



February 12, 2016

Memorandum

To: Members of the Board
Wendy M. Payne /s/
From: Wendy M. Payne, Executive Director
Subj: Technical Agenda – **Tab J**¹

MEETING OBJECTIVES

- To review the status of ongoing projects
- To review the three-year plan including outside input
- To consider 2016 objectives and priorities for the future

BRIEFING MATERIAL

This memo updates members regarding active project progress, summarizes suggestions provided in response to our three-year plan, and poses questions for discussion at the meeting.

Attachments provide:

1. *Responses to the FY2016-2018 Three-Year Plan and Summary of Auditor Roundtables*
2. *Three-Year Plan for FY2016-2018 (as published November 2015)*

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

BACKGROUND AND STATUS UPDATE

On November 16, 2014, then Chairman Allen released our *FY2015 Annual Report and Three-Year Plan for FY2016-2018*. The release included a formal request for comments and was publicized to our listserv and press contacts.

To date, six responses have been received. (Responses indicating “no comment” are not reflected in this total.) In addition to the direct responses to the report, staff hosted two roundtable discussions with independent public accounting (IPA) firm audit and advisory practice representatives. Representatives of the Greater Washington Society of CPAs also attended the IPA roundtables.

Input Received Regarding Three-Year Plan

The individual letters and IPA Roundtable summary are available for review at Attachment 1. There is strong support for the active and research projects. Regarding the new project on reconciling budget and accrual information at the component reporting entity level, some suggested that the reconciliation is not useful. Further, some suggested adopting a side-by-side presentation of accrual versus budget (or cash) with no reconciliation. (See Attachment 1, pages 2, 14, and 18.)

The respondents offered input on a variety of topics. Support was expressed for additional work in the areas of:

- Financial performance reporting (pages 3, 7, 10, 12, and 15)
- Managerial cost accounting (page 3, 7, 10, and 15)
- Land (page 10, 12, and 16)
- Electronic reporting (with one respondent suggesting that the Board not create any additional requirements and others suggesting the Board assist in DATA Act implementation) (pages 6, 13, and 17)
- Evaluate existing standards (page 11, 14, and 18 (burden reduction))
- Financial/economic condition reporting (pages 3 and 6)
- Asset retirement obligations (page 10)
- Derivatives (page 10)
- Parent-Child Issues (page 17)

Some participants in the IPA roundtable encouraged the Board to develop a codification of the standards. (Page 18)

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

The attachments are brief and I encourage members to read them before continuing to the end of this memo.

OBJECTIVES FOR 2016

Regarding work in response to the 2014 Department of Defense (DoD) request for guidance, progress has been excellent with respect to establishing opening balances for assets required to be recognized at initial amounts per SFFAS 3 and 6. We are continuing to liaise with the DoD Financial Improvement and Audit Readiness team. As issues arise, we will raise them for consideration. In addition, we will explore areas for which implementation guidance would be helpful.

The 2016 project milestones embodied in the revised project timelines shown on the next page are:

1. Reporting model:
 - a. Issue an exposure draft to solicit comments on concepts
 - b. Decide on next steps and begin deliberations
2. Develop a lease accounting proposal to issue for comment in late-FY2016
3. Redeliberate the insurance accounting standards proposal based on comments
4. Finalize standards for establishing opening balances of general PP&E by May 2016
5. Issue an exposure draft regarding tax expenditures in mid-2016

Staff will also continue work on implementation guidance and research to support deliberations on land and the reconciliation of budget to accrual information.

Do members support the project milestones for FY2016 and the accompanying timelines (Table 1 below)?

PRIORITIES BEYOND 2016

While we do not anticipate beginning any new major projects in early 2017, it is always helpful to identify priorities so that staff can begin basic research.

What areas do members believe should be priorities following completion of current projects?

Are any of these projects of such high priority that current projects should be deferred so that these higher priorities can be pursued?

Table 1 – Project Timelines

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

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



February 4, 2016

Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

Dear Ms. Payne:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Federal Accounting Standards Advisory Board (FASAB) on its *Three-Year Plan for Fiscal Years 2016-2018*. The FMSB is comprised of 25 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB has reviewed the proposed three year plan and we appreciate FASAB's continued effort furthering the federal financial standards. The FMSB has reviewed the 2016 through 2018 Plan and concurs with most of the content and relative prioritization of the projects on the agenda. We do have a few comments and questions regarding some of the projects.

Reporting Model Project – In our comments on last year's Plan, the FMSB stated that it supports the Federal Reporting Model project and is pleased to see that the project is still on the 2016 through 2018 Plan. It is the opinion of the FMSB that the Reporting Model Project is a high priority project that should result in significant, overarching improvements to federal financial reporting. We strongly support the project's objectives as outlined in the Plan and recognize that it is a complex undertaking. Users of federal financial information are placing increased demands upon the federal entity to provide improved reports that link spending to budgets and operational results and this project should further the cause to meet this demand for improved information.

Leases Project – The FMSB agrees that this project should be on the Technical Agenda as the standards need to be updated in this area and since leases are being addressed by the FASB and the GASB. The FASB recently approved the final standard which will be effective for annual periods beginning after December 15, 2019. GASB has issued an exposure draft and received comments. They expect to finalize the standard sometime in 2016. We continue to recommend the FASAB await the results of these two projects before moving ahead with development of an exposure draft on this topic.

Risk Assumed Project - In our prior comments, we supported the approach taken by FASAB to address the issue of Risk Assumed through a three phased approach. The 2014 through 2016 Plan highlighted that Phase I will address Explicit Indemnification Arrangements (insurance and guarantees other than loans), Phase II will address other types of risks (entitlements other than social insurance, natural disasters, implicit risks, etc.). Phase III will address other reporting commitments. We note that in the 2015 through 2017

and the current three-year Plan, there is no mention of a Phase III. It is not clear whether FASAB has reduced the scope of the project or has FASAB modified the plans for Phase II to include Phase III issues.

Public Private Partnerships Project - The FASAB has issued an exposure draft on this subject and the FMSB will submit comments to this exposure draft. No further comments on this topic are included in this letter.

Department of Defense Implementation Guidance – This project is an ad-hoc addition to the FASAB’s agenda. Based on our review of the summary provided for this project, the FMSB supports this initiative and the FASAB’s attempts to resolve some long standing matters specific to the Department of Defense. The AGA has also engaged in projects relative to the Department of Defense in the past and addressing Department of Defense concerns is a matter we support.

Tax Expenditures – The growth of tax expenditures has been significant and we agree that standards should be developed to improve the quality of information provided in the government’s financial statements on this matter. GASB has sought to address this matter through its recent standard on Tax Abatements. We recognize this is more limited in scope than the project planned by FASAB, however it does address issues relative to the amount of resources forgone by government to support specific programs. Such information should be captured in a logical, consistent manner in the federal financial statements and information on decisions regarding what revenues have been forgone should be provided to the users of government financial information. We are interested in the development of this project. We recommend the FASAB reach out to key Congressional committees on this area of research as Congress has approved these tax expenditures.

Research Projects

Reconciling Budget and Accrual Information – While the FMSB understands that performing a reconciliation is a good idea however we question whether it is the best use of resources for the governmental entity in preparing the reconciliation and whether a reader of the financial statements would use that information. We suggest that FASAB consider presenting the financial statements with an accrual and cash column in presenting the information with no reconciliation.

Potential Projects

While we have had limited response from our Federal members the following items with explanations are provided for your consideration of potential projects.

Performance reporting is crucial for all organizations, especially the federal government. This is an area where the FASAB can add value. Although the Government Performance and Results Act (GPRA), the GPRA Modernization Act (GPRAMA), and other statutes have provided a framework for federal agency performance reporting, a recent Government Accountability Office (GAO) analysis [GAO-15-819] has found that GPRAMA implementation has been uneven, with varying effects on agencies’ performance management. GAO has identified a range of long-standing challenges including:

- Agencies continue to have problems effectively using performance information.



- Agencies' reported use of performance information generally did not improve between 2007 and 2013.
- They continue to face challenges linking individual and agency performance to results.
- OMB and agencies have not clearly communicated reliable and complete financial and performance information.

Three of FASAB's "potential projects" would address performance reporting: "Financial/Economic Condition", "Financial Performance Reporting", and "Managerial Cost Accounting". All three serve the critical goal of providing relevant, tangible, concise financial performance information to all types of federal managers, including program managers, federal executives, Congress, and citizens.

These projects ought to be given a high priority, perhaps utilizing the Reporting Model mechanism to derive some tangible benefit from that project, which apparently is solely conceptual in nature and has consumed and is consuming FASAB resources.

We appreciate the opportunity to comment on this document and will be pleased to discuss this letter with you at your convenience. If there are any questions regarding the comments in this letter, please contact Lealan Miller, Chair at lmiller@eidebailly.com or at 208-383-4756.

Sincerely,

Lealan Miller, CGFM, CPA
Chair- AGA Financial Management Standards Board

cc: John Homan, CGFM, CPA
AGA National President



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Financial Management Standards Board**

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January 29, 2016

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

Dear Ms. Payne:

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

The GWSCPA consists of approximately 3,300 members, and the FISC includes nearly 30 GWSCPA members who are active in financial management, accounting, and auditing in the Federal sector. We sincerely appreciate the opportunity by the Board to share our views, and the hard work and dedication by the Board Members and Staff on their contributions to improving federal financial reporting.

FASAB's Three-Year Plan is an ambitious agenda, and we applaud the Board and staff for their unwavering efforts to improve Federal financial reporting.

We provide the following suggestions to the Board's Three-Year Plan:

1. We continue our commitment to the continued advancement of the Tax Expenditures project in the coming years. Several of our members observed that the Tax Expenditures project has a great deal of potential for shedding light on a concept that is not well understood by many citizens. The amount of potential revenue involved is quite large, and focusing on why such expenditures are made and in which agencies and programs they occur could be very interesting to the public and the policy makers as well. The current practices of reporting tax expenditures through the Executive Branch's annual budget process and through evaluations from the Congressional Budget Office could be enhanced through reporting in the Government-wide annual financial report. The FISC encourages the Board to pursue this objective.
2. Among the potential projects, several FISC members continue to support the advancement of the Electronic Reporting and Financial/Economic Condition projects to current projects of the Board. The FISC members cited the growing need for standards in these areas, along with the rapid evolution of technology impacting the Electronic Reporting project, and the urgent need to report to stakeholders on the financial/economic condition of the Federal government using standardized measures and benchmarks. With respect to the Electronic Reporting project, although the FISC members agreed that the posting of data on the internet is both appropriate and efficient, one FISC

member cautioned that it is important to recognize that some constituencies rely upon printed versions of financial reports, and of documents made available by the Board for due process (e.g., those without access to computers, some members of the international community, etc.).

3. Interest was also expressed by some FISC members on the Financial Performance Reporting and Managerial Cost Accounting projects, which could provide increased value to the financial information made available by Federal agencies. Having a defined and consistent framework for agencies to report efficiency and effectiveness measures that relate efforts to outputs of services, and additional requirements around the reporting of cost data for enhanced decision-making, could assist the readers of Federal financial information with an increased understanding of the contributions made by Federal agencies.

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

Very truly yours,

A handwritten signature in dark ink, appearing to read "Andrew Lewis". The signature is fluid and cursive, with a large, stylized "L" at the end.

Andrew C. Lewis
FISC Chair

From: [Sardjono Hadidjaja](#)
To: [Payne, Wendolyn M](#); iai-info@iaiglobal.or.id
Subject: FASAB seek Public Comment
Date: Thursday, January 28, 2016 11:46:04 AM

Here I would like to give a comment on the above subject referring to the statement in the FASAB Annual Report 2015 in the page of 35 in the first paragraph that said: " *However, FASAB did not give provide prescriptive guidance for the statement, such as the definition of cash, how cashflow should be classified, and whether the statement should be linked to the balance sheet. At the time, the Board believed that flexibility was needed, "so that the meaningful display could evolve".*

My comment as follows:

FASAB shouldn't apply the concepts of the Balance Sheet for the Federal Government forever. As we know that the Balance Sheet has a failure of the test of mathematical truth. If FASAB regulates by the application of Balance Sheet for The Federal Government, it will raise the difficulties in regulating the accounting matter of the Government.

In the year of 1977, Professor George J. Staibus wrote in his book as follows: " The failure of the sum to represent a measure of the value of the whole firm (additivity failure) is a limitation of the accounting that we do not know how to overcome." 1)

At this moment it is my comment to FASAB that seek Public comment and I introduce myself.

My name is Muhammad Sardjono Hadidjaja, a bachelor of Economics Faculty major in Accounting of University of Indonesia.

I was an internal auditor of a state shipping company for 5 years, in this period I also gave a lecture of accounting in some colleges and after resigned I worked as management accountant in the Foreign Oil Company of Indonesia for 22 years and I retired 5 years ago.

Now I am focusing to my idea regarding the Accounting, Auditing and its problems, it was developed from the year of 1979.

Regards,

Muhammad Sardjono Hadidjaja

1) George J. Staibus, *Making Accounting Decision*. Scholar Book Company, Houston, Texas, 1977, page 169

U.S. Department of Housing and Urban Development

**HUD's Comments on FASAB's Annual Report (Fiscal Year ended September 30, 2015)
and FASAB's Three Year Plan**

Annual Report: In HUD's view, the Annual Report comprehensively presents FASAB's efforts and accomplishments during Fiscal Year 2015 in its role as the authoritative standards-setting body in establishing generally accepted accounting principles for the federal government.

Three-Year Plan: HUD supports the planning and priorities set forth by the FASAB Board in the projects selected for inclusion in the Three-Year Plan.

U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210



JAN 28 2016

Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814 (Mailstop 6H19)
Washington, DC 20548

Dear Ms. Payne:

In response to the November 16, 2015, news release, FASAB Issues its Annual Report and Three-Year Plan, and request for comment regarding the Board's three-year project priorities, we believe that several potential projects, listed on Page 25, warrant strong consideration for review at this time. Those projects are:

- Managerial Cost Accounting
- Financial Performance Reporting
- Land
- Asset Retirement Obligations
- Derivatives

Our listing reflects the order of importance we consider these projects to have in relation to Federal Government accounting standards necessary for proper use and financial recording in US Governments operations.

Thank you for the opportunity to comment. If you have any questions or need additional information, please contact Joseph L. Donovan, Jr. at 202-693-5248.

Sincerely,

A handwritten signature in cursive script that reads "Elliot P. Lewis".

Elliot P. Lewis
Assistant Inspector General for Audit

From: [KOREN, LAURA A. \(HQ-IM030\)](#)
To: [FASAB](#)
Cc: [Meredith, Shelley J. \(HQ-IM030\)](#)
Subject: Comments on FASAB 3 Year Plan
Date: Monday, February 01, 2016 3:10:09 PM

To Whom It May Concern:

The Policy Division of the Office of the Chief Financial Officer of NASA has formulated the following comments to the FASAB Three-Year Plan for Fiscal Years 2016-2018 for your consideration.

GENERAL COMMENTS

- 1) We concur with the Board Member's suggestion that FASAB take a more active role in participating in the discussions of other standard setting bodies, especially as FASAB and these other standard setting bodies continue their convergence of Generally Accepted Accounting Principles.
- 2) We did not see any information regarding success criteria, how comments from the exposure drafts will be considered or incorporated into guidance, etc. Also, it is not specified in the Plan how an organization may become more involved with a particular technical issue other than commenting on exposure drafts. For example, public-private partnerships says "we'll develop and release standards" but does not indicate there will be any external input. Thus, we agree with FASAB's suggestion regarding Evaluating Existing Standards wherein project objectives could include forums for preparers, auditors, and users of financial information to identify requirements they believe are unnecessary using open-ended written requests for input and roundtable discussions. We also encourage meetings open to the public (via webcast, call-in, etc.).
- 3) Regarding the Section: Table 2: Three-Year Plan in Brief, Project and Objective: Risk Assumed

As agencies begin to prepare for the new requirement on developing an Enterprise Risk Management portfolio that encompasses risk profiles, risk appetites and tolerances, it would be helpful to obtain additional guidance on a way to standardize and guide Agencies in meeting OMB's objectives. Additionally, we also recommend including guidance on how an agency should see the impact of implementing a large risk enterprise while managing cost and budget constraints.

COMMENTS ON SPECIFIC TECHNICAL TOPICS

PUBLIC-PRIVATE PARTNERSHIPS (P3s):

FASAB's Board indicates finalizing standards requiring P3 disclosures in early 2016. However, the Board indicates it will not address recognition and measurement guidance for P3s until after the FY 2019 financial statement implementation of the disclosure standards. Due to the complex nature of P3s and the related risk and other specific accounting issues, that the Board not allow a 3 year gap before commencing development on recognition and guidance for P3s.

DATA ACT:

FASAB states the DATA Act will improve considerably the transparency of information and the ability for users to drill down to specific information in the future. However, the 3 Year Plan did not specify or reference a project to develop standards or to perform research on how to implement DATA Act requirements in the future in order to ensure consistency of information across the government. Consistency of recorded information is vital in order. Also, no time frames were provided with regard to review of the DATA Act.

LEASES:

The 3 Year Plan states SFFAS 5, Accounting for Liabilities of the Federal Government, and SSFAS 6, Accounting for Property, Plant and Equipment do not make meaningful distinctions between capital and operating leases regarding the substance of lease transactions. We concur with this statement and also recommend that the project for Leases includes addressing unique leases utilized within the Federal Government sphere, such as Enhanced Usage Leases, Historic Property Leases, and Multi-purpose Heritage Asset Leases. We also concur with the need for the Leases Project to consider the new guidance issued by FASB as well as guidance issued by the International Accounting Standards Board.

COMMENTS ON FUTURE PROJECTS

LAND:

Currently, reporting requirements for land varies based on the intended use of the land at its acquisition. As such, there is not a consistent approach to the treatment of land. We concur with the Board suggestion to review the existing standards and consider adopting a consistent approach to the reporting of land that converges with other promulgated accounting guidance.

FINANCIAL PERFORMANCE REPORTING:

Calculating a per-unit cost as a financial performance measure can be very difficult for a research based Agency. We recommend FASAB consider guidance in its per unit cost model that addresses major areas of funds investment, such as Research and Development, for which per unit costs cannot readily be assigned and may not be a good indicator of financial performance.

If you need any additional information regarding these comments, please let us know.

Sincerely,

Laura Ann Koren, CPA, CFF
Policy Division
Office of the Chief Financial Officer
NASA Headquarters
Telephone: (202)358-2235

Social Security Administration's Comments on the Federal Accounting Standards Advisory Board's *Annual Report for Fiscal Year 2015 and Three-Year Plan*

Potential Projects

Electronic Reporting

We would like to reiterate the concerns we expressed last year on the *Annual Report for Fiscal Year 2014 and Three-Year Plan*. As the Federal Government implements the requirements of the *Digital Accountability and Transparency Act of 2014* (DATA Act), the transparency and availability of Federal financial information will increase. In addition, the *Government Performance and Results Act Modernization Act of 2010* (GPRAMA) requires agencies to report performance information on performance.gov, which is publicly available. We ask that the Board keep in mind the requirements of both the DATA Act and the GPRAMA when discussing concepts for electronic reporting. Agencies face large workloads in meeting the requirements of these laws; adding additional electronic reporting requirements could place a substantial strain on agency resources. The Association of Government Accountants' (AGA) issued the report referenced under the "Electronic Reporting" project description in 2012, prior to the DATA Act becoming law. We believe that at least some of the elements of the DATA Act may address the issues raised by survey participants cited in the AGA report.

Summary or Popular Reporting

As we stated in our comments last year, we believe the current guidance in Office of Management and Budget (OMB) Circular No. A-136 concerning the Summary of Performance and Financial Information (SPFI) is sufficient. The OMB requirements allow agencies flexibility in structuring their SPFIs to serve agency stakeholders. As each agency has a different mission, audience, etc., there is no one-size-fits-all approach to the SPFI. Between the OMB guidance and the AGA's Citizen-Centric Reporting initiative, agencies have sufficient guidance on producing Summary reports. We believe it would be beneficial for FASAB to focus its resources on other projects of greater importance, and allow OMB to continue setting the requirements for the SPFI.

2016 Independent Public Accounting Roundtable Feedback

February 3, 2016

Attendees

Six individuals participated. They were from four firms and brought extensive federal audit, advisory, and budget experience. Two participants also represented a state CPA society.

Messrs. Simms and Savini, and Mses. Batchelor, Gilliam, Kiger, Payne, and Valentine attended from FASAB staff.

Discussion Summary

Participants were invited to raise topics of interest to them. The following topics are listed in the order discussed.

Evaluate Existing Standards

Some suggested that because CFO offices are consistently faced with resource constraints and need to find efficiencies, the Board should reevaluate current requirements. While some new requirements have merit, the existing requirements cannot be sustained while meeting new requirements. Any existing requirements that are not essential or are not meeting needs should be revised. Staff suggested that having specific recommendations would be helpful.

Points raised in discussion include

1. Principle-based standards are generally preferred because of the flexibility they offer, However, more prescriptive standards are helpful in high risk areas because they may reduce debate between the preparer and auditor regarding acceptable approaches.
2. CFO offices have been challenged by frequent changes driven by new Treasury systems and requirements in the last five years. The pace of such efforts may be easing though.
3. In some cases, the resources needed are not in the CFO offices. For example, the requirement to recognize liabilities for asbestos removal requires program and facilities management resources. Often controls are not in place to ensure the information is of sufficient quality.

Reconciliation of Budget and Accrual Information

Ms. Payne explained that one project is underway to evaluate the required reconciliation of budget and accrual information. One concern is that the component reporting entity approach does not align with the government-wide approach.

Participants noted that the component reporting entity reconciliation (presented in notes and hereafter referred to as “the note reconciliation”) is technical and not concise. It is an abstract note that requires a lot of effort. In addition, it does not support the government-wide reconciliation (presented as a financial statement and hereafter referred to as “the GWA financial statement”). The GWA financial statement is more understandable.

Some suggested the note reconciliation could serve two purposes – to enhance accountability by validating the relationship between the proprietary and budgetary ledgers or to provide information to readers. Perhaps there is a way to accomplish each purpose separately so the note reconciliation would be streamlined.

Some noted that the OMB Form and Content guidance allows broad descriptions and customization in the note reconciliation. However, they remain difficult to understand and it is doubtful they are meeting the intended purpose.

Ms. Payne agreed and indicated that the note was intended to satisfy the following reporting objective:

To help the reader to determine how information on the use of budgetary resources relates to information on the costs of programs operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.

She asked if this objective is attainable. Some compared it to the GASB's requirement to report budget to actual. The GASB approach is to go to the operational level with budget to actual presentation at the program or fund level. Is it possible to do that in the federal model?

The participants also discussed the nexus between the audit coverage at the component reporting entity level and the audit of the government-wide financial statements. Some suggested that items do not have to be presented in the component reporting entity financial statements and notes in order to have some audit coverage.

With respect to aligning the note reconciliation with the GWA financial statement, most agreed that because the deficit occurs at the government-wide level allocating the deficit to the components would not be useful. Relating deficit to the component level information seemed challenging. In discussing how the note reconciliation might support audit of the GWA financial statement, some participants noted that GTAS and the work related to the general fund should fill gaps in information.

One participant commented that the mechanics of preparing the note reconciliation are well supported. The challenge is telling the story of a particular agency. The driving issue with the reconciliation is focusing on the primary drivers of the differences. Rather than using long titles for a group of reconciling items, focus on the main difference and describe it clearly.

Performance Reporting and Managerial Cost Accounting

The potential projects on financial performance reporting and managerial cost accounting are truly important areas in need of improvement. The projects are important to the user community but the participant recognized the constraints inherent in the Board's charter. While the Board is one of many contributing players in these areas, it is perhaps not the primary driver of change.

One participant suggested the financial accounting community has greatly improved reporting on "cost" and "funding" in the financial statements. However, arraying performance information has not kept pace. Requirements for a summary of key performance measures in management's discussion and analysis are slim. For example, not enough information is provided to assess cost

effectiveness. FASAB could build on the concepts statements that do refer to performance reporting. We need to know what people accomplish with the funds they are provided.

Some suggested the raw material to address the cost side is there. Although people are not doing it, the knowledge is there to support effective cost accounting. There is a need for facilitators to call out the performance reporting side. Cost being used in decision making would facilitate improvement.

Some suggested the role of FASAB may limit its ability to lead this improvement effort. Instead, other – such as OMB and legislators - could effectively lead this effort. Some speculated that decision makers do not base decisions on performance. However, another participant noted that performance information is always of value even if people say politicians do not really use it. It's essential to holding people accountable.

One participant asked if there is a consistent basis for presentation of the statement of net cost. Right now there are broad guidelines that allow several different approaches for classifying costs on the face of the statement of net cost. Even if you cannot get to the program level, you could get to a middle level that helps people assess cost. The group encouraged the Board to focus on establishing a vision of the future statement of net cost as well as a near-term goal.

The group acknowledged that a conversation about “cost” without also discussing “results” will never be a positive conversation.

Land

One participant was concerned that the proposal made in the Establishing Opening Balances for General PP&E regarding land would create more inconsistencies between agencies regarding how land is reported. Some participants suggested waiting on the land exception because the larger project might cause a second round of changes. A preference for a single large project on land would be valuable but looking narrowly at one piece at a time would be less helpful.

Leases and Public-Private Partnerships

One participant noted that leases remain challenging; particularly the budget scoring. There are still budgeting issues regarding operating leases. Agencies and appropriators may still seek ways to acquire assets without obligating budgetary resources for the full cost. Public-private partnerships (P3s) are increasingly used as a way around existing budget scoring requirements for leases. Also, agencies can pack operating costs into P3 agreements and avoid budget scoring requirements. He thought the effort to adjust financial accounting standards for leases might bring clarity regarding the true debt and full cost of leasing. Having agencies reflect these amounts in the financial accounts even if they are not in the budget would be helpful. However, agencies should not be encouraged to enter into one-year operating leases due to the high cost given that the lessor prefers longer-term contracts.

He further noted that P3s are what people want them to be – each is different and they defy definition. However, you can take them apart and identify the debt inherent in the arrangement. Failure to record the debt does create disparity.

Risk Assumed

One participant noted that there is a budgetary approach to scoring disaster relief through a cap adjustment. They developed an approach to considering risk over set periods such as 5, 10, or more years. Estimates were developed but it was challenging. There are areas where estimation is not as developed such as the risk associated with climate change.

Sustainability

The fiscal sustainability information is good but does not provide context. Context requires an econometric view combined with the accounting view.

Other Projects

One participant encouraged the Board's focus on tax expenditures and electronic reporting.

February 10, 2016

Attendees

Thirteen individuals participated. They were from six firms and brought extensive federal audit and advisory experience.

Mses. Gilliam, Kiger, Payne, and Valentine attended from FASAB staff.

Discussion Summary

Participants were invited to raise topics of interest to them. The following topics are listed in the order discussed.

Support for Department of Defense

Several participants indicated that DoD implementation guidance should take priority. Some expected that DoD would require more assistance over time. Resolving issues timely is important.

Parent-Child and Entity Issues

One participant suggested that the Board work with the Office of Management and Budget to address parent-child accounting issues.¹ Some noted the challenges associated with obtaining information from the child to support reporting requirements. There is a burden on both the parent and the child organization in these instances. There is a need for meaningful exchange of information. (See Parent-Child Excerpt from OMB Circular A-136 at page 7.)

¹ Per OMB guidance: Some laws require departments (or agencies) to allocate budget authority to another Federal entity within the same department or in another department. Allocation means a delegation, authorized in law, by one department of its authority to obligate budget authority and outlay funds to another department. While the department receives budget authority in accordance with law, the same law requires the department (i.e., referred to as the parent) to allocate some or even all of the budget authority to another Federal entity (i.e., referred to as the child).

Some also noted that DoD has questions regarding the reporting entity. For example, there are joint operations and organizations that may need to be included in a larger component. Determining which organizations should be in each component reporting entity may be challenging.

Codification

One participant noted the lack of a codification of federal accounting standards and related guidance. A codification arranges authoritative literature by topic. Currently, the FASAB handbook arranges the literature by Statement or other pronouncement with amendments incorporated in previously issued Statements.

The FASB notes that its codification is expected to:

1. Reduce the amount of time and effort required to solve an accounting research issue
2. Mitigate the risk of noncompliance through improved usability of the literature
3. Provide accurate information with real-time updates as Accounting Standards Updates are released
4. Assist the FASB with the research and convergence efforts.

Note that FASAB has a four-level GAAP hierarchy while FASB did not maintain a hierarchy. Care would be needed to ensure no unintentional changes are introduced in creating a codification.

A-123 Implementation Guidance

One participant, while acknowledging that this is not FASAB's role, noted the need for an update to the OMB Circular A-123, *Management's Responsibility for Internal Control*, implementation guidance.

Internal Use Software

One participant noted the complexity of accounting for internal use software and suggested adding to the recently released technical release.

Note Reconciling Budget to Accrual

The research project was discussed by the members. Participants acknowledged that the reconciliation

- Is complex and hard to understand.
- Serves only a sophisticated user and there are few such users.
- Requires a challenging crosswalk and often is made to balance through use of a plug.

Some questioned the usefulness of the note. If maintained, they suggested keeping it simple.

Cost or Burden Reduction

Participants raised concerns about resources. Some indicated that we should not add requirements unless we take away requirements.

One participant suggested that the CFO Act succeeded in bringing discipline but that a more cost effective approach to maintaining the discipline is needed. For example, the central agencies should explore

- Relying on internal control to a greater degree during the audit.
- Supporting the government-wide audit without requiring full financial statement audits of each CFO Act agency.
- Reducing the overall amount of reporting and auditing.
- Focusing on the most important areas.
- Collaborating across central agencies and with FASAB to streamline requirements.

One participant noted the value of citizen's guides and the challenge of interesting citizens and others in lengthy agency financial reports or performance and accountability reports.

The value of the audited financial statements seems to elude even agency officials. One participant suggested we work to communicate the value inherent in the disciplined process required by the CFO Act. We should explain the linkage between the audited financial statements and the quality of underlying data used in day-to-day management.

Budgetary Reporting

One participant suggested that budget reports that show obligations by object class might be more helpful. Others agreed and noted that the schedule of spending was an example. A copy of the SF-225 (Report on Obligations) from 1985 was circulated. It provided obligations by object class (for example, personnel compensation, travel and transportation, printing, equipment, grants, and other natural classifications).

One participant noted that the FASB project on non-for-profit financial statements may lead to a matrix presentation. It would provide expense by major project and natural classification. Many commented that information by program would make financial statements more useful. However, there was concern that program may be defined too broadly to support performance assessments.

Parent-Child Excerpt from OMB Circular A-136

5. What are the financial reporting requirements for transferring budget authority to another agency (Parent/Child Reporting)?

Some laws require departments (or agencies) to allocate budget authority to another Federal entity within the same department or in another department. Allocation means a delegation, authorized in law, by one department of its authority to obligate budget authority and outlay funds to another department. While the department receives budget authority in accordance with law, the same law requires the department (i.e., referred to as the parent) to allocate some or even all of the budget authority to another Federal entity (i.e., referred to as the child). When a parent makes such a delegation, the Fiscal Service establishes a subsidiary account called an Allocation Transfer Account (ATA). The Treasury account symbol for these accounts includes the three-digit department code of the child followed by the three-digit department code of the parent.

The ATA is referred to as a child account. The transfer itself is often referred to as an allocation transfer. In the child account, the receiving Federal entity receives the budget authority, and then obligates and outlays sums up to the amount included in the allocation. Except for the object class schedule, the Budget does not separately show the allocations, but rather shows all financial activity (e.g., budget authority, obligations, outlays) in the parent account. In essence, the parent is accountable for and maintains the responsibility for reporting while the child performs on behalf of the parent and controls how the funds are expended.

With an allocation transfer, the parent's budget authority is granted by one of the Congressional appropriation subcommittees and fully supports a particular program under the parent's mission. In other words, the parent appropriation funds the program. The parent is authorized to delegate part or all of the work to other Federal agencies to carry out its program. However, the parent still has full responsibility for the program and its outputs. The parent is responsible for the program's overall performance and may decide to reallocate funds if the parent is not satisfied with the child's performance. The various children responsible for carrying out the different parts of the program report their costs to the parent for the activities they perform. All costs are then consolidated in the parent's financial statements in order to provide a complete cost of the parent's program.

The parent must report all budgetary and proprietary activity in its financial statements, whether material to the child, or not. Therefore, the receiving department must not report any information relating to the transfer appropriation account on its financial statements. Receiving agencies with transfer appropriation accounts must submit a full USSGL trial balance with attributes to the parent no later than 12 calendar days following the end of the reporting period or a date required by the parent to meet its reporting and auditing deadlines, whichever comes first.

A full USSGL trial balance is a listing of proprietary and budgetary U.S. standard general ledger accounts and balances recorded as of a point in time. The values for the proprietary and budgetary

accounts are self-balancing; that is, the debits equal the credits for each type of account. The Department of Treasury's Treasury Financial Manual (TFM), Supplement No. S2 Chart of Accounts, identifies and defines the individual accounts to be used. This TFM Supplement also provides guidance on the attributes required for each USSGL account.

The key to timely and accurate quarterly reporting by the parent agency is the communication between the parent and child. It is strongly recommended that issues such as formats, abnormal balances, capitalization thresholds, useful lives, depreciation methodologies, transfer of trading partner information, etc., be discussed and resolved at a date required by the parent to meet its reporting and auditing deadlines. Should a child agency need to make a subsequent change to a reported trial balance, it is the child's responsibility to notify the parent at the earliest opportunity. As the parent is ultimately responsible for the reporting of the child, the child should make every effort (within reason) to provide required information. If the child fails to meet defined expectations, obtaining OIG assistance or contacting an OMB budget examiner will be warranted. Subsequent changes may need to be made by the parent. The parent must communicate any and all changes to the child's organization prior to making the revision.

For GTAS, the parent is responsible for determining whether the parent or child will report. When using GTAS to report budgetary information to OMB and Treasury, agencies must separately report each allocation. In some cases, the parent submits the data to GTAS, and in other cases, the child submits the data. Irrespective of who reports the data, the data for the parent as well as each allocation is reported only once.

For the Governmentwide Financial Report System (GFRS) (see Treasury Financial Manual, Vol. I, Part 2-Chapter 4700, Section 4705.30, Parent/Child Reporting for requirements), receiving departments must not report any information relating to the transfer appropriation account on their financial statements.

Reporting trading partner information is one of the requirements the parent entity must fulfill in posting data to GTAS and GFRS. When a child entity contracts with another Federal entity on behalf of the parent, the child entity reports the other Federal agency's trading partner code to that parent. However, the existence of a "parent" may be unknown to the other Federal agency. Every effort should be made to communicate the parent trading partner information to the other agency to reduce the risk of incurring material differences in intragovernmental reporting.

There are three exceptions to the general rules for reporting allocation transfers: 1.) Federal trust funds managed by the Fiscal Service (commonly known as Treasury-Managed Trust Funds) whose recipients are allocation accounts; 2.) Funds for which the Executive Office of the President is the parent; and, 3.) Funds transferred from the Judicial Branch to the Department of Justice U.S. Marshals Service for court security. In these cases, the receiving agencies are responsible for reporting all budgetary and proprietary activity in their financial statements and for reporting in GTAS and GFRS.

Accessing Transfer Appropriation Accounts through GTAS

In cases where the child agency reports the transfer appropriation account data to GTAS, the parent agency can view this data and print reports, as long as the user's access profile includes those transfer appropriation accounts. See Treasury Financial Manual, Vol. I, Part 2 - Chapter 4700, Section 4707.15, GTAS System Access, for more information on system access.

Audit coordination between parent and child will be necessary, since the child will retain all the details. Therefore, reference should be made to the audit guidance located in amended OMB Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*.

http://www.whitehouse.gov/omb/bulletins_default.

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 2016, 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 29, 2016.

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 pervasiveness of the issue among federal entities; and
- c) the potential project's technical outlook and resource needs.

Additional factors considered significant by individual members in planning the technical agenda 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 when time is available. Projects identified as priorities but not active on the board's agenda are "research projects." Your input regarding the scope of each research project and key issues is welcome.

The three-year plan in brief begins on page 14. 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.

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

fasab@fasab.gov

or in hard copy to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
441 G Street NW
Mailstop 6H19
Washington, DC 20548

Table 2: Three-Year Plan in Brief

Project and Objective	FY 2015 Actions	Plans		
		FY 2016	FY 2017	FY 2018
Financial Reporting Model Consider whether the existing model meets user needs and reporting objectives Segments may include consideration of improvements in: -Cost information -Performance reporting -Budget presentation -Other areas such as the role of electronic reporting and the articulation of the financial statements	Develop ideal model (concepts statement)	Issue ideal model Exposure Draft concepts statement	Finalize ideal model concepts statement Identify discrete projects needed to support the ideal model and decide vehicle(s) for guidance	
Leases Evaluate existing standards to improve comparability and completeness of reporting	Consider issues and options to develop Exposure Draft	Issue Exposure Draft	Redeliberation Finalize Standards	
Risk Assumed 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 Develop Exposure Draft	Issue Phase 1 Exposure Draft(s) Phase I Public Hearing Begin Research for Phase II and III	Finalize Phase I Standards Develop Exposure Drafts for Phase II	Phase I Implementation Guidance as Needed Issue Phase II Exposure Draft(s) Phase II Public Hearing Finalize Phase II Standards
Public-Private Partnerships Consider how financial reporting objectives are met with regard to public private partnerships		Finalize Disclosure Standards		Phase II – Recognition and Measurement
Department of Defense Request for Guidance	Continue Liaison to the DoD Workgroups – Develop Due Process Documents and Seek Input	Continue Liaison to the DoD Workgroups – Develop Due Process Documents and Seek Input		
Tax Expenditures	Form task force and develop recommendations	Issue Exposure Draft	Finalize Standards	

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 2015 Actions	Plans		
		FY 2016	FY 2017	FY 2018
Reconciling Budget and Accrual Information – Alignment between Agency and Government-wide Requirements (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		

Current Projects

The Financial Reporting Model

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. Our research has noted that:

- Decision-makers are seeking information on the full cost of programs and citizens are accessing detailed information on spending, such as who received federal funds and what was accomplished with those funds.¹
- Decision-makers also want additional information about the budget, 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.²
- The public is relying increasingly on electronic media (digital devices, complex networks, and interactivity) to obtain information on demand³ and drill-down to different levels of disaggregated data. Also, executives and senior managers are expecting improved analysis of data.

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 that should be 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 what is being provided for the costs incurred
 - ii. would like to know what has been budgeted and spent and how expenditures compare to full cost
 - iii. users are highly interested in the budget deficit and how it compares with net cost of government operations

¹Preparers Focus Group Discussion, February 10, 2009.

²FASAB, *User Needs Study: Citizens*, April 2010.

³FASAB Reporting Model Task Force, *Report to the FASAB*, December 22, 2010.

- 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:
 - identifying the type and level of disaggregation (organizational, program, goals, objectives, functions) of most interest to external users
 - determining where trend information is needed and for how long a trend
 - selecting among a variety of presentation types or formats including consideration of the relationship of cost and budget information
 - 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 engaged a task force to help accomplish the overall project objectives. Also, staff engaged the National Academy of Public Administration to conduct structured interviews of federal executives and senior managers to determine how they use financial and related information; identify the gaps that might impact their ability to manage effectively; and determine opportunities to close gaps identified. In addition, 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:

August – October 2015 Meetings

- Deliberate details of an ideal model concepts statement

December 2015 – February 2016 Meetings

- Finalize and issue an exposure draft of concepts statement

June 2016 – October 2016

- Consider responses to the exposure draft and identify needed revisions

December 2016

- Finalize concepts statement and consider next steps

Leases

Purpose:

This project is being undertaken by the board primarily because the current lease accounting standards, SFFAS 5, *Accounting for Liabilities of the Federal Government*, and 6, *Accounting for Property, Plant, and Equipment*, have been criticized as ineffective because they do not make meaningful distinctions between capital and operating leases regarding the substance of lease transactions. In addition, the lease accounting standards in SFFAS 5 and 6 are based on Financial Accounting Standards Board (FASB) lease accounting standards, which are 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 are collaborating to develop issues and options. Joint meetings of the boards are 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 organized 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:

July – December 2015

- Review draft due process document provided by GASB

January – April 2016

- Finalize and issue exposure draft for public comment

July – December 2016

- Consider responses and revisions
- Develop final Statement

January – April 2017

- Finalize and issue Statement

Risk Assumed

<u><i>Purpose:</i></u>	<p>This project is being undertaken by the board because the current risk assumed standards in SFFAS 5, <i>Accounting for Liabilities of the Federal Government</i>, are limited to insurance contracts and explicit guarantees (other than loan guarantees), and therefore, may not result in full disclosure of the significant risk assumed by the federal government.</p> <p>In order to meet the stewardship and operating performance objectives of federal financial reporting,⁴ it is important that the federal government report all significant risks assumed and not just the risks related to insurance contracts and explicit guarantees.</p>
<u><i>Applicability:</i></u>	<p>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, <i>The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board</i>.</p>
<u><i>Objectives:</i></u>	<p>The primary objectives of this project are to develop: (a) definitions of risk assumed, (b) related recognition and measurement criteria, and (c) disclosure and / or required supplementary information (RSI) guidance through the following phases.</p> <ul style="list-style-type: none"> ■ Phase I: Insurance Programs including explicit guarantees other than loan guarantees ■ Phase II: <ul style="list-style-type: none"> a) natural disaster relief; b) entitlement programs other than social insurance; c) national defense and security; and d) other potential effects on future outflows, such as: <ul style="list-style-type: none"> i. regulatory actions, and/or ii. government sponsored enterprises (GSE). ■ Phase III: commitments and other risk areas
<u><i>Assigned staff:</i></u>	Robin Gilliam
<u><i>Other resources:</i></u>	<p>Multi-disciplinary task force, including sub-groups to address specific topics.</p> <p>Project page: http://www.fasab.gov/projects/active-projects/risk-assumed/</p>
<u><i>Timeline:</i></u>	<p>October 2015 – December 2015</p> <ul style="list-style-type: none"> ■ Develop and issue Phase I exposure draft (ED) <p>January 2016 – June 2016</p> <ul style="list-style-type: none"> ■ Begin Phase II research to include scope for which standards should be developed in Phase II. ■ Hold public hearing as needed on Phase I <p>June 2016 – September 2016</p> <ul style="list-style-type: none"> ■ Continue research on the first risk assumed activity in Phase II. <p>FY 2017</p> <ul style="list-style-type: none"> ■ Finalize Phase I Statement ■ Complete research and develop exposure draft on the first activity in Phase II.

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

FY 2018

- Develop implementation guidance for Phase I, if necessary issue Phase II – first activity exposure draft and hold public hearing
- Complete Phase II – first activity standards

Public-Private Partnerships

Purpose:

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

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, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

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:

Present – January 2016

- Finalize and issue Statement

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 Leases and Risk Assumed Project Managers
- Review entity P3 Disclosures

January 2019 – June 2019

- Develop and Issue Exposure Draft(s)

July – December 2019

- Pursue Final Guidance or Standards

Department of Defense- Implementation Guidance Request

<u>Purpose:</u>	The Department of Defense (DoD) identified several areas of concern for the board's consideration in early 2014 and the board established an active liaison role to respond to areas the board believes warrant FASAB action. The first area addressed was use of reasonable baseline estimates of the cost of inventory and related property. The project objectives were expanded in 2015 to include estimates for real property, military equipment, and internal use software. The liaison role may result in additional areas being identified in the future. The liaison role is an efficient and effective way to identify DoD issues for which GAAP guidance is needed.
<u>Applicability:</u>	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, <i>The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board</i> .
<u>Objectives:</u>	Provide practical guidance through the issuance of new standards and other vehicles to resolve long-standing issues.
<u>Assigned staff:</u>	Melissa Batchelor
<u>Other resources:</u>	The use of 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.
<u>Timeline:</u>	Present – June 2016 <ul style="list-style-type: none"> ■ Continue liaison to the DoD workgroups ■ Develop due process documents and seek input on proposed standards and other guidance

Tax Expenditures

<u>Purpose:</u>	To determine what information regarding tax expenditures should be included in general purpose federal financial reports. Tax expenditures are “revenue losses attributable to provisions of Federal income 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.” (Section 3(3) of Public Law 93-344) Both the Joint Committee on Taxation (JCT) and Treasury's Office of Tax Analysis (OTA) publish annual estimates of tax expenditures. OTA estimates are included in the annual President's Budget. These estimates would be relied upon for general purpose federal financial reporting.
<u>Applicability:</u>	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, <i>The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board</i> .
<u>Objectives:</u>	Given the existing availability of tax expenditure estimates, the primary objective of this project is to ensure information needed for readers to understand tax expenditures is provided in general purpose federal financial reports.
<u>Assigned staff:</u>	Wendy Payne R. Alan Perry (detailed from the Government Accountability Office)
<u>Other resources:</u>	A task force will support this effort.

Timeline:

May – July 2015

- Convene task force and discuss objectives and 2 above.

August 2015 Meeting

- Initial recommendations of the task force presented to the board.

September – November 2015

- Task force continues to develop recommendations on objectives 1 through 5.

December 2015 Meeting

- Consider recommendation of the task force.

January – June 2016

- Draft exposure draft (ED).
- Issue ED following June 2016 meeting with a 90-day comment period.

October 2016 Meeting

- Consider comments on the ED.

December 2016 Meeting

- Consider revisions to the proposed standards.

January 2017 – June 2017

- Consult with task force members and finalize revised standards.
- Submit to Treasury, OMB and GAO for 90-day review.

September 2017

- Issue final standards.

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. Currently, 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 processes 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.

During FY 2015, Treasury's Fiscal Service developed an alternative presentation for component level disclosures. The presentation would reconcile net operating results with outlays. The alternative presentation is being piloted at one agency. Fiscal Service also provided draft changes to relevant standards.

Staff next steps include:

- Comparing the information provided under current requirements to information in the alternative presentation and determining how each aligns with reporting objectives
- Evaluating the understandability of the alternative presentation including labels
- Seeking preliminary feedback on the alternative presentation

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.

Potential Projects

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

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

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Rules of Procedure Regarding Agenda Setting

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

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

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

Asset Retirement Obligations

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

Cleanup Costs - Evaluating Existing Standards

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

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

Conceptual Framework – Review and Finalization

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

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

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

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

Cost of Capital

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

Derivatives

Staff has not researched the use of derivatives by federal agencies and has not had any inquiries by agencies or their auditors regarding appropriate accounting for derivatives. This is an area generally addressed in other domains.⁵ 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.

Electromagnetic Spectrum

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

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

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

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

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

Electronic Reporting

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

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

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

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

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.

Evaluating Existing Standards

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

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

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

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

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

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

Financial/Economic Condition

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

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

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

Financial Performance Reporting

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

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

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

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

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

Hierarchy of Generally Accepted Accounting Principles

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

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

Intangibles

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

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

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

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

Interim Financial Reporting

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

Land

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

Long-Term Construction/Development/Procurement Contracts

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

Managerial Cost Accounting

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

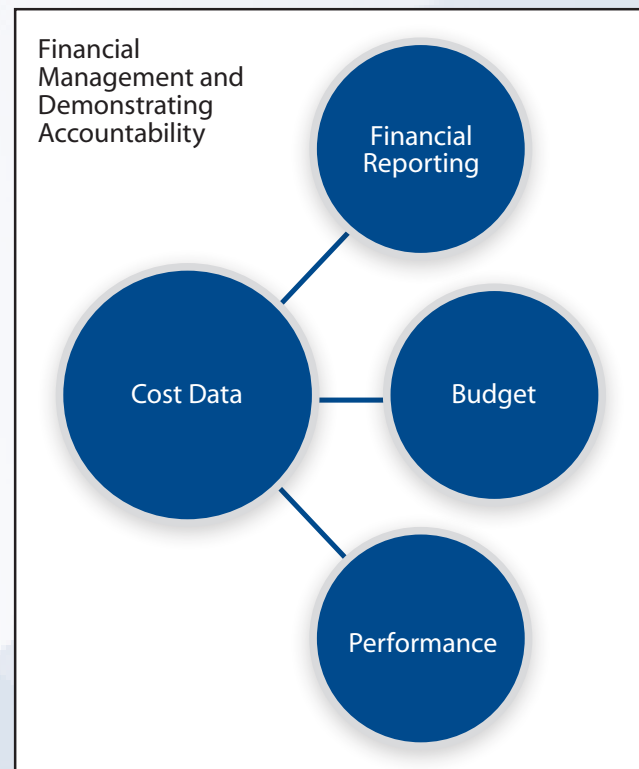
The board's focus is on external financial reporting and it does not typically address management information needs. In 1995, to support the goals of the CFO Act and the GPRA, the board established managerial cost accounting standards at the request of then Vice President Gore. While these standards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

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

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

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

Figure 1: Role of Cost Data



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

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

Natural Resources

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

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

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

Nonmonetary Transactions

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

Note Disclosures

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

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

Property with Reversionary Interest

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

Research and Development

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

Reporting Cash Flows

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

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

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

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

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

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

Revenue (Exchange and NonExchange)

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

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

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

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

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

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

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

Stewardship Investments

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

Summary or Popular Reporting

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.



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Robert W. Bramlett | Assistant Director | 1991 - 2005

Wendy M. [Comes] Payne | Assistant Director | 1991–1996

Richard L. Fontenrose | Assistant Director | 1991–2010

M. Lucy Lomax | Assistant Director | 1991–2003

Richard C. Mayo | Assistant Director | 1991–2003

Frank Rexford | Assistant Director | 1991–1993

Monica R. Valentine | Assistant Director | 1991–present

Richard Wascak | Assistant Director | 1991–2008

Original Administrative Personnel

Alice Keels | Administrative | 1991–1993

Marian Nicholson | Administrative | 1991–2006

Richard S. Tingley | Administrative | 1991–2001

<http://www.fasab.gov/about/our-history/staff-memberspast-and-present/>

We want to hear from you.

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

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

