First In, First Out

Inventory, Net *As of September 30*	**2012** Inventory, Gross Value	Revaluation Allowance	Inventory, Net	*Dollars in Millions* **Valuation Method**
Inventory Categories				
Available and Purchased for Resale	$ 61,608.0	$ (2,602.5)	$ 59,005.5	FIFO,LAC, MAC
Held for Repair	33,864.2	(4,143.9)	29,720.3	LAC,MAC
Excess, Obsolete, and Unserviceable	6,833.8	(6,833.8)	0.0	NRV
Raw Materiel	1,352.6	0.0	1,352.6	MAC,SP,LAC
Work in Process	78.4	0.0	78.4	AC
Total Inventory, Net	**$ 103,737.0**	**$ (13,580.2)**	**$ 90,156.8**	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses
SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
MAC = Moving Average Cost
FIFO = First In, First Out

Restrictions

The following are restrictions on the use, sale, or disposition of inventory:

- War reserve materiel valued at $1.5 billion;
- Commissary items valued at $375.9 million held for purchase by authorized patrons; and
- Dispositions pending litigation or negotiation valued at $68.9 million.

There are no known restrictions on inventory disposition related to environmental or other liabilities.

General Composition of Inventory

Inventory includes spare and repair parts, clothing and textiles, and fuels held for sale. Inventory is tangible personal property:

- Held for sale, or held for repair and eventual sale;
- In the process of production for sale; or
- To be consumed in the production of goods for sale or in the provision of service for a fee.

The Department assigns inventory items to a category based on asset type and condition.

Operating Materiel and Supplies, Net				*Dollars in Millions*
	2013			**Valuation Method**
As of September 30	**OM&S, Gross Value**	**Revaluation Allowance**	**OM&S, Net**	
Inventory Categories				
Held for Use	$ 142,845.3	$ (8.7)	$ 142,836.6	SP, LAC, MAC
Held for Repair	25,285.3	(11.9)	25,273.4	SP, LAC, MAC
Excess, Obsolete, and Unserviceable	2,134.8	(2,134.8)	0.0	NRV
Total OM&S	**$ 170,265.4**	**$ (2,155.4)**	**$ 168,110.0**	
Legend for Valuation Methods:				
Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses SP = Standard Price			NRV = Net Realizable Value MAC = Moving Average Cost	

Operating Materiel and Supplies, Net				*Dollars in Millions*
	2012			**Valuation Method**
As of September 30	**OM&S, Gross Value**	**Revaluation Allowance**	**OM&S, Net**	
Inventory Categories				
Held for Use	$ 134,535.9	$ (28.0)	$ 134,507.9	SP, LAC, MAC
Held for Repair	18,882.2	(798.6)	18,083.6	SP, LAC, MAC
Excess, Obsolete, and Unserviceable	1,925.0	(1,925.0)	0.0	NRV
Total OM&S	**$ 155,343.1**	**$ (2,751.6)**	**$ 152,591.5**	
Legend for Valuation Methods:				
Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses SP = Standard Price			NRV = Net Realizable Value MAC = Moving Average Cost	

Restrictions

Some munitions included in OM&S are restricted due to condition. Restricted munitions are considered obsolete or unserviceable when they cannot meet performance requirements. However, obsolete and unserviceable OM&S may be used in emergency combat situations when no other suitable munitions are immediately available.

General Composition of OM&S

OM&S include spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines held for consumption. The Department assigns OM&S items to a category based on asset type and condition.

Stockpile Materiel, Net *Dollars in Millions*

	2013			
As of September 30	Stockpile, Materiel Amount	Allowance for Gains (Losses)	Stockpile, Materiel, Net	Valuation Method
Stockpile Materiel Categories				
Held for Sale	$ 424.5	$ 0.0	$ 424.5	AC, LCM
Held for Reserve for Future Sale	95.0	0.0	95.0	AC, LCM
Total Stockpile Materiel	**$ 519.5**	**$ 0.0**	**$ 519.5**	

Legend for Valuation Methods:
AC = Actual Cost LCM = Lower of Cost or Market

Stockpile Materiel, Net *Dollars in Millions*

	2012			
As of September 30	Stockpile, Materiel Amount	Allowance for Gains (Losses)	Stockpile, Materiel, Net	Valuation Method
Stockpile Materiel Categories				
Held for Sale	$ 522.1	$ 0.0	$ 522.1	AC, LCM
Held for Reserve for Future Sale	29.3	0.0	29.3	AC, LCM
Total Stockpile Materiel	**$ 551.4**	**$ 0.0**	**$ 551.4**	

Legend for Valuation Methods:
AC = Actual Cost LCM = Lower of Cost or Market

Restrictions

Materiel held by the National Defense Stockpile (NDS) is restricted unless released by congressional action and made available for sale on the open market. Stockpile materiel may not be disposed except for: (1) necessary upgrading, refining, or processing; (2) necessary rotation to prevent deterioration; (3) determination as excess with potential financial loss if retained; or (4) authorization by law.

Before selling any materiel, Congress must enact specific enabling legislation (e.g., the National Defense Authorization Act). When authorized to offer materiel for sale, NDS reclassifies from Materiel Held in Reserve to Materiel Held for Sale. The estimated market price of stockpile materiel held for sale as of 4th Quarter, FY 2013, is $1.3 billion.

Effective Date

16. The Board recommends that the accounting standards presented in this Statement become effective for fiscal year ending September 30, 1994, and thereafter. Earlier implementation is encouraged.

Inventory

17. **Definition.** "Inventory" is tangible personal property that is (1) held for sale, (2) in the process of production for sale, or (3) to be consumed in the production of goods for sale or in the provision of services for a fee. The term "held for sale" shall be interpreted to include items for sale or transfer to (1) entities outside the federal government, or (2) other federal entities. The principal objective of the sale or transfer of inventory is to provide a product or service for a fee that generally recovers full cost or an identified portion of the cost. "Other federal entities" may include entities within the same organization/agency. Sales transactions may be executed through transfer of funds between federal entities; it is not essential that the transaction be an exchange of goods for cash or cash equivalents. In addition, inventory may be acquired through donation or barter. Inventory excludes some other assets held for sale, such as (1) stockpile materials, (2) seized and forfeited property, (3) foreclosed property, and (4) goods held under price support and stabilization programs. These items may be sold; however, the purpose of acquiring them is not to provide a product or a service for a fee.

18. Inventory shall be categorized as (1) inventory held for sale, (2) inventory held in reserve for future sale, (3) excess, obsolete and unserviceable inventory, or (4) inventory held for repair. These categories are defined in paragraphs 17, 27, 29, and 32 respectively.

19. **Recognition.** Inventory shall be recognized when title passes to the purchasing entity or when the goods are delivered to the purchasing entity. Upon sale (when the title passes or the goods are delivered) or upon use in the provision of a service, the related expense shall be recognized and the cost of those goods shall be removed from inventory. Delivery or constructive delivery shall be based on the terms of the contract regarding shipping and/or delivery.

20. **Valuation.** Inventory shall be valued at either (1) historical cost or (2) latest acquisition cost.

21. (1) Historical cost shall include all appropriate purchase, transportation and production costs incurred to bring the items to their current condition and location. Any abnormal costs, such as excessive handling or rework costs, shall be charged to operations of the period. Donated inventory shall be valued at its fair value at the time of donation. Inventory acquired

through exchange of nonmonetary assets (e.g., barter) shall be valued at the fair value of the asset received at the time of the exchange. Any difference between the recorded amount of the asset surrendered and the fair value of the asset received shall be recognized as a gain or a loss.

22. The first-in, first-out (FIFO); weighted average; or moving average cost flow assumptions may be applied in arriving at the historical cost of ending inventory and cost of goods sold. In addition, any other valuation method may be used if the results reasonably approximate those of one of the above historical cost methods (e.g., a standard cost system).

23. (2) The latest acquisition cost method provides that the last invoice price[2] (i.e., the specific item's actual cost used in setting the current year stabilized standard [sales] price) be applied to all like units held including those units acquired through donation or nonmonetary exchange. The inventory shall be revalued periodically but at least at the end of each fiscal year. Revaluation results in recognition of unrealized holding gains/losses[3] in the ending inventory value. Upon adjustment for unrealized holding gains/losses, the latest acquisition cost method then results in an approximation of historical cost.

24. An allowance for unrealized holding gains/losses in inventory shall be established to capture these gains/losses. The ending balance of this allowance shall be the cumulative difference between the historical cost, based on estimated or actual valuation, and the latest acquisition cost of ending inventory. The balance shall be adjusted each time the inventory balance is adjusted. The adjustment necessary to bring the allowance to the appropriate balance shall be a component of cost of goods sold for the period as described below.

25. The cost of goods sold for the period shall be computed as follows:

Beginning inventory at beginning-of-the-period latest acquisition cost
less: beginning allowance for unrealized holding gains/losses
plus: actual purchases
Cost of Goods Available for Sale
less: ending inventory at end-of-the-period latest acquisition cost
plus: ending allowance for unrealized holding gains/losses
Cost of Goods Sold

[2] This unit value is referred to as the latest acquisition cost for the remainder of this standard.

[3] "Holding gains (or losses)" result from holding assets in periods of changing prices. Under historical cost methods, holding gains (or losses) are not separately recognized even though they exist. Under the latest acquisition cost method, holding gains (or losses) will be recognized in the valuation of inventory since that value is adjusted periodically to present the more current latest acquisition costs. These gains or losses are unrealized holding gains or losses. "Unrealized" refers to any gain or loss associated with inventory still held by the entity. "Realization" of the holding gain or loss occurs only when an item of inventory is sold.

26. **Exception to Valuation.** Valuing inventories at expected net realizable value is acceptable if there is (1) an inability to determine approximate costs, (2) immediate marketability at quoted prices, and (3) unit interchangeability (e.g., petroleum reserves). Application of this exception may result in inventories being valued at greater than historical cost.

Other Categories of Inventory

27. **Inventory Held in Reserve for Future Sale.** Inventory stocks may be maintained because they are not readily available in the market or because there is more than a remote chance that they will eventually be needed (although not necessarily in the normal course of operations). These stocks shall be classified as inventory held in reserve for future sale. Inventory held in reserve for future sale shall be valued using the same basis as inventory held for sale in normal operations. The value of inventory held in reserve for future sale shall be either (1) included in the inventory line item on the face of the financial statements with separate disclosure in footnotes or (2) shown as a separate line item on the face of the financial statements.

28. The criteria considered by management in identifying inventory held in reserve for future sale shall be disclosed. **Examples** of factors to be considered in developing the criteria are (1) all relevant costs associated with holding these items (including the storage and handling costs), (2) the expected replacement cost when needed, (3) the time required to replenish inventory, (4) the potential for deterioration or pilferage, and (5) the likelihood that a supply of the items will be available in the future. The above listed disclosure requirements are not applicable to the U.S. government-wide financial statements. SFFAS 32 provides for disclosures applicable to the U.S. government-wide financial statements.

29. **Excess, Obsolete, and Unserviceable Inventory.** "Excess inventory" is inventory stock that exceeds the demand expected in the normal course of operations because the amount on hand is more than can be sold in the foreseeable future and that does not meet management's criteria to be held in reserve for future sale. "Obsolete inventory" is inventory that is no longer needed due to changes in technology, laws, customs, or operations. "Unserviceable inventory" is damaged inventory that is more economical to dispose of than to repair. The category "excess, obsolete and unserviceable inventory" shall be either (1) included in the inventory line item on the face of the financial statements with separate disclosure in footnotes or (2) shown as a separate line item on the face of the financial statements.

30. Such inventory shall be valued at its expected net realizable value. The difference between the carrying amount of the inventory before identification as excess, obsolete or unserviceable and its expected net realizable value shall be recognized as a loss (or gain) and either separately reported or disclosed. Any subsequent adjustments to its net realizable

value or any loss (or gain) upon disposal shall also be recognized as a loss (or gain). The U.S. government-wide financial statements need not separately report or disclose the difference between the carrying amount of the inventory and its expected not realizable value.

31. Management shall develop and disclose in the financial statements its criteria for identifying excess, obsolete and unserviceable inventory.

32. **Inventory Held for Repair.** Inventory held for repair may be treated in one of two ways: (1) the allowance method or (2) the direct method.

(1) Under the allowance method, inventory held for repair shall be valued at the same value as a serviceable item. However, an allowance for repairs contra-asset account (i.e., repair allowance) shall be established. The annual (or other period) credit(s) required to bring the repair allowance to the current estimated cost of repairs shall be recognized as current period operating expenses. As the repairs are made the cost of repairs shall be charged (debited) to the allowance for repairs account.

33. (2) Under the direct method, inventory held for repair shall be valued at the same value as a serviceable item less the estimated repair costs. When the repair is actually made, the cost of the repair shall be capitalized in the inventory account up to the value of a serviceable item. Any difference between the initial estimated repair cost and the actual repair cost shall be either debited or credited to the repair expense account.

34. Transition to either of these two methods may result in recognizing an accumulated amount of needed repairs that were not previously accounted for. To avoid overstating repair expense for the first period that repair expense is accrued, prior period amounts are to be separately identified or estimated. The estimated amount to repair inventory that is attributable to prior periods shall be credited to the repair allowance under the repair allowance method or to the inventory account under the direct method and reported as an adjustment to equity.

Disclosure Requirements

35.
- General composition of inventory.
- Basis for determining inventory values; including the valuation method and any cost flow assumptions.
- Changes from prior year's accounting methods; if any.
- Balances for each of the following categories of inventory; inventory held for current sale, inventory held in reserve for future sale, excess, obsolete and unserviceable inventory, and inventory held for repair unless otherwise presented on the financial statements.
- Restrictions on the sale of material.

- The decision criteria for identifying the category to which inventory is assigned.
- Changes in the criteria for identifying the category to which inventory is assigned
- The above listed disclosure requirements are not applicable to the U.S. government-wide financial statements. SFFAS 32 provides for disclosures applicable to the U.S. government-wide financial statements for these activities.

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The provisions of this statement need not be applied to immaterial items.

Operating Materials And Supplies

36. **Definition.** "Operating materials and supplies" consist of tangible personal property to be consumed in normal operations. Excluded are (1) goods that have been acquired for use in constructing real property or in assembling equipment to be used by the entity, (2) stockpile materials, (3) goods held under price stabilization programs, (4) foreclosed property, (5) seized and forfeited property, and (6) inventory.

37. Operating materials and supplies shall be categorized as (1) operating materials and supplies held for use, (2) operating materials and supplies held in reserve for future use, or (3) excess, obsolete and unserviceable operating materials and supplies. These categories are defined in paragraphs 36, 45, and 47 respectively.

38. **Recognition.** The consumption method of accounting for the recognition of expenses shall be applied for operating materials and supplies. Operating materials and supplies shall be recognized and reported as assets when produced or purchased. "Purchased" is defined as when title passes to the purchasing entity. If the contract between the buyer and the seller is silent regarding passage of title, title is assumed to pass upon delivery of the goods. Delivery or constructive delivery shall be based on the terms of the contract regarding shipping and/or delivery.

39. The cost of goods shall be removed from operating materials and supplies (i.e., the asset account) and reported as an operating expense in the period they are issued to an end user for consumption in normal operations.

40. If (1) operating materials and supplies are not significant amounts, (2) they are in the hands of the end user for use in normal operations, or (3) it is not cost-beneficial to apply the consumption method of accounting, then the purchases method may be applied to operating materials and supplies. The purchases method provides that operating materials and supplies be expensed when purchased.

41. An end user is any component of a reporting entity that obtains goods for direct use in the component's normal operations. Any component of a reporting entity, including contractors, that maintains or stocks operating materials and supplies for future issuance shall **not** be considered an end user.

42. **Valuation Under the Consumption Method.** Operating materials and supplies shall be valued on the basis of historical cost.

43. Historical cost shall include all appropriate purchase and production costs incurred to bring the items to their current condition and location. Any abnormal costs, such as excessive handling or rework costs, shall be charged to operations of the period. Donated operating materials and supplies shall be valued at their fair value at the time of donation. Operating materials and supplies acquired through exchange of nonmonetary assets (e.g., barter) shall be valued at the fair value of the asset received at the time of the exchange. Any difference between the recorded amount of the asset surrendered and the fair value of the asset received shall be recognized as a gain or a loss.

44. The first-in, first-out (FIFO); weighted average; or moving average cost flow assumptions shall be applied in arriving at the historical cost of ending operating materials and supplies and cost of goods consumed. In addition, any other valuation method may be used if the results reasonably approximate those of one of the above historical cost methods (e.g., a standard cost or latest acquisition cost system).

Other Categories of Operating Materials and Supplies

45. **Operating Materials and Supplies Held in Reserve for Future Use.** Operating materials and supplies stocks may be maintained because they are not readily available in the market or because there is more than a remote chance that they will eventually be needed, although not necessarily in the normal course of operations. These stocks shall be classified as operating materials and supplies held in reserve for future use. Operating materials and supplies held in reserve for future use shall be valued using the same basis as operating materials and supplies held for use in normal operations. The value of operating materials and supplies held in reserve for future use shall be either (1) included in the operating materials and supplies line item on the face of the financial statements with separate disclosure in footnotes or (2) shown as a separate line item on the face of the financial statements. Such materials and supplies shall be valued the same as operating materials and supplies held for use in normal operations.

46. The criteria considered by management in identifying operating materials and supplies held in reserve for future use shall be disclosed. Examples of factors to be considered in developing the criteria are (1) all relevant costs associated with holding these items

(including the storage and handling costs); (2) the expected replacement cost when needed; (3) the time required to replenish operating materials and supplies; (4) the potential for deterioration or pilferage; and (5) the likelihood that a supply of the item will be available in the future.

47. **Excess, Obsolete, and Unserviceable Operating Materials and Supplies.** "Excess operating materials and supplies" are operating materials and supplies stocks that exceed the amount expected to be used in normal operations because the amount on hand is more than can be used in the foreseeable future and that do not meet management's criteria to be held in reserve for future use. "Obsolete operating materials and supplies" are operating materials and supplies that are no longer needed due to changes in technology, laws, customs, or operations. "Unserviceable operating materials and supplies" are operating materials and supplies that are physically damaged and cannot be consumed in operations. The category "excess, obsolete and unserviceable operating materials and supplies" shall be either (1) included in the operating materials and supplies line item on the face of the financial statements with separate disclosure in footnotes or (2) shown as a separate line item on the face of the financial statements.

48. Such operating materials and supplies shall be valued at their estimated net realizable value. The difference between the carrying amount of the operating materials and supplies before identification as excess, obsolete or unserviceable and their estimated net realizable value shall be recognized as a loss (or gain) and either reported separately or disclosed. Any subsequent adjustments to their estimated net realizable value or any loss (or gain) upon disposal shall also be recognized as a loss (or gain).

49. Management shall develop and disclose in the financial statements its criteria for identifying excess, obsolete, and unserviceable operating materials and supplies.

Disclosure Requirements

50.
- General composition of operating materials and supplies.
- Basis for determining operating materials and supplies values; including valuation method and any cost flow assumptions.
- Changes from prior year's accounting methods, if any.
- Balances for each of the categories of operating materials and supplies described above.
- Restrictions on the use of material.
- Decision criteria for identifying the category to which operating materials and supplies are assigned.
- Changes in the criteria for identifying the category to which operating materials and supplies are assigned.

- The above listed disclosure requirements are not applicable to the U.S. government-wide financial statements. SFFAS 32 provides for disclosures applicable to the U.S. government-wide financial statements for these activities.

The provisions of this statement need not be applied to immaterial items.

Stockpile Materials

51. **Definition.** "Stockpile materials" are strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies. They are not held with the intent of selling in the ordinary course of business. The following items are specifically excluded from stockpile materials: (1) items that are held by an agency for sale or use in normal operations (see proposed standards for inventory and operating materials and supplies), (2) items that are held for use in the event of an agency's operating emergency or contingency (see proposed standard for operating materials and supplies), and (3) materials acquired to support market prices (see proposed standard for goods held under price support and stabilization programs).

52. **Recognition.** The consumption method of accounting for the recognition of expense shall be applied for stockpile materials. These materials shall be recognized as assets and reported when produced or purchased. "Purchase" is defined as the date that title passes to the purchasing entity. If the contract between the buyer and the seller is silent regarding passage of title, title is assumed to pass upon delivery of the goods. The cost of stockpile materials shall be removed from stockpile materials and reported as an operating expense when issued for use or sale.

53. **Valuation.** Stockpile materials shall be valued on the basis of historical cost. Historical cost shall include all appropriate purchase, transportation and production costs incurred to bring the items to their current condition and location. Any abnormal costs, such as excessive handling or rework costs, shall be charged to operations of the period. The first-in, first-out (FIFO); weighted average; or moving average cost flow assumptions shall be applied in arriving at the historical cost of stockpile materials. In addition, any other valuation method may be used if the results reasonably approximate those of one of the above historical cost methods (e.g., a standard cost or latest acquisition cost system).

54. **Exception to Valuation.** The carrying amount of materials that have suffered (1) a permanent decline in value to an amount less than their cost or (2) damage or decay shall be reduced to the expected net realizable value of the materials. The decline in value shall be recognized as a loss or an expense[4] in the period in which it occurs.

[4]The decline in value shall be considered an expense if it is an expected decline in the normal course of operations.