



**FEDERAL  
ACCOUNTING STANDARDS  
ADVISORY BOARD**

*Annual Report*

Fiscal Year Ended September 30, 2014

*Three-Year Plan*

Fiscal Years 2015-2017

Comments Requested by January 31, 2015

Issued November 18, 2014

## Members

**Tom Allen**, Chairman

**Robert Dacey**, Government Accountability Office

**Michael Granof**

**Christina Ho**, Department of the Treasury

**Sam McCall**

**Mark Reger**, Office of Management and Budget

**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. The board has been designated by the American Institute of CPAs as the body that establishes generally accepted accounting principles for federal reporting entities.

## 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 board began its twenty-fifth year on October 10th of 2014. Looking back, the remarks of members upon the board's tenth anniversary point to challenges still relevant today:

- increasing awareness, understanding, and use of financial information by citizens, elected officials, and executives; and
- linking financial information with performance results to better inform decision-making by citizens and other users.

## Continuing Need for Integration

Our ongoing work reveals users are interested in more detailed financial and non-financial performance information but seek information that is integrated and reliable.

The board's products—generally accepted accounting principles—address the financial information needed in external reports. This makes guiding integration of information from diverse sources a challenge. Integration requires coordination across disciplines.

Because of user input calling for a focus on managerial cost accounting standards, the board engaged the National Academy of Public Administration (NAPA) to study internal user needs. The board hoped learning more about managers' use of financial and related information would reveal whether the needed integration exists.

The study showed that granular and accurate data are available but not transformed into readily-understood, actionable data for decision-making through analytics (including forward-looking information). There was great interest in financial information detailing the cost of program outcomes—this requires a focus on the cost of government services rather than government agencies. The study found key gaps in both culture and capacity.

The NAPA study panel offered recommendations to fill these gaps. One recommendation was for the President's Management Council to lead an effort to link budgeted resources to costs, outputs, and performance information with the board and others assisting the broad effort. If undertaken, this effort would likely focus on collaboration across government and disciplines to both integrate and analyze data. Such an effort could serve both internal and external users needs by making information more understandable and accessible.

*Only when all who prepare, audit, and use Federal financial statements understand the nature of the information, the need to review and question what such information means, and the potential of the information for improving the resource management and stewardship of the Government, will FASAB's efforts be fully actualized.*

David Mosso,  
FASAB Chairman  
1997-2006, *FASAB  
News*, Tenth  
Anniversary  
Edition, October/  
November 2000

## Collaboration

Evidence that granular and accurate data are available to internal users demonstrates the importance of the financial management initiatives undertaken in the early 1990s and the success of the resulting collaborative efforts within the federal financial management community. Our collaboration with stakeholders has been critical to our success. We rely heavily on the participation of both federal and non-federal stakeholders in task forces and through formal due process such as responding to requests for comment.

As we plan for future activities, your input regarding our updated three-year plan – which also identifies potential projects not prioritized for action during the next three-years – is needed. The board’s continued success in completing the reporting entity project and making substantial headway on all remaining projects was due in large part to robust collaboration. Each major project benefited greatly from the commitment of task force members. Our work with the Governmental Accounting Standards Board on the challenging topic of lease accounting allowed us to quickly consider issues unique to government. The work of NAPA allowed us to quickly assess the merits of revisiting the managerial cost accounting standards; as a result of the study we refocused our efforts on higher priorities.

Your input will ensure we continue to focus our resources on the highest priorities. We have included the three-year plan in this report beginning at page 11. We encourage you to provide feedback on the plan so that we can consider your views during our review of the plan in February 2015. Please send your comments to [fasab@fasab.gov](mailto:fasab@fasab.gov).

## Closing—Opportunities and Thanks

Opportunities to improve federal financial accounting and reporting remain. The sustained call for integration of financial and non-financial performance information combined with the growing reliance on electronic reporting make the work of standards-setting even more important and challenging than ever. The board will be considering how to present cost and budget information in greater detail, in clearer formats, and with better explanations. We hope this supports integration efforts so that decision-makers’ information needs are met.

In closing, I would like to express my gratitude to all those engaged in the board’s work—my fellow board members, the staff, the members of the Appointments Panel, the volunteers serving on FASAB task forces, and all who read and respond to our requests for input. The hard work and commitment of these many people make the board’s work possible.



TOM ALLEN

*We have only begun the process of communicating vital, reliable information in heavier doses to citizens, Congress, and management. Each will benefit and each will be able to make better, more informed decisions in the future. We have thus far focused mainly on financial reporting. As we combine detailed financial information with performance results and use the resulting information in the process of formulating future plans, the decision-making process will benefit.*

Philip T. Calder, FASAB  
member 1997-2004, FASAB  
News, Tenth Anniversary  
Edition, October/  
November 2000

## BOARD TECHNICAL ACTIVITIES

### Standards-setting Activities

The board completed a long-standing project on the **reporting entity** to address the complex relationships established by the federal government. Standards will help ensure financial reports cover the organizations for which elected officials are accountable. In April 2013, the board proposed principles to guide preparers of financial statements in determining what organizations should be included in federal financial reports as well as how to present information about those organizations. During FY2014, the board worked closely with stakeholders to clarify certain aspects of the standards and appreciated this close collaboration. The board finalized the standards in September 2014 and anticipates their issuance in the first quarter of fiscal year 2015.

The **reporting model** project objective is to identify financial information helpful for decision-making, demonstrating accountability, and achieving the reporting objectives. The board identified user needs after extensive outreach to various types of users and solicited recommendations from multiple task forces as well as roundtable participants. Users have consistently expressed interest in understanding the composition of cost information through enhanced disaggregation. Users also seek a better understanding of the relationship between cost and budget information.

Gaps exist between the information users seek and that provided in current financial reports. During 2014, board members presented their individual thoughts about how the ideal reporting model might fill these gaps. Based on these presentations, the board identified flow information (for example, budgetary and operating cost data) as the logical starting point. This initial approach aligns with user-identified interests in obtaining a better understanding of the composition of and relationship between cost and budget information.

Members recognize that flow information is just one of many components of the reporting model project. Once the Board addresses flow information, the reporting model discussion will consider other aspects of an ideal reporting model such as non-financial performance information and electronic reporting. In the long term, after the ideal model has been conceptualized, the board will need to identify specific standards projects so that manageable segments are addressed in priority order.

The board made substantial progress regarding accounting for **public-private partnerships** (P3s) by seeking comments on proposed accounting standards. P3s are increasingly being used to provide much needed capital resources and government services. The proposal seeks comments on definitions and required disclosures to aid in understanding P3s and related risks. The board plans to address recognition and measurement guidance after the proposed disclosures become available in 2018. This phase of the P3 project will be informed by those disclosures and related standards such as reporting entity, leases, and risk assumed which may address relevant recognition and measurement issues. Knowing more about the need for such guidance will help the board assess its decision to defer the recognition and measurement phase of its P3 work. We specifically ask for your input on the deferral in the three-year plan (see pages 11 and 22).

The board is also addressing **risk assumed** reporting because existing risk assumed information requirements apply only to insurance contracts and explicit guarantees of transactions other than loans (hereafter “non-loan guarantees”). Presently, there is no guidance for other types of risk assumed reporting and there is inconsistent presentation of information for insurance contracts and non-loan guarantees. Comprehensive and consistent reporting on significant risks assumed by the federal

government, not just risks related to insurance contracts and explicit guarantees, is important to meeting federal financial reporting objectives. During 2014, the board focused on insurance and non-loan guarantee programs. A task force provided needed input to the board regarding the relevant programs, as well as existing reporting practices, and options for improved reporting. The board anticipates seeking comments on a proposal regarding insurance and non-loan guarantees in FY 2015. Also, beginning in FY 2015, the board will start its evaluation of other major risks assumed by the federal government such as natural disaster relief.

The Financial Accounting Standards Board (FASB) is expected to issue major revisions to its accounting standards for **leases** during 2015. Prior and existing FASB standards formed the basis for federal accounting standards. Consequently, changes in FASB standards will create a void in the federal guidance. The board is working closely with the Governmental Accounting Standards Board (GASB) on appropriate standards for governmental entities. The boards met jointly in March 2014 to share their views. The FASAB hopes to seek comments on a proposal in 2015. Particular emphasis is being afforded to federal intragovernmental leasing activity.

In February 2014, the Department of Defense (DoD) requested that the board address six areas of concern. The board identified the **DoD implementation guidance request** as a priority given the long-standing nature of the issues. Plans are to address each of these areas through ongoing efforts, the Accounting and Auditing Policy Committee (AAPC), and a new active project. In September 2014, the board contracted for research support regarding two of the issue areas—estimating values of inventory and operating materials and supplies, and reporting on deployed property, plant, and equipment. The board will act as quickly as possible within its existing resources to address these long-standing DoD concerns.

During the fiscal year, the board also completed Statement of Federal Financial Accounting Standards 46 allowing an additional year for auditors to prepare needed audit guidance regarding **long-term fiscal projections**. Such long-term fiscal projections have been included in financial reports since 2010 as required supplementary information. Accordingly, the information has not been subject to the same level of audit scrutiny as basic financial information. With this action, information about the present value of projected receipts and non-interest spending under current policy without change will be presented as a basic financial statement with accompanying disclosures in FY2015. This information supports one of users' most important assessments - "whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due."<sup>1</sup> The board finalized the statement in July 2014 and issued them in the first quarter of fiscal year 2015.

## Implementation Guidance

Implementation guidance was provided to federal agencies through the 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. In early FY 2014, the AAPC finalized guidance for identifying the costs incurred to place G-PP&E into service. The committee also agreed to address the DoD request for guidance regarding contract financing payments.

<sup>1</sup> Statement of Federal Financial Accounting Concepts (SFFAC) 1, paragraphs 135 and 139.

## **Collaboration**

The board continues to work collaboratively with other standards-setting boards including the GASB, the board that establishes accounting and financial reporting standards for state and local governmental entities in the United States; the FASB, the Board that establishes accounting and financial reporting standards for non-governmental entities in the United States; and the International Public Sector Accounting Standards Board (IPSASB), the board that establishes international accounting and financial reporting standards for governmental entities. Generally, such collaboration is at the staff level. However, the project on leases is a collaborative project for which the board holds periodic joint meetings with GASB to allow members to exchange ideas.

## **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 providing advice to others regarding federal financial accounting. Educational training was provided by members and staff through their participation in numerous international, national, regional and local conferences sponsored by groups such as the AICPA, the Association of Government Accountants, and state CPA societies.

Staff continued to offer its annual half-day training event. The event provides four hours of continuing professional education free of charge and informs the federal accounting and auditing community about FASAB's progress on key issues. In addition, staff members routinely assist accounting textbook authors and answer questions regarding federal accounting.

## Governance, Operations and Budgetary Resources

### Governance

The board did not revise its mission statement (adopted in 2012) or its rules of procedure (adopted in 2010) during FY 2014.

The Steering 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. One of the two staff vacancies was filled as of the start of FY 2014. To address the remaining vacancy and mitigate the effect of these losses on the technical agenda, the committee approved:

- creating an analyst level staff position to be filled in FY 2015, and
- contracting for support on the DoD implementation guidance request.

Budgetary resources are reported on page 10. Final FY 2015 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, in addition to its routine support to the Steering Committee, endorsed plans to recruit two new members whose terms will begin January 1, 2016. As a result of prior panel actions, Michael Granof and D. Scott Showalter were appointed to serve second terms.

FASAB general counsel, Jacquelyn Hamilton, provided members with training on the board's ethics requirements. Such training is helpful to remind members of these important requirements and to answer questions. The training will be provided annually and cover both ethics and Federal Advisory Committee Act requirements.

In April, Ms. Hamilton stepped down as FASAB general counsel and Gregory Marchand was appointed. Ms. Hamilton and Mr. Marchand collaborated during the transition period so that FASAB needs were well supported. The board will miss Ms. Hamilton's wise counsel and welcomes the opportunity to work with Mr. Marchand.

### OUR GOVERNANCE TEAM

The Steering Committee is composed of the chairman and the members representing our sponsors. The committee annually reviews the operating budget, approves contracting activities, and provides the executive director's annual performance appraisal and expectations. The committee also participates actively in the Appointments Panel.

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). 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 this annual report and monitors annual performance survey results. The panel would convey any concerns to the AICPA in a timely manner.

#### Appointments Panel Members

Tom Allen, Chairman  
Robert Dacey, GAO  
Daniel Ebersole, FAF  
F. Carter Heim, AICPA  
Christina Ho, Treasury  
Harold Monk, AICPA  
Mark Reger, OMB

#### FASAB General Counsel

Gregory Marchand

#### FASAB Executive Director and Designated Federal Official

Wendy Payne

## 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.

## 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.

## Operations

Members confirm their independence and adherence to the ethics policy, and complete a board performance survey in an annual assessment of conformance to the five AICPA criteria essential for a GAAP standards-setting body. Through the survey, each member identifies changes – positive or negative – in the board's performance relative to the criteria (see graphic above for a list of the 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 agree that 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 identified some areas of improvement from last year and no significant new areas of concern arising during the year. A concern remaining from the prior year relates to future resources.

As noted in Chart 1 at right, the majority of members believe there was no change when considering: (1) due process, (2) knowledge of staff and members (a component of human resources), and (3) comprehensiveness and consistency. Four members noted improvement in due process.

The improvement in due process was attributed to the following:

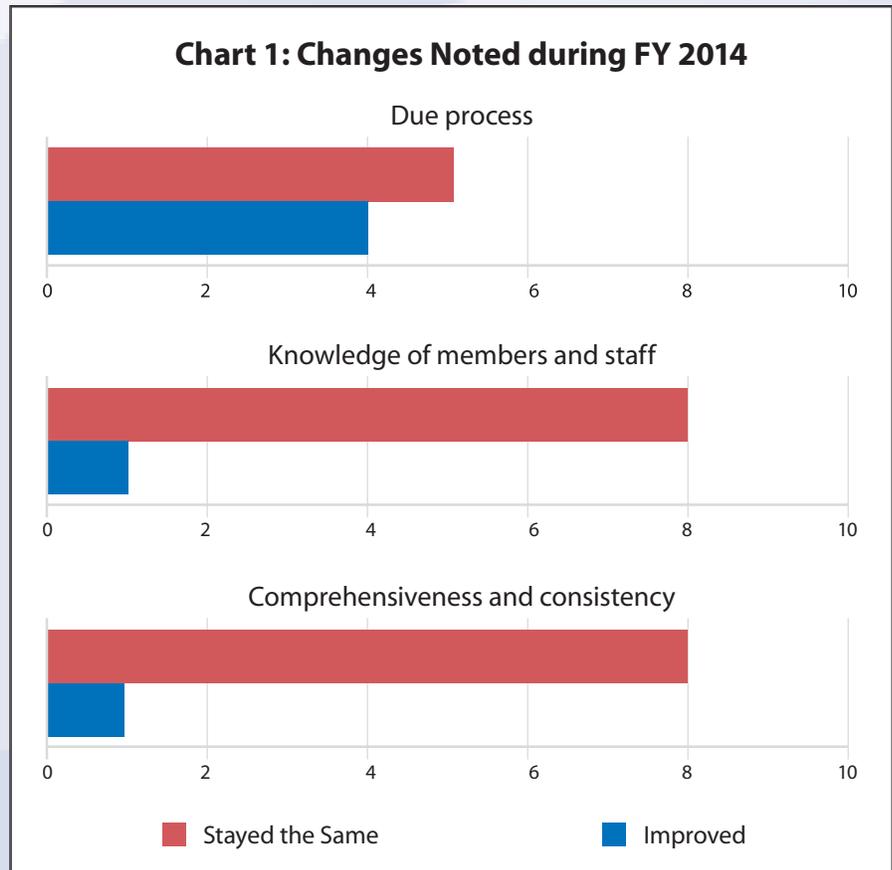
- task force member participation in meetings,
- educational briefings directly from experts in areas such as tax expenditures and leasing,
- updates on GASB and IPSASB efforts,
- collaboration with GASB on the lease project,
- Congressional outreach, and
- input received on the three-year plan.

Members noted that increased direct interaction between members and their stakeholders was excellent. In addition, members noted that staff provided excellent support to the board including communication with members between meetings.

This year’s survey results are generally consistent with the previous four years. The board’s most notable five-year trend was sustained quality in the areas of comprehensiveness and consistency, knowledge of members and staff, and due process notwithstanding reductions in resources and turnover among staff and members. Members agreed recent actions should not be viewed solely as efficiency measures because of the benefits gained. The board plans to continue direct interaction with stakeholders and other efficiency measures.

For the remaining two criteria (domain and authority, and financial resources), the survey solicits narrative responses. This facilitates identification of ideas for improvement. Improvement efforts begun in FY2012 have continued and been successful.

Members expressed concerns regarding resources both for the current fiscal year and in the future (see the budgetary resources section below for detailed information). In each of the past five years, members have noted resource constraints while lauding efforts to operate efficiently. Most expressed the view that having one or two additional permanent staff would allow the board to provide timely guidance needed on complex matters. Members expressing these concerns noted:



- the significance and complexity of current projects are high and will require extensive research
- the board’s opportunistic action to address issues by broadening the scope of current projects may not be sustainable
- the smaller staff size and broadening of individual projects has translated into slower progress on issues
- permanent staff are preferable to contractors

To address members’ concerns, the board suggested finding opportunities to use new technology to support providing editorial feedback to staff between regularly scheduled meetings. In addition, the Steering Committee approved plans to hire one additional staff member in early fiscal year 2015.

## Budget Resources

Actual funding levels are dependent on final FY 2015 appropriations and will be determined after appropriations are provided to each of the board’s sponsors. Table 1, *Budget 2012-2015*, presents budget resources used from FY 2012 through FY 2014 as well as anticipated resources for FY 2015.

|                       | 2012             | 2013               | 2014             | 2015             |
|-----------------------|------------------|--------------------|------------------|------------------|
| Salaries and Benefits | \$1,612.4        | \$1,432.3          | \$1,482.5        | \$1,647.1        |
| Member Compensation   | 149.0            | 148.6              | 151.6            | 154.6            |
| Travel                | 48.0             | 41.3               | 41.3             | 52.0             |
| Education & Training  | 10.8             | 14.0               | 14.5             | 14.5             |
| Consultants and other | 58.7             | 218.0 <sup>2</sup> | 173.5            | 72.7             |
| <b>Total</b>          | <b>\$1,878.8</b> | <b>\$1,854.2</b>   | <b>\$1,863.4</b> | <b>\$1,930.2</b> |

<sup>2</sup> Note that contractor support was obtained in FY 2013 and 2014 in light of staff vacancies.

# 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 2015, 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, 2015.

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 U. S. government, (2) attention to the needs of Congress and program managers, (3) impacts on preparers and auditors due to declining real budgets, (4) increasing risks due to fiscal uncertainty and operational complexity, and (5) more electronic reporting.

With each annual review, the board identifies its priorities so that research can begin as time is available. Projects identified as priorities but not yet active on the board's agenda are "research projects." Your input regarding the scope of each research project and key issues is welcome.

This document presents the three-year plan in brief on page 13. A project plan for each active project follows. The board's research projects are then identified with a brief description. The final item in the technical agenda section 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. Note that the board plans to defer the recognition and measurement phase of the public-private partnership (P3) project so that the P3 disclosures resulting from earlier efforts can be considered along with recognition and measurement guidance in relevant standards such as reporting entity, leases and risk assumed. This means guidance will not be provided until late 2019. Your input regarding the impact of deferring P3 recognition and measurement guidance is needed. In particular, knowing whether preparers, auditors, or users of information are encountering challenges in applying the general standards given the absence of specific P3 guidance would be most helpful.

If you have suggestions regarding the three-year plan, please submit them by email to: [fasab@fasab.gov](mailto: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  | FY 2014 Actions  | Plans  |  |  |
|--|--|--|--|--|
|  |  | FY 2015  | FY 2016  | FY 2017  |
| <b>The Federal Reporting Entity:</b><br>Consider what organizations and relationships should be included in federal entity reports and how information is to be presented  | Finalize Standards   | Issue Standards following 90-day review              |  |  |
| <b>Financial Reporting Model:</b><br>Consider whether the existing model meets user needs and reporting objectives<br>Segments may include consideration of improvements in:<br>- Cost information<br>- Performance reporting<br>- Budget presentation<br>- Other areas such as the articulation of the financial statements | Develop ideal model (concepts statement)<br><br>Consider results of Spending Pilots led by CFO Council | Continue developing ideal model (concepts statement) | Finalize ideal model concepts statement in FY 2016<br><br>Identify discrete projects needed to support ideal model and decide vehicle(s) for guidance. |  |
| <b>Leases:</b> Evaluate existing standards to improve comparability and completeness of reporting  | Consider issues and options  | Issue Exposure Draft                                 | Redeliberation<br>Finalize Standards   |  |
| <b>Risk Assumed:</b> Develop standards so that information about risks assumed by the federal government and their potential financial impacts are available   | Consider issues and options for phase I  | Issue Phase I Exposure Draft                         | Finalize Phase I Standards<br><br>Develop Drafts for Phase II  | Phases I Implementation Guidance as Needed<br><br>Issue Phase II Exposure Draft<br><br>Finalize Phase II Standards |
| <b>Public Private Partnerships:</b><br>Consider how financial reporting objectives are met with regard to public private partnerships  | Develop and Issue Exposure Draft   | Finalize Disclosure Standards                        |  | Phase II Deferred  |
| <b>Department of Defense Request for Guidance</b>  | Develop project plan   |  | Complete guidance  |  |

**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.

| Project and Objective   | FY 2014 Actions | Plans    |         |         |
|---|-----------------|----------|---------|---------|
|   |                 | FY 2015  | FY 2016 | FY 2017 |
| <b>Reconciling Budget and Accrual Information – Alignment between Agency and Government-wide Requirements</b> (This project is related to the reporting model project. Incremental changes will be considered first. Decisions regarding next steps will be taken as the ideal model is developed.) |                 | Research |         |         |
| <b>Tax Expenditures</b>   |                 | Research |         |         |

## Current Projects

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### *Reporting Entity*

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**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

While SFFAC 2 provides criteria for determining if an entity should be included in the federal reporting entity, questions continued regarding whether certain organizations should be included. The Federal Reporting Entity project addressed both the conceptual framework and standards issues.

**Applicability:** This project applied to the government-wide reporting entity and to component reporting entities that prepare and present general purpose federal 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:** 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 (GPFRR) 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 GPFRR 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 has engaged a task force to help accomplish the project objectives.

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

**Timeline:** **October 2014 - December 2014**

- Complete the 90-day review period

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### *The Financial Reporting Model*

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**Purpose:** This project is being undertaken 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.<sup>3</sup>

<sup>3</sup> Preparers Focus Group Discussion, February 10, 2009.

- Decision-makers also want additional information about the budget, comparisons of full costs with the budget, and projections of future receipts and expenditures.
- Citizens expect financial information about component entities but they have difficulty understanding current financial reports.<sup>4</sup>
- The public is relying increasingly on electronic media (digital devices, complex networks, and interactivity) to obtain information on demand.<sup>5</sup>

In addition, component reporting entities are experimenting with a schedule of spending and the board may consider whether that schedule has a role as 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 reporting entities that prepare and present general purpose federal 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 given findings that users:
  - i. are seeking less aggregated cost information and are interested in the value being provided for the costs incurred.
  - ii. would like to know what has been budgeted and spent and how expenditures compare to accrual costs.
  - iii. users are highly interested in the budget deficit and how it compares with net cost of government operations
- b. Given the focus on external user needs for integrated budget, cost, and performance information, the effort will focus on external financial reports and may address matters such as:
  - i. Improvements in the usefulness—including the understandability—of cost and budget information as well as the relationship between cost and budget information
  - ii. Factors to consider in:
    - i. identifying the type and level of disaggregation (organizational, program, goals, objectives, functions) of most interest to external users
    - ii. determining where trend information is needed and for how long a trend
    - iii. selecting among a variety of presentation types or formats including consideration of the relationship of cost and budget information

<sup>4</sup> FASAB, *User Needs Study: Citizens*, April 2010.

<sup>5</sup> FASAB Reporting Model Task Force, *Report to the FASAB*, December 22, 2010.

- iii. Identification of cost and budget information useful for performance reporting (That is, identify optimum points for connecting budget, cost, and performance information)
- iv. Understandability of terminology and presentations including the relationship among statements
- v. Identification of key terms and establishment of plain language explanations.

Assigned staff: Ross Simms

Other resources: Staff has been engaging 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 and December 2014 Meetings**

- Consider improvements to reporting of flow information such as cost, revenue, and budget information
- Begin developing a draft concepts statement regarding presentation of flow information

**February – August 2015 Meetings**

- Consider other needed improvements to the reporting model
- Finalize and issue an exposure draft of a concepts statement

**October 2015 – April 2016 Meetings**

- Consider responses to the exposure draft and identify needed revisions
- Finalize concepts statement and consider next steps

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## *Leases*

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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 likely to be revised. The FASB and International Accounting Standards Board (IASB) have proposed changes that focus on the conveyance of rights to future economic benefits (such as the right of use). In addition, the Governmental Accounting Standards Board is addressing lease standards. Staff of the FASAB and GASB will collaborate in developing issues and options. Joint meetings of the boards will be held periodically to discuss options including differences between the state/local and federal environments.

Applicability:

This project applies to the government-wide reporting entity and to component reporting entities that prepare and present general purpose federal 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 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) as well as intragovernmental occupancy agreements.
  - 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

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:

**October - December 2014 Meeting**

- Review draft due process document provided by GASB

**January - June 2015**

- Finalize and issue exposure draft for public comment

**July - December 2015**

- Consider responses and revisions
- Develop final Statement

**January – April 2016**

- Finalize and issue Statement

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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 (GSE).

In order to meet the stewardship and operating performance objectives of federal financial reporting,<sup>6</sup> it is important that the federal government report all significant risks assumed, not just risks related to insurance contracts and explicit guarantees.

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

<sup>6</sup> SFFAC 1, *Objectives of Federal Financial Reporting*, pars. 100, 122, and 141

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:

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 2014 – December 2014**

- Develop Phase I exposure draft

**December 2014 – June 2015**

- Issue Phase I ED or other request for feedback
- Conduct pilot testing on Phase I
- Begin Phase II research: Consider applicability to other types of risks assumed for entitlement programs other than social insurance, including national defense, security and disaster response; and other potential effects on future outflows such as regulatory actions, government sponsored enterprises (GSE) and other implicit or other explicit risks

**June 2015 – September 2015**

- Hold public hearing as needed on Phase I
- Continue research on Phase II

**FY 2016**

- Finalize Phase I Statement
- Complete research and develop exposure draft on Phase II

**FY 2017**

- Develop implementation guidance for Phase I, if necessary
- Issue Phase II exposure draft and hold public hearing
- Complete Phase II standards

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## *Public Private Partnerships*

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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.

The board decided to address definitions and disclosures regarding risk before providing recognition and measurement guidance.

**Applicability:** This project applies to the government-wide reporting entity and to component reporting 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:** Objectives of Phase 1 – Risk Disclosures - include:

- Defining terms
- Establishing disclosure requirements regarding the nature of and risks embodied in P3 arrangements

Objectives of Phase II – Recognition and Measurement – include:

- 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).

**Assigned staff:** Domenic Savini

**Other resources:** A multi-disciplinary task force, including sub-groups to address specific topics  
 Project page: <http://www.fasab.gov/projects/active-projects/public-private-partnerships/>

**Timeline:**

**October – December 2013**

- Present individual issues to task force and board

**October – December 2014**

- Consider responses to exposure draft regarding P3 disclosures
- Continue development of Technical Bulletin on recognition and measurement

**February – April 2015**

- Finalize standards for P3 disclosures

**PHASE II:**

**April / May 2018 – December 2018**

- Convene Task Force to confirm, analyze and address major P3 accounting practice issues requiring guidance
- Coordinate progress and results with the Reporting Entity, Leases and Risk Assumed Project Managers
- Review entity P3 Disclosures

**January 2019 – June 2019**

- Develop and Issue Exposure Draft(s)

**July – December 2019**

- Finalize Guidance or Standards

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***Department of Defense Implementation Guidance Request***

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**Purpose:** The Department of Defense (DoD) identified six areas of concern for the board’s consideration. The purpose of this project is to address three areas the board believes may warrant FASAB action separate from other ongoing projects. These areas are (1) use of reasonable baseline estimates of the cost of inventory and related property (SFFAS 3), (2) accounting for deployed assets, and (3) timing of capitalization of

research and development efforts given spiral development efforts. The DoD also requested guidance on the treatment of (1) in-kind lease payments, (2) contract financing payments, and (3) revolving fund activities. In-kind lease payments will be addressed through the ongoing project on lease accounting. Contract financing payments may be addressed through implementation guidance by the Accounting and Auditing Policy Committee. DoD questions regarding revolving fund activities relate to budgetary reporting and can be addressed through consultation with the Office of Management and Budget.

**Applicability:** This project applies to the government-wide reporting entity and to component reporting 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:** Provide practical guidance to resolve long-standing issues.

**Assigned staff:** Melissa Loughan

**Other resources:** Contractor support for certain aspects as well as a task force. The board recognizes that active DoD participation is needed to address these long-standing concerns.

**Timeline:** **September 2014 through April 2015**

- Research phase
- Deliberate issues and options

**May 2015 – October 2015**

- Develop due process documents and seek input

## Research Projects

### *Reconciling Budget and Accrual Information - Alignment between Agency and Government-wide Requirements*

SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, requires information to explain the differences between budgetary and financial accounting information. The requirement results in a reconciliation of obligations incurred and net cost and is presented as a note.

The detailed provisions are:

80. Budgetary and financial accounting information are complementary, but both the types of information and the timing of their recognition are different, causing differences in the basis of accounting. To better understand these differences, a reconciliation should explain the relationship between budgetary resources obligated by the entity during the period and the net cost of operations. It should reference the reported “obligations incurred” and related adjustments as defined by OMB Circular A-34. It also should include other financing sources not included in “obligations incurred” such as imputed financing, transfers of assets, and donations of assets not included in budget receipts. [Text deleted by SFFAS No. 22] The total of these items comprises obligations and nonbudgetary resources.

81. This total should then be adjusted by:

- (a) Resources that do not fund net cost of operations (e.g., changes in undelivered orders, appropriations received to pay for prior period costs, capitalized assets),
- (b) Costs included in net cost of operations that do not require resources (e.g., depreciation and amortization expenses of assets previously capitalized), and
- (c) Financing sources yet to be provided (those becoming available in future periods which will be used to finance costs recognized in determining net cost for the present reporting period).

82. The adjustments should be presented and explained in appropriate detail and in a manner that best clarifies the relationship between the obligations basis used in the budget and the accrual basis used in financial (proprietary) accounting.

A July 2012 AGA research report (Government-wide Financial Reporting) suggested improvements in process as well as standards. They stated “Our research indicated interest in the Unified Budget Deficit not only on the budgetary basis but also on the accrual basis and, more important, the reasons for the differences between the two perspectives.” The government-wide financial report includes a basic financial statement reconciling the Unified Budget Deficit (deficit) and Net Cost. The deficit is based on receipts and outlays rather than obligations. So, the board may wish to consider whether revising the SFFAS 7, par. 80-82, requirements so that each component reporting entity reconciles net cost to amounts contributing to the government-wide deficit calculation would be:

- 1. An improvement in the information provided to users, and
- 2. Supportive of the government-wide reporting process improvements underway.

In contrast to the AGA report, many have suggested that the required reconciliation be eliminated while others recognize its usefulness (both as a control and as information helpful in understanding differences in perspectives). An effort to revise the reconciliation is likely to be controversial.

The board will address the most immediate concern regarding the reconciliation through this project—the potential need to support the government-wide reconciliation by aligning the component level disclosures with the government-wide requirements. This may be accomplished before the related reporting model effort is complete. The reporting model project will address other matters relating to the reconciliation such as meeting users needs for understandable information regarding the relationship between budget and accrual information.

Input regarding user needs in this area and key questions from preparers and auditors would be helpful in planning this project. Your input would be most welcome.

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### *Tax Expenditures*

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Presently, accounting standards do not require information regarding tax expenditures. SFFAS 7 provides that:

Information on tax expenditures that a reporting entity considers relevant to the performance of its programs may be presented, but should be qualified and explained appropriately to help the reader assess the possible impact of specific tax expenditures on the success of the related programs.

Tax expenditures are defined under the Congressional Budget and Impoundment Control Act of 1974, as amended, (the “Budget Act”) as “revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.” Thus, tax expenditures include any reductions in income tax liabilities that result from special tax provisions or regulations that provide tax benefits to particular taxpayers. Special income tax provisions are referred to as tax expenditures because they may be considered to be analogous to direct outlay programs, and the two can be considered as alternative means of accomplishing similar budget policy objectives. Tax expenditures are similar to those direct spending programs that are available as entitlements to those who meet the statutory criteria established for the programs. Tax expenditure analysis can help both policymakers and the public to understand the actual size of government, the uses to which government resources are put, and the tax and economic policy consequences that follow from the implicit or explicit choices made in fashioning legislation. (Source: Joint Committee on Taxation, Report JCX-15-11, March 9, 2011)

Tax expenditure information is also available by budget function. In some cases, tax expenditures are significant when considered in comparison to direct spending (outlays) for a particular budget function. In addition, The GPRA Modernization Act of 2010 (GPRAMA) (Public Law 111-352) requires identification of tax expenditures contributing to performance goals and consideration of their performance. Absent information about tax expenditures, it may be difficult to assess the full cost of government actions.

In planning this project, it would be helpful to hear from users about the information they would find most useful and any challenges they anticipate in communicating information on this complex topic. The board does not presuppose any particular reporting practice. Your input would be most welcome.

## 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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## *R*ules 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.

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## *Asset Retirement Obligations*

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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.

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## *Cleanup Costs - Evaluating Existing Standards*

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

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

- a) The liability may be understated because the obligation is to clean up the entire hazardous waste but SFFAS 6 provides for a gradual 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.

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### *Conceptual Framework – Review and Finalization*

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

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

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

During the project, other standards-setting bodies, including GASB, FASB, IASB and the IPSASB, undertook similar efforts. Some of their efforts will go farther than the board's. For example, the FASB is considering a disclosure framework and the IASB is discussing principles for selecting among measurement approaches (e.g., relevance, giving priority to how the measurement approach affects the statement of comprehensive income, and cost-benefit). Coverage of topics by these standards-setting bodies may be more comprehensive than the board's coverage and the board may benefit from considering their efforts.

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

## *Cost of Capital*

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

## *Derivatives*

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Staff has not researched the use of derivatives by federal agencies and has not had any inquiries by agencies or their auditors regarding appropriate accounting for derivatives. This is an area generally addressed in other domains.<sup>7</sup> The GASB issued Statement No 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*, on the topic. Selected material from the GASB's plain language explanation is presented below.

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

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

Governments enter into derivatives for at least four reasons:

- Governments often intend derivatives to be *hedged*. 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.

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<sup>7</sup> Presently, derivatives are reported in federal financial reports in conformance with private-sector standards.

## *Electromagnetic Spectrum*

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The Federal Communications Commission (FCC) manages the electromagnetic spectrum – a renewable natural resource excluded from coverage in Technical Bulletin 2011-1. 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))

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## *Electronic Reporting*

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Electronic reporting is increasingly viewed as a means to convey financial information about government. This is evidenced not only by sites such as USAspending.gov and 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 an electronic copy of the full report. More recently, a requirement that performance reports be provided electronically rather than in printed form was established in law (GPRAMA). Also, the DATA Act of 2014 demonstrates a growing expectation that machine readable data be provided that links specific transactions with programs and other classifications.

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](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.”<sup>8</sup>

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

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### *Evaluating Existing Standards*

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A general concern expressed by members of the board and the federal financial management community has been that resources are increasingly constrained. Because of competing demands, 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.

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### *Financial/Economic Condition*

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

<sup>8</sup> Association of Government Accountants, *e-Reporting*, July 2012, pages 20-21.

- Is cost trend information needed at disaggregated levels? (e.g., trends in construction costs for capital intensive operations or personnel costs for labor intensive operations)
- Are there external reports/measures that should be reported such as rating agency reports regarding sovereign nations?
- Are benchmarks against other nations/departments needed?
- Are measures of risk assumed due to inter-governmental financial dependency needed?

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## *Intangibles*

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

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

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

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

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## *Internal Use Software*

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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

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

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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.

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### *Managerial Cost Accounting*

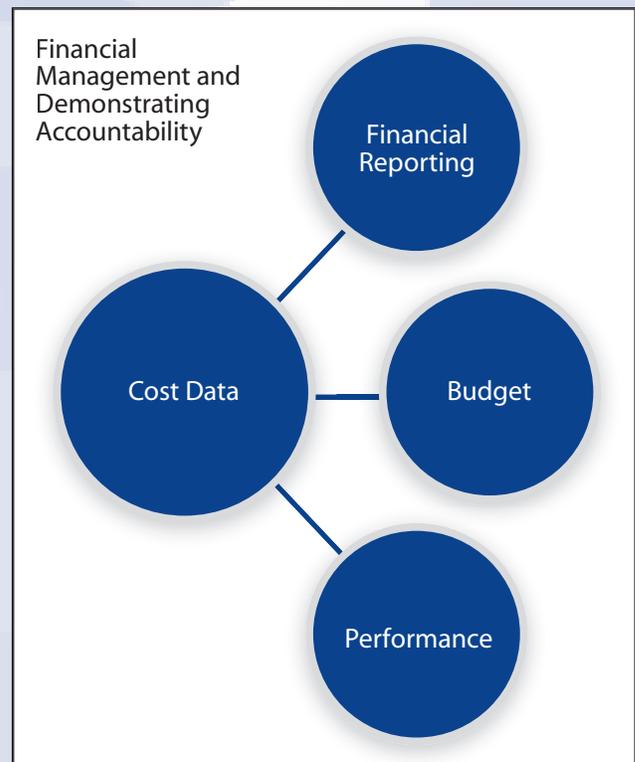
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The CFO Act calls for the development of cost information and the integration of accounting, program, and budget systems and information. Also, subsequent legislation such as the Government Performance and Results Act (GPRA) and the GPRA Modernization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

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

Despite this guidance, the board continues to be advised of a need to improve the internal availability of cost information and its linkage to performance information. In 2010, FASAB staff surveyed agencies regarding managerial cost accounting. Results indicated that a guide to using, developing, and reporting cost information might be helpful. Also, research in the reporting model project identified cost accounting as critical to meeting a need to integrate cost, budget, and other performance information. The ideal model under development in the reporting model

**Figure 1: Role of Cost Data**



project will inform this project regarding long-term goals for disaggregating and linking information to improve external financial reporting but will not address guidance for meeting needs for managerial information.

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

The NAPA panel recommended that the President’s Management Council (PMC) take a leadership role in linking budgeted resources to costs, outputs, and performance. The NAPA panel further recommended that FASAB “support the PMC by utilizing FASAB’s staff expertise in conceptualizing frameworks for integrating budget, costs, and service performance information developed through the creation of SFFAS 4, *Managerial Cost Accounting Concepts and Standards*. While SFFAS 4 already provides guidance to agencies on the principles of managerial cost accounting, significant unmet availability of such information was described by agency leaders. Taking the concepts and standards to the next level to meet the needs of agency decision-makers will require direction by the PMC. FASAB has already been proactive with soliciting user needs for financial information. Accordingly, FASAB should leverage its three sponsors—Treasury, OMB, and GAO—in elaborating on details of user needs. One potential approach for long-term consideration would be the development of a taxonomy of auditable accounting codes that tie each expense journal entry to a type of benefit or outcome.”

The NAPA study results recognize the importance of engaging senior leaders across government to improve availability and use of managerial cost accounting information. Given the board’s mandate—providing generally accepted accounting principles for external reporting--and its limited resources, the board does not envision addressing managerial cost accounting unless it is one component of a government-wide initiative.

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### *Natural Resources*

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

It 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.

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### *Property with Reversionary Interest*

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The federal government sometimes retains an interest in PP&E acquired by grantees with grant money. In the event that the grant recipient no longer uses the PP&E in the activity for which the grant was 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.

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### *Research and Development*

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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 has found that FASB standards for R&D are referenced to determine what spending qualifies as R&D (for example, to identify when to begin capitalizing costs as new assets are developed). Given the significant federal investment in R&D (\$130.3 billion in 2012<sup>9</sup>) and the possible differences between sectors, a review of practices in this area may be warranted. Alternatively, R&D reporting may be explored as a component of an overall project focusing on Stewardship Investments.

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### *Revenue (Exchange and NonExchange)*

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SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, provides guidance for recognition of exchange and non-exchange revenue. In FY2012, \$350.8 billion of exchange revenue and \$2,518.2 billion of non-exchange revenue was reported government-wide. SFFAS 7 requires disclosures and required supplementary information as well as suggests other accompanying information on the following topics:

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

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

171. At the time the Board began deliberations on this standard, accounting systems necessary to determine even the limited revenue accruals that are now required for taxes did not exist. The changes in systems required by this standard are limited to those necessary to mirror the established assessment processes. The Board understands that the Internal Revenue Service is attempting to improve its collection function and the related management information systems. Because such systems must also provide accounting information, the Board decided not to impose accounting standards at this time that might conflict with systems changes needed to improve the efficiency and effectiveness of the collection process or go beyond the minimum changes considered necessary to enable the collecting entities to properly discharge their responsibilities.

<sup>11</sup> Consolidated Financial Report of the U. S. Government, FY 2012, Table 11.

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

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

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### *Stewardship Investments*

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

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### *Summary or Popular Reporting*

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

**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](mailto:FASAB@FASAB.GOV) or 202.512.7350.

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