Draft Report as of October 3, 2012 –Clean

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

ANNUAL REPORT
For the Year Ended September 30, 2012
THREE-YEAR PLAN
Fiscal Years 2013-2015

Members

Tom Allen, Chairman

Robert Dacey, Government Accountability Office

Norman Dong, Office of Management and Budget

Michael Granof

Sam McCall

Mark Reger, Department of the Treasury

D. Scott Showalter

Graylin Smith

Harold Steinberg

Organization

The Federal Accounting Standards Advisory Board ("FASAB" or "the board") was established in October, 1990, by three federal officials responsible for federal financial reporting—the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General of the United States. These three officials possess legal authority under various laws to establish accounting and financial reporting standards for the federal government. Together, they entered into and have periodically modified a memorandum of understanding creating the board as a federal advisory committee.

Membership comprises individuals from each of the three federal agencies that established the board ("the sponsors") and six non-federal individuals.

Mission

The FASAB serves the public interest by improving federal financial reporting through issuing federal financial accounting standards and providing guidance after considering the needs of external and internal users of federal financial information.

The Mission Supports Public Accountability

Financial reports, which include financial statements prepared in conformity with generally accepted accounting principles, are essential for public accountability and for an efficient and effective functioning of our democratic system of government. Thus, the Board plays a major role in fulfilling the government's responsibility to be publicly accountable. Federal financial reports should be useful in assessing (1) the government's accountability and its efficiency and effectiveness, and (2) the economic, political, and social consequences, whether positive or negative, of the allocation and various uses of federal resources.

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ANNUAL REPORT

FROM THE CHAIRPERSON

The burgeoning federal debt and its impact on the government's ability to sustain services are increasingly the focus of public discussion and analysis. The recent fiscal crisis requiring the federal government to extend various forms of financial assistance has accelerated the financial stress on the federal government and made even more important the need for accurate financial information on the government's current financial position and long term sustainability. This information is more valuable when based on generally accepted accounting principles (GAAP) developed in the public interest..

During fiscal year (FY) 2012, the board took significant action to improve its strategic focus and outreach. Members adopted a new mission statement clarifying the board's focus on serving the public interest. The board must be committed to acting in the interest of the public above all else and the new mission statement places this first and foremost.

> *The FASAB serves the public interest by improving federal financial reporting through issuing federal financial accounting standards and providing guidance after considering the needs of external and internal users of federal financial information.*

Outreach is a critical element in considering the needs of users. The board improved its outreach by beginning to publish its three-year plan annually. The three-year plan – including a list of potential projects not prioritized for action during the next three-years – is included in this report beginning at page 13. **We encourage you to provide feedback on the plan so that we can consider your views during our review of the plan in February 2013.**

This annual report, including the three-year plan, is intended to provide our stakeholders with an opportunity to monitor our standards-setting process and progress, assess how well we performed against the American Institute of CPAs (AICPA) criteria for GAAP standards-setting bodies, and offer suggestions to us. Your input regarding the content of this report is welcome. Please send your comments to fasab@fasab.gov.

The Nation must bring social insurance expenses and resources into balance before the deficit and debt reach unprecedented heights. Delays will only increase the magnitude of the reforms needed and will place more of the burden on future generations.

Summary Report of the 2011 Financial Report of the U.S. Government – page xii

Comment [WP1]: Edits by Mr. Allen in response to comments by Mr. Steinberg

Documents issued during the fiscal year ended September 30, 2012

- SFFAS 42—Deferred Maintenance and Repairs, Amending SFFAS 6, 14, 29 and 32
- SFFAS 43— Dedicated Collections: Amending SFFAS 27
- Technical Release 14—Implementation Guidance on the Accounting for the Disposal of General Property, Plant & Equipment (PDF)
- Exposure Draft: Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use (Standards were approved and a final SFFAS will be issued following the review period.)
- The FASAB Handbook of Accounting Standards and Other Pronouncements, As Amended (FASAB Handbook) through June 30, 2012

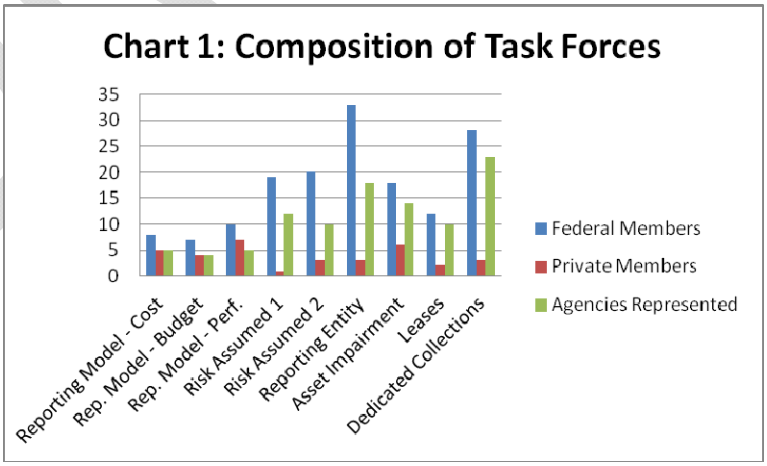
Board Technical Activities

During this fiscal year, the staff worked with over 180 members serving on nine task forces to support the board's standards-setting efforts. Task forces are formed at the start of each major project and assist in gathering information about current practices, issues, and options. The board greatly appreciates the efforts of task force volunteers. Their efforts both leverage the board's limited resources and ensure diverse perspectives are represented. The resulting standards are greatly improved by the input we receive from them and their active participation allows the board to make timely progress on pressing issues.

The board completed its **deferred maintenance and repairs** (DM&R) project in April 2012 and issued Statement of Federal Financial Accounting Standards (SFFAS) 42. The SFFAS will improve the measurement and reporting of DM&R by responding to concerns raised by the financial and technical communities. Because of the amendments, entities will describe their maintenance and repairs policies and the prioritization of activities, and identify factors considered in determining acceptable condition standards. Entities will also identify balance of DM&R by category of general property, plant, and equipment (PP&E) and stewardship PP&E, and explain significant changes from the prior year. Through collaboration among experts from the government and private sector, the board developed standards that will result in understandable, relevant, and reliable information regarding the government's management of its PP&E. This information can be useful in considering overall needs for maintenance and repairs as well as progress in meeting such needs over time.

In June 2012, the board issued SFFAS 43, ***Dedicated Collections****: Amending SFFAS 27, "Identifying and Reporting Earmarked Funds."* Dedicated collections are collections for a specific purpose, such as Social Security taxes and Medicare premiums. The amendments will improve reporting of dedicated collections by adopting more understandable terminology and by excluding funds that were not intended to be included in this category. SFFAS 43 also will reduce the reporting burden on financial statement preparers by permitting combined rather than consolidated reporting on this category of funds. The board hopes the changes will aid users in assessing the magnitude of collections committed for use in specific programs. Awareness of these commitments will help users understand that there is a requirement to use these resources in specific programs in the future.

During the fiscal year, the board also approved, and submitted for review prior to issuance, standards guiding entities to report the effects of **impairments** to general PP&E (G-PP&E) in their financial statements when they occur. To enhance its own efficiency, the board relied heavily on standards established for other governmental entities by the Governmental Accounting Standards Board (GASB) and the International Public Sector Accounting Standards Board (IPSASB). Further, the board had the advice of a task force throughout its efforts. These actions accelerated development of the standards. The board approved the SFFAS in September and has submitted it for review by its sponsors. Upon implementation, the SFFAS would enable users of financial statements to discern the cost of impairments when they occur, the financial impact on the reporting entity, and the cost of services provided following the impairment. The standards will provide a cost-effective approach in light of the diverse universe of federal G-PP&E. The board believes users will benefit from a consistent approach to reporting material impairment losses that allows the financial effects of major events to be assessed.



The board considers its **reporting model** project to be its highest priority. The objective is to ensure the information available—both through the general purpose federal financial reports themselves and the systems that support the reports—is relevant and understandable to users. Outreach to various types of users, about government-wide financial reports as well as component reporting entity reports, has been extensive. The board completed a user needs study and a report on how accrual-basis financial information is used in other countries. The board also has obtained task force recommendations regarding more effective communication from the government-wide perspective. Feedback regarding component reporting entity information was provided from roundtables and interviews. Individual roundtable participants suggested focusing on improving cost and performance information, improving electronic access, and reducing the cost of reporting on assets.

Based on this extensive research, the board determined the reporting model project should be segmented into multiple projects. The segments currently being developed by the board include improving performance reporting, the statement of net cost, and budgetary information. Staff is working with three separate task forces for these projects to develop actionable ideas for the board's consideration.

The board anticipates issuing proposed standards regarding the **federal reporting entity** in early FY 2013. Development of standards addressing what organizations should be included in the government-wide and component level financial reports and how they should be reported has been a challenge in light of the complex relationships, roles, and responsibilities of the federal government. The board has been aided in its efforts by a task force with extensive relevant experience. The proposal is expected to address the boundaries of the federal financial reporting entity as well as reporting on related parties.

The board initiated two new projects during FY 2012 addressing the various types of **risk assumed** by federal agencies and **leases**. The staff formed task forces to advise it regarding current practice, issues, and options. The risk assumed task force began meeting in FY 2012 and the leases task force will begin meeting in FY 2013.

The board undertook the risk assumed project because existing standards on risk assumed apply only to insurance contracts and explicit guarantees (other than loan guarantees covered by SFFAS 2). Reporting on all significant risks assumed, not just risks related to insurance contracts and explicit guarantees, is important to meeting federal financial reporting objectives.

The leases project is needed because current standards are viewed by some as not making meaningful distinctions between capital and operating leases regarding the substance of lease transactions. The project also allows the board to consider emerging standards in other domains. The board hopes to collaborate with the GASB so that experiences and, where appropriate, ideas can be shared and common solutions developed.

Implementation Guidance

Implementation guidance was provided to federal agencies through the Accounting and Auditing Policy Committee (AAPC). The AAPC is a committee comprising representatives from the Chief Financial Officers Council, the Council of Inspectors General on Integrity and Efficiency, the U. S. Department of the Treasury ("Treasury"), the Office of Management and Budget (OMB), and the U. S. Government Accountability Office (GAO). The board's executive director serves as chairperson of the committee. While the board provides staff support, the committee accomplishes its mission largely through the efforts of volunteers serving on task forces. Volunteers come from federal agencies, independent public accounting firms, and nonprofit organizations. The committee is currently seeking to resolve long-standing issues related to accounting for PP&E. During the year, the committee finalized Technical Release 14 to provide guidance regarding the removal of G-PP&E from service. In addition, a task force continued development of guidance for identifying the costs incurred to place G-PP&E into service.

Collaboration

The board continues to work collaboratively with other standards-setters including the GASB, that establishes accounting and financial reporting standards for state and local governmental entities, and the IPSASB, that establishes international accounting and financial reporting standards for governmental entities. Staff maintains communication on common issues and looks for areas where collaboration might be beneficial. In addition, the board's executive director serves on advisory groups for relevant projects at the international level and ensures that the board is aware of developments internationally that may influence its work.

In October, 2011, the board welcomed Mr. Michel Prada, Chairman of the French Public Sector Accounting Standards Council. Mr. Prada updated the board regarding accounting standards-setting for the French government. He also shared thoughts regarding the challenges of moving beyond historical data, the relationships between national and international standards-setters in the public sector, and differences between private and public sector organizations. The Board greatly appreciated the opportunity to learn more about developments in France and to discuss challenges common to public sector standards-setters.

During FY2011, concerns regarding electronic reporting were identified and both the GASB and the FASAB encouraged the Association of Government Accountants (AGA) to undertake a research project. The AGA issued a report in July 2012. The report identifies the need for guidance in specific areas such as definition of terms and formats for presenting information. Preferences for prescriptive guidance or identification of best practices were also established. The board greatly appreciates the AGA's leadership role regarding emerging issues such as electronic reporting. AGA and others, such as independent public accounting firms, produce research reports that are relevant to the board and all recommendations will be considered in reviewing the three-year plan.

Presentations and Other Assistance

The board and its staff continue to actively support the federal financial management community by providing education, facilitating collaboration among agencies, presenting information and ideas in journal articles, and assisting others. Over 35 hours of educational training were provided by members and staff through their participation in international, national, regional and local conferences sponsored by groups such as the AICPA, AGA, state CPA societies, and the American Accounting Association. Four hours of continuing professional education were provided free of charge to over 70 individuals who attended an accounting forum hosted by the staff. In addition, staff members routinely provide assistance to accounting textbook authors and respond to questions regarding federal accounting.

Closing

The board's accomplishments were many this year and we hope to continue to contribute to improving federal governmental transparency and accountability. In 2012, we bid farewell to three accomplished members who will be missed—Debra Bond, Norwood Jackson, and Alan Schumacher. Each shared their talents tirelessly with the board and contributed greatly to the board's mission.

During the year, we welcomed three new members—Norman Dong, Sam McCall and Graylin Smith. Each brings unique perspectives to the important issues before the board and I am confident each will contribute to development of important proposals during their time on the board.

TOM ALLEN (signature)

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GOVERNANCE AND OPERATIONS

Governance Activities

As reported earlier, the board adopted a new mission statement in FY 2012. The board's rules of procedure, adopted in 2010, were not revised during FY 2012.

The Steering Committee, composed of the members representing our sponsors and the chairman, annually reviews the operating budget and participates in ongoing Appointments Panel activities. Committee members continued to emphasize the budget constraints faced by all federal agencies, including their own, but nevertheless affirmed their commitment to supporting the needs of the board. Budgetary resources are reported on page 10. Final FY 2013 and 2014 resources are dependent upon appropriations established through the federal legislative process. The committee also provided the executive director's annual performance appraisal and established expectations.

The Appointments Panel, established in 1999, assists the board's sponsors in recruiting and selecting non-federal members and advises the board regarding improvement efforts. The panel comprises the members of the Steering Committee, two representatives of the AICPA, and one representative of the Financial Accounting Foundation (FAF). Two new members joined the panel during FY2012: representing the FAF, Cynthia Eisenhauer, and the AICPA, F. Carter Heim. Members completing their service on the panel during the year were John Radford, FAF; Beryl Davis, AICPA; and Debra Bond, OMB. Mr. Radford, Ms. Davis, and Ms. Bond provided exceptional insights to the panel and will be missed.

Appointments Panel Members
Tom Allen, Chairman
Robert Dacey, GAO
Norman Dong, OMB
Cynthia Eisenhauer, FAF
F. Carter Heim, AICPA
Harold Monk, AICPA
Mark Reger, Treasury

The panel's assistance contributes greatly to the board's independence and continued conformance to the criteria for a GAAP standards-setting body. The panel assists in preparing the board's annual reports and monitors the annual performance survey to convey any concerns to the AICPA in a timely manner. In addition, the panel established a timeline for member recruitment activities related to appointments occurring in the next three years.

AICPA Criteria for a GAAP Standards-Setting Body

Independence – The body should be independent from the undue influence of its constituency.

Due Process and Standards – The body should follow a due process that is documented and open to all relevant aspects or alternatives. The body's aim should be to produce standards that are timely and that provide for full, fair, and comparable disclosure.

Domain and Authority – The body should have a unique constituency not served by another existing Rule 203 standards-setting body. Its standards should be generally accepted by its constituencies.

Human and Financial Resources – The body should have sufficient funds to support its work. Its members and staff should be highly knowledgeable in all relevant areas.

Comprehensiveness and Consistency – The body should approach its processes comprehensively and follow concepts consistent with those of existing Rule 203 standards-setting bodies for analogous circumstances.

Performance Results

To annually assess conformance to the five criteria essential for a GAAP standards-setting body, members confirm their independence and adherence to the ethics policy, and complete a board performance survey. The survey allows each member to identify any changes – whether positive or negative – in the board's

performance relative to the five criteria. Members are encouraged to explain their views as well as offer suggestions for improvement. Members consider all views and suggestions during the development of the annual report. This annual report summarizes the consensus results so that member views are made publicly available on a timely basis.

In addition to these annual processes, members have agreed the AICPA will be notified of any reportable events of undue influence if and when they occur. Together, these efforts serve to alert the AICPA to significant changes relevant to the established criteria and ongoing recognition as the GAAP standards-setting body for federal governmental entities. 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.

Further, the survey results show no significant changes during the year but some concern regarding future resources. As noted in Chart 2 below, the majority of members believe there was no change when considering three criteria: (1) due process and standards, (2) knowledge of staff and members, and (3) comprehensiveness and consistency.

ANNUAL CONFIRMATION PROVIDED BY MEMBERS

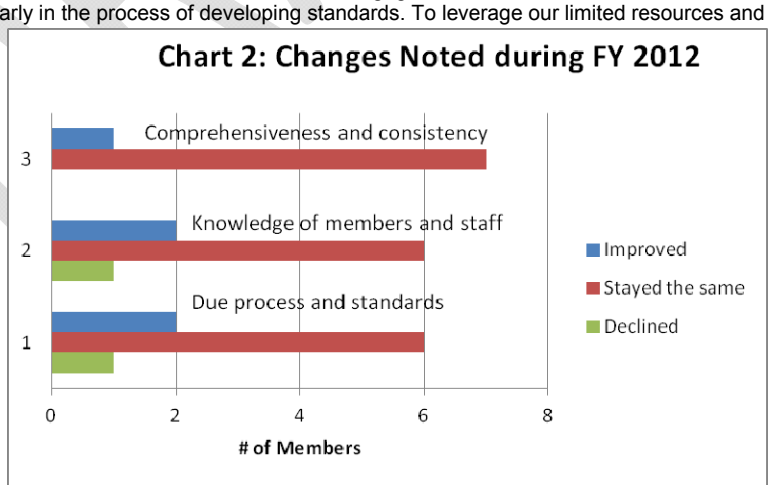
Independence:
I acknowledge that I have neither personal nor external impairments that will keep me from objectively reaching independent conclusions on matters under consideration by FASAB, nor did I during the preceding fiscal year. I will promptly notify the Chairperson if my independence is or may be impaired.

Ethics:
I have reviewed the FASAB ethics policy and confirm that I satisfied all requirements and limitations established under the policy during the preceding fiscal year.

Undue Influence:
I have notified the Chairperson of any and all matters that I judge to be undue influence. "Undue influence" is defined as external influences or pressures that impact a member's ability to objectively reach and/or communicate independent conclusions.

The two members noting improvement in the "due process and standards" and "knowledge of members and staff" criteria as well as the one member noting improvement in comprehensiveness and consistency attributed improvements to various factors. Those factors included increased use of task forces, solicitation of input on the three-year plan, and improvements in staff briefing materials bringing greater focus to meetings. The member noting a decline in due process and the member noting a decline in knowledge suggested seeking more options for federal agency staff to be proactive regarding standards under development.

Members agreed it is important to continue outreach efforts that engage users and the federal financial management community early in the process of developing standards. To leverage our limited resources and obtain skills not necessarily represented on the board or among its staff, members encouraged continuation of collaborative efforts with GASB and the IPSASB as well as reliance on task forces.



For the remaining two criteria (domain and authority, and human and financial resources), the survey solicits narrative responses rather than an assessment of changes. This facilitates identification of ideas for improvement. In FY 2011, five ideas were adopted for action. The status of these

improvement efforts is reported in Table 1 below. Based on results in FY 2012, members agreed these efforts should continue.

Members expressed varying views regarding resources both for the current fiscal year and in the future (see the resources section below for detailed information about resources). Some members noted that the priority projects identified in the technical agenda for the upcoming three-year period were adequately resourced considering the support offered through task force volunteers. Other members noted that projects would advance more quickly with more staff. Some members also expressed reservations about the potential impact of staff turnover. Generally, members agreed present budget constraints faced by all federal agencies mean the board should make every effort to improve its own efficiency, be mindful of the agencies' ability to implement new standards, and focus on matters of most importance to stakeholders.

Table 1: Status of FY2011 Improvement Recommendations

Recommendation	Status
1. Increase efforts to solicit outside input and assistance on projects	On-going with significant participation from previously under-represented groups on new task forces
2. Contact organizations sponsoring intern programs to coordinate opportunities	On-going with one intern serving during Spring 2012
3. Establish an annual cycle for reviewing its technical agenda	Established an annual review beginning in February 2012
4. Publish the technical agenda annually and include information about how to convey suggestions to the board	Published the technical agenda in January 2012 and received five comments To encourage comments, the technical agenda will be published in November 2012
5. Improve the availability of draft electronic documents to members to allow for more efficient review and input to staff	Word versions of draft Board documents are now routinely provided to members Consolidated Adobe Acrobat files will be available in FY 2013

RESOURCES

The board's budgetary resources have been relatively stable since the significant reduction taken in FY 2010. Individual members have noted that the smaller staff size - as well as the timing of deliberations on new projects – may translate to slower progress. Still, the three-year technical agenda can be accomplished with approved FY 2013 staffing levels supported by the work of task forces and possibly staff assigned by agencies to work with FASAB. However, approved staffing levels are not being realized due to the resignation of an experienced staff member during FY 2012. The steering committee approved filling the vacancy but administrative approval to advertise the vacancy has been withheld pending resolution of the possible Budget Control Act sequestration (automatic spending reductions) slated for 2013. The inability to fill the vacancy timely will likely delay progress on the technical agenda and make it challenging to respond to ongoing technical inquiries.

Actual funding levels are dependent on final FY 2013 appropriations and will be determined after appropriations are provided to each of the board's sponsors. Chart 3, *Budget 2010-2013,* illustrates budget resources used from FY 2010 through FY 2012 as well as anticipated resources for FY 2013.

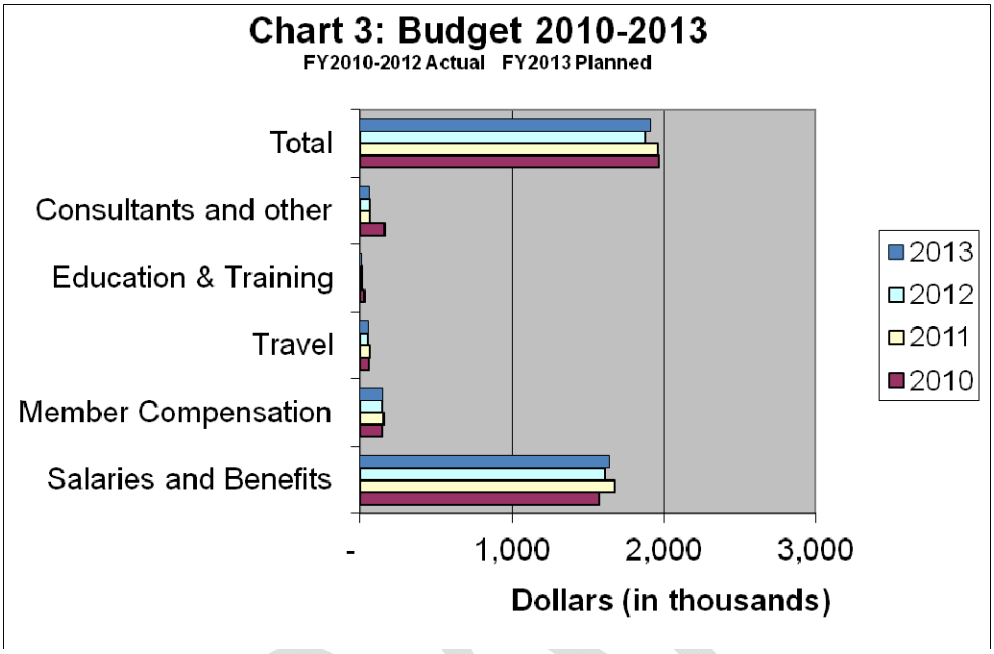


Chart 3: Budget 2010-2013
FY2010-2012 Actual FY2013 Planned
Total
Consultants and other
Education & Training
Travel
Member Compensation
Salaries and Benefits
-
1,000
2,000
3,000
Dollars (in thousands)
2013
2012
2011
2010

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THREE-YEAR PLAN FOR THE TECHNICAL AGENDA

The board's three-year plan should help those who use, prepare, and audit financial reports to:

- Participate fully in the standards-setting process, and
- Plan for changes in generally accepted accounting principles (GAAP).

In February 2013, the board will discuss priorities and make needed adjustments to this plan. Your assistance in identifying areas needing attention would be very helpful in that discussion. We would greatly appreciate receiving such input before January 31, 2013.

The board prioritizes projects based on the following factors:

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

Additional factors considered significant by individual members in planning the technical agenda include (1) a focus on citizens and citizen intermediaries as the primary users of the financial report of the US government, (2) impacts on preparers and auditors due to declining real budgets, (3) increasing risks due to fiscal uncertainty and operational complexity, and (4) more electronic reporting.

This document presents the three-year plan in brief on page 13. A project plan for each active project follows. The final item in the document is a list of potential projects considered by the board. You are welcome to submit suggestions on any aspect of this material or any ideas not presented herein.

If you have suggestions regarding the three-year plan, please submit them by email to:

fasab@fasab.gov

Or in hard copy to:

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

Table 2: THREE-YEAR PLAN IN BRIEF

Project and Objective	FY2012	FY2013	FY2014	FY2015	FY2016 – and Later
The Federal Entity Consider what organizations and relationships should be included in federal entity reports and how information is to be presented	Develop Proposal	Issue Exposure Draft and Finalize Standards	Implemen-tation Guidance as Needed		
Asset Impairment Provide for recognition of losses arising from partial impairment of assets continuing in service	Develop and Issue Exposure Draft	Finalize Standards	Implemen-tation 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 -Other areas such as the articulation of the financial statements	Research and Outreach	Results of Pilots led by CFO Council Develop issues and options Decide vehicle for guidance and draft guidance	Develop and Issue Exposure Drafts and/or Other Drafts for comment	Finalize guidance	
Leases Evaluate existing standards to improve comparability and completeness of reporting	Research	Develop Exposure Draft	Issue Exposure Draft, Public Hearing and 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 Issues and Options	Develop and Issue Exposure Draft	Public Hearing and Redeliberate Finalize Standards		Implementation Guidance as Needed

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Project and Objective	FY2012	FY2013	FY2014	FY2015	FY2016 – and Later
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 Standards or Technical Bulletin
Investments in non-federal securities* Consider how the financial effects of such investments should be measured, recognized, and reported		Begin Research and Develop Exposure Draft	Finalize and Issue Exposure Draft	Finalize Standards	
Natural Resources Consider implementation guidance and recognition requirements for information reported during experimental period as Required Supplementary Information		Implementation Guidance as Needed	Develop project plan	Begin Review to Reclassify Information	

*Project deferred pending action to fill current staff vacancy.

CURRENT PROJECTS

THE FEDERAL REPORTING ENTITY

Purpose: FASAB addresses the reporting entity issue in its Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*. SFFAC 2 addresses:

- Reasons for Defining Reporting Entities
- Structure of the Federal Government
- Identifying the Reporting Entities for General Purpose Financial Reporting
- Criteria for Including Components in a Reporting Entity
- Other Issues Concerning the Completeness of the Entity

The board is aware of a number of entity issues. While SFFAC 2 provides criteria for determining if an entity should be included in the federal reporting entity, questions continue regarding whether certain organizations should be included. The Federal Reporting Entity project will address both the conceptual framework and standards issues. This phase will result in both proposed amendments to SFFAC 2 and one or more proposed standards.

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

Objectives: Identify organizations that 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

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staff: Melissa Loughan

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

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

Timeline:

October - December 2012

- Review and approve final ED
- Issue ED for comment

February - April 2013 Meeting

- Public hearing
- Discuss analysis of ED comments and options for revising proposed standards

June and August 2013 Meetings

- Discuss draft standards and approve a final Statement

September 2013

- Submit standards to sponsors

January 2014

- Issue standards
- Consider the need for implementation guidance

ASSET IMPAIRMENT

Purpose:

SFFAS 6, *Accounting for Property, Plant, and Equipment*, contains principles-based guidance concerning general property, plant, and equipment (G-PP&E) that is removed from service due to total impairment of G-PP&E or other reasons. SFFAS 6 requires that G-PP&E be removed from G-PP&E accounts along with associated accumulated depreciation/amortization, if prior to disposal, retirement or removal from service it no longer provides service in the operations of the entity.

This project would develop accounting requirements for all partial impairments of G-PP&E not addressed in SFFAS 6.

Applicability:

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

Objectives:

The primary objectives of this project are to:

a. Define 'asset impairment.'

b. Determine what financial information regarding asset impairment would be helpful for achieving the reporting objectives.

c. Develop guidance for recognition and measurement of losses from asset impairment.

Assigned staff:

Domenic Savini

Other resources:

A task force comprising, but not limited to, representatives or members of the Federal Real Property Council, the Federal Facilities Council, agency engineering or facility management staff, financial statement preparers and users, and auditors supports the project. Task Force members bring technical knowledge relevant to not only longstanding issues, but also timely advice concerning the latest advancements in asset portfolio management and new policy initiatives.

Project page: http://www.fasab.gov/projects/active-projects/deferred-maintenance-asset-impairment/

Timeline:

October 2012

- Transmit final SFFAS to Sponsors and Congress for review

January 2013

- Issue standards
- Consider the need for implementation guidance

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THE FINANCIAL REPORTING MODEL

Purpose: This project is being undertaken by the board because of increased demands for financial information to facilitate decision-making and demonstrate accountability, and the changes in how users expect financial information to be delivered. For example, our research has noted that:

- Decision-makers are seeking information on the full cost of programs and citizens are accessing detailed information on spending, such as who received federal funds and what was accomplished with those funds.[1]
- Decision-makers also want additional information about the budget and projections of future receipts and expenditures.
- Citizens expect financial information about component entities but they have difficulty understanding current financial reports.[2]
- The public is relying increasingly on electronic media (digital devices, complex networks, and interactivity) to obtain information on demand. [3]

In addition, component entities are experimenting with a schedule of spending and the board may consider whether that schedule should become a basic financial statement. If so, guidance may be needed to help ensure that users understand the information presented and how it relates to existing financial statements.

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

Also, any conceptual guidance developed as a result of the project would guide the board's development of accounting and reporting standards. Knowledge of the concepts that the board considers should help users and others who are affected by or interested in federal financial accounting and reporting standards understand the purposes, content, and qualitative characteristics of information provided by federal financial accounting and reporting.

Objectives: The primary objectives of this project are to:

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

[1] Preparers Focus Group Discussion, February 10, 2009.
[2] FASAB, *User Needs Study: Citizens*, April 2010.
[3] FASAB Reporting Model Task Force, *Report to the FASAB*, December 22, 2010.

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

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

Assigned staff: Ross Simms

Other resources: Staff plans to engage a task force to help accomplish the project objectives. Also, staff plans to consider the schedule of spending pilot efforts. Optional resources include access to Web-based meeting software like Webex to reduce meeting logistics issues and permit wide participation.

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

Timeline:

October 2012 Meeting

- Discuss plans for separate projects to improve cost, budget, and performance information in financial reports.

December 2012 - October 2013

- Draft ED(s) or other proposals, field testing

December 2013 – April 2014 Meetings

- Review ED(s) or other proposals

June 2014 Meeting

- Issue ED(s) or other proposals for comment

October and December 2014 Meetings

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

February and April 2015

- Draft standard(s) or other guidance

May 2015

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

July 2015

- Issue standard(s)

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LEASES

Purpose:

This project is being undertaken by the board primarily because the current lease accounting standards, SFFAS 5, *Accounting for Liabilities of the Federal Government,* and 6, *Accounting for Property, Plant, and Equipment,* have been criticized as ineffective because they do not make meaningful distinctions between capital and operating leases regarding the substance of lease transactions. In addition, the lease accounting standards in SFFAS 5 and 6 are based on Financial Accounting Standards Board (FASB) lease accounting standards which are currently being revised. The FASB and International Accounting Standards Board (IASB) have undertaken a joint project on lease accounting that focuses on the conveyance of rights to future economic benefits (such as the right of use). In addition, the Governmental Accounting Standards Board is undertaking a project to address lease standards.

Applicability:

This project applies to all federal entities that present general purpose financial reports in conformance with SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

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.

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 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 the differences between lease accounting and the budgetary treatment of lease-purchases and leases of capital assets as outlined in Office of Management and Budget (OMB) Circular A-11.

Assigned staff:

Monica R. Valentine

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:

Note: Many of the proposed steps in this timeline are subject to the timing of the release of the FASB/IASB revised exposure draft and the final release of their standards.

December 2011– December 2012

- Identify individual task force participants
- Develop a task force plan
- Send out questionnaire to agency officials

December 2012 Meeting

- Present final data gathered from federal entities on their leasing practices.

February 2013 Meeting

- Analyze FASB/IASB revised lease accounting proposal
- Present an overview of revised FASB/IASB lease accounting proposals

February – May 2013

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

June – August 2013 Meetings

- Present identified lease accounting issues for board consideration
- Analyze final FASB/IASB lease accounting standard; working in conjunction with task force and FASB staff

October 2013 Meeting

- Present full analysis of issues and recommendations for board decisions

December 2013 Meeting

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

February – June 2014 Meetings

- Develop and issue ED

October 2014 Meeting

- Present initial analysis of ED comment letters received

December 2014 Meeting

- Present full analysis of ED comment letters received along with issues identified for board consideration
- Conduct public hearing

February - June 2015 Meeting

- Present drafts of final standards for board consideration

August 2015 Meeting

- Present ballot draft standards for board approval

December 2015

- Issue SFFAS

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RISK ASSUMED

Purpose:

This project is being undertaken by the board because existing FASAB standards on risk assumed are limited to insurance contracts and explicit guarantees (other than loan guarantees). Because the federal government has a variety of responsibilities and consequently assumes a range of risks, it is important that FASAB revisit its existing standards. For example, when implementing policy initiatives to stabilize financial markets and the economy, the federal government explicitly assumed risks previously considered by some to have implied backing of the federal government. It provided financial support to government-sponsored enterprises (GSE) and private sector institutions and purchased or guaranteed troubled assets.

In order to meet the stewardship and operating performance objectives of federal financial reporting,[4] it is important that the federal government reports all significant risks assumed, not just risks related to insurance contracts and explicit guarantees.

Applicability:

This project applies to the federal government as a whole and all component entities that 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:

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:

Julia Ranagan, Ross Simms, and Monica Valentine

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:

December 2012 – May 2013

- Utilizing task force input, as appropriate, develop risk assumed definitions, measurement and recognition criteria, and disclosure and / or RSI guidance
- Consider whether a phased approach may be more appropriate
- Report to the board as issues are developed that require board decisions

June – October 2013

- Begin developing an exposure draft (ED) with board input and feedback

November 2013

[4] SFFAC 1, *Objectives of Federal Financial Reporting*, pars. 100, 122, and 141

- Issue ED for comment
- Conduct pilot testing

February 2014

- Hold public hearing

March - May 2014

- Finalize standard

June 2014

- Transmit proposed SFFAS to sponsors for 90-day review

September 2014

- Issue final SFFAS

October 2014 – February 2015

- Develop implementation guidance, if necessary

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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 of such partnerships transparent would be the overall objective of the project. A detailed project plan along with active work on this project would not begin until FY2013 with final standards following a two to three year effort.

Specific objectives could include:

- Defining terms (e.g., service concession arrangements, P3s)
- 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 federal government as a whole and all component entities that 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 to consider issuing a Technical Bulletin. Such bulletins provide guidance for applying FASAB Statements and Interpretations and resolving accounting issues not directly addressed by either the Statements or Interpretations.

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 2012

- Develop Project Plan and Begin Research

October 2013

- Develop and Issue Exposure Draft

October 2014

- Finalize Guidance or Standards

NON-FEDERAL INVESTMENTS

Purpose:

This project is being undertaken by the board because existing FASAB standards are silent on the valuation of investments ("Non-Federal Investments"), other than investments in Treasury securities, that meet the definition and essential characteristics of assets in SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*.

Federal reporting entities are currently determining valuation by applying, by analogy, principles that were established by FASAB for other types of assets or by applying principles established by other standard setters. This project will consider whether a significant factor in the valuation of investments should be the purpose and intended use of the investments. For example, private sector standards assume that investments are held to maximize profits. However, in many instances the U.S. Government purchases investments to achieve other objectives– for example, to promote liquidity, to stabilize the financial markets, or to preserve the solvency of financial institutions or industries that are important to the U.S. economy. These objectives are unique to the government and do not occur in the private sector and warrant consideration.

Applicability:

This project applies to all federal entities that present general purpose financial reports in conformance with SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

Objectives:

The primary objectives of this project are to address how non-federal investments should be reported in order to assist report users in determining:

a) Operating Performance: What and where are the important assets of the U.S. government, and how effectively are they managed?

b) Stewardship: Did the government's financial position improve or deteriorate over the period?

The specific objectives of this project are:

a) Establish definitions and meaningful categories of investments

b) Develop recognition and measurement guidance, including remeasurement

c) Develop disclosure requirements

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Assigned staff: Not Assigned due to staff vacancy

Other resources: Staff will work with a task force with the proposed representatives:

- One representative from the Government Accountability Office (GAO) with audit expertise in the government's non-federal investments
- One representative from the Office of Management and Budget (OMB) with subject-matter expertise, in particular credit reform expertise
- One representative from Treasury Office of Financial Stability
- One representative from the Congressional Budget Office (CBO) with subject-matter expertise
- One representative from Railroad Retirement Board/NRRIT
- Other federal subject matter experts TBD
- Non-federal subject matter experts TBD

The task force would consider existing FASAB concepts and standards as well as relevant legislation.

At the August 2011 meeting, the board indicated that this project should focus primarily on investments that are related to government interventions that were made to promote economic stability.

The task force may also consider relevant standards in other domains such as the international public sector and US state/local governments.

Project page: http://www.fasab.gov/projects/active-projects/investments-and-other-equity-interests/

Timeline:

Per the planning discussion at the April 2011 board meeting, the initial estimate for the completion of this project was three years. At the August 2011 meeting, the board indicated that the scope of this project should be narrowed to focus on investments that relate to the government's intervention activities, where the objective of the action is to promote economic stability. This project will become active when the current staff vacancy is filled. Estimated time to completion is three years.

NATURAL RESOURCES

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

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

The purpose of this project is to consider the results of the three-year RSI period and develop standards regarding any transition of information to basic information.

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

Assigned staff: Julia Ranagan

Timeline: A project plan – including a complete timeline – will be developed in early FY2014 to ensure timely evaluation of the initial RSI reporting period.

Project Page: http://www.fasab.gov/projects/active-projects/natural-resources/

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POTENTIAL PROJECTS

After considering factors that may influence project priorities, the board begins its planning by reviewing potential projects identified by the Executive Director (see Figure 1 for the rules of procedure governing agenda setting). Note that the list accumulates over time. Generally, potential projects are only removed if the issue has clearly been addressed through other projects.

Stakeholders are encouraged to contact the Executive Director to suggest potential projects or to provide insight regarding the projects identified here. Instructions for submitting comments are presented on page 12.

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ASSET RETIREMENT OBLIGATIONS

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

Figure 1: Rules of Procedure Regarding Agenda Setting

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

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

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

CLEANUP COSTS - EVALUATING EXISTING STANDARDS

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

1) Whether the existing liability recognition provisions are consistent with element definitions established in SFFAC 5.

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a) The liability may be understated because the obligation is to clean up the entire hazardous waste but SFFAS 6 provides for a gradual build up of the liability balance as the related PP&E is consumed in service (the full cleanup cost is disclosed in a note).

b) The cost of PP&E may be understated because the SFFAS 6 requirement is to capitalize its acquisition cost; the later cost to retire the asset is excluded.

c) The scope of liability recognition is limited to costs to clean up hazardous substances rather than the full asset retirement obligation.

2) Cost-benefit issues relating to the level of precision required for estimates and ongoing concerns regarding the timing of recognition of asbestos liabilities (generally when asbestos exists rather than when it is to be removed) have been raised.

COST OF CAPITAL

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

DERIVATIVES

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

WHAT IS A DERIVATIVE?

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

Governments enter into derivatives for at least four reasons:

• Governments often intend derivatives to be *hedges.* This type of derivative is an attempt to significantly reduce a specific financial risk that a government identifies, such as the risk of increasing commodity costs.
• Some governments find that they can *lower their borrowing costs* by entering into a derivative in connection with debt they issue.

• Some governments engage in derivatives that are investments—governments are trying to *generate income,* as they would by buying other financial instruments.
• Some governments enter into derivatives to *manage their cash flows.* These derivatives may include an up-front cash payment to the government from the other party. The payment arrangements or terms of the derivative agreement essentially provide for the repayment of the up-front cash.

ELECTROMAGNETIC SPECTRUM

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

The FCC's goal is to:

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

This project would consider what information may be needed to allow citizens to monitor the management of this asset. It is not addressed by other accounting standards at this time. Based on the Fiscal Year 2013 Budget Estimates submitted by the FCC to Congress in February 2012, receipts in excess of $30 billion are anticipated over the next ten years.

Excerpt from Congressional Research Service Report: *Spectrum Policy in the Age of Broadband: Issues for Congress* (Linda K. Moore, Specialist in Telecommunications Policy, August 29, 2012 (R40674))

> The convergence of wireless telecommunications technology with the Internet Protocol (IP) is fostering new generations of mobile technologies. This transformation has created new demands for advanced communications infrastructure and radio frequency spectrum capacity that can support high-speed, content-rich uses. Furthermore, a number of services, in addition to consumer and business communications, rely at least in part on wireless links to broadband (high-speed/high-capacity) infrastructure such as the Internet and IP-enabled networks. Policies to provide additional spectrum for mobile broadband services are generally viewed as drivers that would stimulate technological innovation and economic growth.
>
> The Middle Class Tax Relief and Job Creation Act of 2012 (P.L. 112-96, signed February 22, 2012) included provisions to expedite the availability of spectrum for commercial use. These include expediting auctions of licenses for spectrum designated for mobile broadband; authorizing incentive auctions, which would permit television broadcasters to receive compensation for steps they might take to release some of their airwaves for mobile broadband; requiring that specified federal holdings be auctioned or reassigned for commercial use; and providing for the availability of spectrum for unlicensed use. The act also includes provisions to apply future spectrum license auction revenues toward deficit reduction; to establish a planning and governance structure to deploy public safety broadband networks, using some auction proceeds for that purpose; and to

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ELECTRONIC REPORTING

Electronic reporting is increasingly viewed as a means to convey financial information about government. This is evidenced not only by sites such as Recovery.gov but also by the universal practice of posting annual financial reports to federal websites and the emerging practice of providing a written highlights document accompanied by a soft copy of the full report. More recently, a requirement that performance reports be provided electronically rather than in printed form was established in law. In addition, there is a growing expectation that machine readable data be provided. This is an area of great interest to the profession and the Association of Government Accountants issued Research Series Report No. 32 on *e-Reporting* in July 2012. The full report is available at http://www.agacgfm.org/Research-(1)/Research-Publications.aspx. The AGA report revealed a desire for common definitions, formats, and content among survey participants. Useful information regarding desired reporting and the need for standards and/or best practice guidance was provided through the research report.

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

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

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

3. "Going for "low-hanging fruit" creates small successes that can be celebrated early and often. Do not get too bogged down in the oversight and linkage of data within and across old legacy systems. Consider the "restaurant approach" and develop a menu of reports that may be used across governments to report similar information. Consider using existing formats, such as AGA's Citizen-Centric Reporting model, for reporting relevant information to citizens in plain language. Create an interactive financial reporting model starting with audited financial statements with simple drill-down links to data and reconciled reports beneath the audited financial statements that focus on the basic information citizens want. Focus on efficiency and results with five or six key standard metrics common across governments. Provide context to help make the information both understandable and meaningful."

4. "Policy makers and standard setters should capitalize on the convening power of AGA. Use AGA to continue to explore and research best practices, as well as to construct bridges across the local, state and federal governments."[5]

.

A summary of the concerns/practices that might be addressed through guidelines – perhaps as recommended practices - follows and matters of particular relevance to FASAB are underlined.[6]

1) Should financial information be complete even when reported electronically?
   a) How might boundaries and completeness of an electronic report be made clear to the user?
      i) A warning message showing when you are leaving the financial report
      ii) Information regarding the contents and structure of a generally accepted accounting principles (GAAP) basis financial report should be provided when GAAP basis financial reports are accessed
   b) Should information provided outside of the GAAP basis financial report be clearly marked as such and any departure from the principles established for the financial report disclosed?
      i) Any excerpts from a GAAP basis financial report might provide a reference to the complete financial report.
      ii) Accounting principles might be explained (whether GAAP or another basis) and linked to discrete items of information including disclosures (e.g., if a line item is accessed, an explanation of the accounting policies related to the line item as well as any related disclosure can be easily accessed).
   c) Whether financial information presented on a web page is audited should be noted.
   d) Should electronic reporting beyond GAAP basis financial reports supplement or complement these reports?
      i) Explanations of differences in principles should be provided.
      ii) Non-GAAP basis pages should include a link to GAAP basis financial reports.
2) Should Web pages be clearly dated and timely?
3) Communication with users (Interactive websites)
   a) Are financial terms adequately defined and appropriately used on websites?
   b) Is adequate announcement of the availability of electronic financial reports made?
   c) Can financial reports be easily located?
      i) Search features may need to be enhanced to help users locate the e-report
      ii) A common "portal" to access all financial reports may be useful. For example, the Financial Report of the US Government could serve as the portal to component reports.
   d) Automated e-mail alerts to interested users
   e) A single point of contact at each entity to respond to questions
   f) What constitutes good practice regarding posting of relevant links for the interested user? (considering both benefits and drawbacks of links)
   g) Many technology related issues emerge such as
      i) Speed of download
      ii) Use of pictures (thumbnails)
      iii) When should "plug-ins" be used?
4) Accessibility issues to consider include:

[5] Association of Government Accountants, *e-Reporting*, July 2012, pages 20-21.
[6] Note that it is not suggested that each of these is a matter of concern that FASAB should address through standards. For example, some members suggested educational materials such as best practices.

a) Is the data downloadable to facilitate analysis?
b) Are appropriate historical data available?
c) Are internal and external links maintained (no broken links)?

5) Are security/control measures adequate?
   a) Process of posting data prevents errors
   b) Appropriate authorization to edit data
   c) Controls to prevent unauthorized access (both internally and externally)
   d) Hyperlinks to unaudited data – is adequate disclosure in place and does security extend to the unaudited data? Is the user able to differentiate between complete and incomplete data?
   e) Auditor relationship with electronically published data
      i) Relationship with existing GAAP based financial reports
      ii) Assurance over real-time electronic reporting?
   f) Quality assurance over unaudited data
      i) Source of data (e.g., financial systems, procurement data base, cuff records)
      ii) Controls
      iii) Reconciliation to other data sources

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EVALUATING EXISTING STANDARDS

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

To explore burden reduction in a targeted fashion, project objectives could include:

1. provide forums for preparers, auditors, and users to identify requirements they believe are unnecessary (this could be done through an open ended written request for input or roundtable discussions)
2. evaluate the requirements identified against the reporting objectives
3. prepare an omnibus exposure draft to adjust or eliminate requirements

The challenge in this approach is that the relevance of requirements varies among agencies. For example, agencies for which certain requirements are immaterial may not find the information

relevant but may find the steps necessary to omit the required information based on materiality too burdensome. They may simply comply with the requirement. To reduce the burden on this agency would mean that the requirement also would be eliminated at an agency for which the information is material. In addition, the burden is likely different between agencies with and without strong systems and controls.

FINANCIAL/ECONOMIC CONDITION

The board provided standards regarding fiscal sustainability reporting. However, a broader focus on financial condition reporting might result in additional reporting such as key indicators of financial condition at the agency or government-wide level. GASB has addressed key indicators and is currently undertaking a project to address financial projections.

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

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

INSURANCE

The International Accounting Standards Board (IASB) is developing standards for insurance contracts and it is feasible that new approaches will emerge. While FASAB has addressed insurance as one component of SFFAS 5, a thorough review of emerging practice may be warranted.

INTANGIBLES

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

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

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

The standard generally requires intangible assets to be treated as capital assets, following existing authoritative guidance for capital assets, although certain intangible assets are specifically excluded from the scope of the statement. One key exclusion relates to intangible assets that are acquired or created

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

INTERNAL USE SOFTWARE

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

LINKING COST AND PERFORMANCE

While performance reporting can be viewed as a stand-alone project, the board has a potentially separate interest in the cost information included in performance reports. SFFAS 4 established managerial cost accounting concepts and standards. At the time, the board expressed the view that standards and practices would "evolve and improve as agencies gain experience in using them." (par. 24 of SFFAS 4) The objective of a project on cost information might be "to assess the effectiveness of SFFAS 4 in improving the quality and availability of cost information related to programs and consider options for improving the effectiveness of SFFAS 4." If improvements are needed to link cost and performance information, the board might then consider whether improvement can be obtained through standards, educational efforts, or other means.

LONG-TERM CONSTRUCTION/DEVELOPMENT/PROCUREMENT CONTRACTS

In its work on National Defense PP&E (ND PP&E), the board considered the need for disclosures regarding complex, long duration contracts for the development and acquisition of weapons systems. One proposal included a disclosure of the ten largest acquisition programs showing budgeted amounts, expected amounts, cost to date and progress to date. Exposure of this proposed disclosure requirement revealed a number of technical areas that required clarification as well as resistance to this non-traditional disclosure among some commentators. The board elected to move forward to eliminate the special category ND PP&E and any disclosures unique to the category. As

a result, the board set aside its work in this area. However, the board noted (in the Basis for Conclusions to a subsequent ED and SFFAS 23 – *Eliminating the Category National Defense PP&E*) its intention to return to this proposal on a government-wide basis in the future.

MANAGERIAL COST ACCOUNTING

In 2010, FASAB staff researched managerial cost accounting including a survey of agencies. Results indicated that a guide to using, developing, and reporting cost information may be helpful. The guide could explore best practices regarding the level of detail in the statement of net cost as well as aspects of developing effective internal development and use of cost accounting. The guide would be developed collaboratively by a task force supported by FASAB staff. Assistance from outside government, such as relevant professional associations and other experts, would be sought.

OMNIBUS AICPA

The initial objective of the project was to consider incorporating accounting and financial reporting standards that are included in current and recently modified Statements on Auditing Standards (SASs) to more effectively present those standards so that these requirements become the responsibility of the financial statement preparers. The scope included analysis of current and recently modified SASs to identify accounting and financial reporting standards. The board then analyzed that guidance to determine if that guidance should be incorporated into the FASAB literature.

The primary research issue is identifying, in the SASs, the various accounting and financial reporting requirements. Of the topics initially identified, the following topics have been addressed:

1) Hierarchy of generally accepted accounting principles
2) Subsequent events requirements

The board is currently addressing related party transactions in its project on the federal reporting entity.

These topics have not yet been addressed and are not within the scope of another project:

3) Materiality consideration (rollover versus iron curtain approaches)
4) Going concern

At this time, the board does not anticipate resuming work on the project in the near future.

PERFORMANCE REPORTING

The objective of this project is to improve the reporting and use of performance information by developing conceptually based suggested guidelines for performance information that will help officials effectively communicate performance in a way that the public will find meaningful and understandable. An example of the scope can be taken from GASB's *Suggested Guidelines for Voluntary Reporting of Service Efforts and Accomplishments (SEA) Performance Information*. GASB describes the content as follows:

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The Suggested Guidelines include what the GASB has identified as the four essential components of an effective SEA report, the six qualitative characteristics of SEA performance information, and three keys to effective communication.

The four essential components identified are purpose and scope, major goals and objectives, key measures of SEA performance, and discussion and analysis of results and challenges. The six qualitative characteristics, as set forth in GASB Concepts Statement No. 1, Objectives of Financial Reporting, are relevance, understandability, comparability, timeliness, consistency, and reliability. The three keys to effective communication are intended audiences, multiple levels of reporting, and forms of communication.

Source: GASB News Release 7/14/2010

PROPERTY WITH REVERSIONARY INTEREST

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

RESEARCH AND DEVELOPMENT

Research and development (R&D) costs are presented as required supplementary stewardship information (RSSI) and include both direct R&D spending by agencies and spending which supports non-federal research and development. Generally, staff believes FASB standards for R&D are referenced to determine what spending qualifies as R&D (for example, to identify when to begin capitalizing costs as new assets are developed). Given the significant federal investment in R&D ($136 billion in 2011) and the possible differences between sectors, a review of practices in this area may be warranted.

STATEMENT OF CHANGES IN CASH

The Association of Government Accountants Research Report No. 31, *Government-wide Financial Reporting* (July 2012), recommended that the statement of changes in cash be modified to include information on (1) cash flow from operations, (2) debt financing activities and (3) investing activities. The report indicated that information regarding cash flows and whether the Treasury can fund operations within the operating cycle merits disclosure. Further, they found that "information on gross cash flows related to such matters as the making and collection of direct loans, purchase and disposal of investments (including activities to stabilize the economy) and flows needed to fund ongoing deficits is important to allow users to put results in perspective and understand future financing needs." The recommendations also include consideration of the status of this statement as basic or required supplementary information.

STEWARDSHIP INVESTMENTS

The board undertook the effort to reclassify all required supplementary stewardship information (RSSI) several years ago. The reclassification would resolve questions regarding the desired audit status of the information absent designation of the information within a specific category. The board completed work on two of three categories of information – stewardship responsibilities and stewardship property, plant and equipment. The remaining RSSI category is stewardship investments including human capital, R&D, and non-federal physical property. The board deferred addressing this category so that it could devote additional resources to higher priority projects. The consequence is that this information remains as required supplementary information

SUMMARY OR POPULAR REPORTING

Agencies are issuing summary reports and some view these as the primary report for citizen users. In addition, some have recommended that a summary report for the government as a whole be issued. Whether there is a need for guidance or standards has not been explored by staff. However, citizens participating in focus groups provided valuable insights regarding their interests and expectations.

SUPPORT AND OUTREACH THROUGH GUIDANCE AND EDUCATION

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.

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We want to hear from you

Do you like this report? Do you believe it should include any other information?

Please let us know by contacting the Chairman at FASAB@FASAB.GOV or 202.512.7350.

FASAB Staff		
Wendy Payne, Executive Director	202 512-7357	paynew@fasab.gov
Terri Pinkney, Executive Assistant	202 512-7350	pinkneyt@fasab.gov
Charles Jackson, Administrative Officer	202 512-7352	jacksoncw1@fasab.gov
Melissa Loughan, Assistant Director	202 512-5976	loughanm@fasab.gov
Julia Ranagan, Assistant Director	202 512-7377	ranaganj@fasab.gov
Domenic Savini, Assistant Director	202 512-6841	savinid@fasab.gov
Ross Simms, Assistant Director	202 512-2512	simmsr@fasab.gov
Monica Valentine, Assistant Director	202 512-7362	valentinem@fasab.gov