



**June 7, 2013**

Memorandum

To: Members of the Board

*Wendy M. Payne*

From: Wendy M. Payne, Executive Director

Subj: Technical Agenda – **Tab C**<sup>1</sup>

**MEETING OBJECTIVES**

- To discuss the objectives and strategies for Congressional Liaison
- To review the three-year plan and establish priorities (rank projects)

**BRIEFING MATERIAL**

This memo offers matters for consideration regarding establishing a Congressional Liaison function, discusses our current three-year plan and potential projects, and poses questions for discussion at the meeting.

Attachments provide:

1. *Updated Three-Year Plan for FY2014-2016 based on current status and staff proposals*
2. *Excerpts from the financial report of the US Government regarding revenue*
3. *Analysis of Fee Funded Reporting by Mr. Steinberg*

Appendix 1 provides the transmittal memo and analysis considered at the April 2013 meeting.

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

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## BACKGROUND

On November 15<sup>th</sup>, Chairman Allen released our *FY2012 Annual Report and Three-Year Plan for FY2013-2015*. Four responses were received (see [http://fasab.gov/pdf/files/tab\\_c\\_3\\_year\\_plan2013april24.pdf](http://fasab.gov/pdf/files/tab_c_3_year_plan2013april24.pdf) or April briefing materials for details). In addition, staff hosted a roundtable discussion with CFO office representatives on January 29th. The feedback received during that discussion addressed the need for implementation guidance relating to recently released standards as well as priorities for future work. The April 2013 staff memo, available at Appendix 1 to this memo, summarizes the input received.

Also, the Association of Government Accountants issued two reports in 2012— e-Reporting and Government-wide Financial Reporting—that should be considered. The full reports are available at <http://www.agacgfm.org/AGA/ResearchPublications/documents/CPResearch32.pdf?ext=.pdf> and [http://www.agacgfm.org/AGA/ResearchPublications/documents/CPAGResearch31\\_treasury.pdf?ext=.pdf](http://www.agacgfm.org/AGA/ResearchPublications/documents/CPAGResearch31_treasury.pdf?ext=.pdf) respectively. Recommendations for FASAB's consideration are presented in the potential project descriptions in Attachment 1 (the three-year plan as updated).

At the April 2013 meeting, the Board discussed both the potential for a Congressional Liaison role and the priorities among potential projects. On the Congressional Liaison role, the Board placed the highest priority on efforts to:

1. Seek Congressional views on the structure and focus of financial reports that would enable them to clearly communicate with their constituents so they may better understand the government's financial position and results of operations (user needs assessment and promote elected officials use of information in constituent outreach)
2. Offer educational resources to members and their staff (educational effort to promote use of information on the Hill)

Members noted the need to guard the Board's independence and to ensure outreach did not (a) appear to crowd out input from other user groups, (b) appear to advocate positions to the Hill, and (c) place an undue burden on resources needed to address technical matters. One member suggested providing a white paper to the Hill on reporting objectives, standards, websites, and other available resources. The Board agreed to continue the discussion of how the liaison role should be conducted at later meetings.

On the priorities among potential projects, the Board questioned the need to address investments in non-federal securities (a priority project for which work was deferred due

to a staff vacancy arising in 2012) as a priority project. Members decided to consider that project again in setting priorities. The outcome of the initial rankings is presented in the staff analysis below along with additional material regarding potential project objectives. Members may also wish to review the April 2013 minutes of this session (see final minutes following the binder transmittal memo). In addition, the three-year plan has been updated for progress on active projects and is presented as Attachment 1 to this memo.

At the June meeting, members are to discuss both the plans for a Congressional Liaison effort and their priorities among potential projects. The staff analysis below discusses these areas and offers questions to frame Board discussion.

## **STAFF ANALYSIS**

### Congressional Liaison

In response to the three-year plan, the Association of Government Accountants Financial Management Standards Board suggested that FASAB undertake more Congressional outreach. Specifically, they stated:

We also believe that it is important to continue research on the needs of decision makers, particularly those of members of Congress and their staff. We understand that the FASAB has reached out to Congressional committees in the past and that committee staff have not always been forthcoming with ideas and concerns. In the same vein, we believe that the Congressional Budget Office's decision to discontinue its membership on the FASAB was unfortunate. However, Congress remains one of, if not, the most important users of federal financial information and therefore its needs must be considered and addressed. Perhaps the FASAB might consider establishing an on-going liaison group that meets with the key Congressional committees such as Senate Finance and the House Ways and Means to discuss their needs. This liaison group would endeavor to create an atmosphere where the demand for new forms of information would provide regular input into the FASAB's research. We believe that a continuous dialogue must be established between FASAB and such committees as the Senate Finance Committee and the House Ways and Means Committee to discuss and identify their need for information. (emphasis added)

### **Past Outreach**

Past outreach has been project specific and conducted by staff. It includes:

- transmitting exposure drafts to relevant committees and submitting capital asset standards for the 45-day review required by the CFO Act.
- contacting Hill staff and members directly to solicit oral input.

Generally, we receive formal written comments only on highly controversial topics such as social insurance but receive oral input upon request. We are also occasionally contacted by Hill staff with questions. Questions are, however, infrequent.

## **Liaison Objectives and Methods**

The Board identified the following two objectives of outreach for consideration:

1. Agenda Setting: Obtain views of Legislative Branch users of financial information regarding emerging issues and priorities (explicitly seeking informal input on our technical agenda)
2. User Needs: Seek Legislators' views on the structure and focus of financial reports that would enable them to clearly communicate with their constituents so they may better understand the government's financial position and results of operations (user needs assessment and promote elected officials use of information in constituent outreach)

### **Reminder: FACA Considerations for Liaison**

The Federal Advisory Committee Act must be considered if members are to participate in outreach. For example, we would want to weigh whether:

- It is likely that discussion of issues would occur such that public access to the meeting should have been provided
- One user group would have greater opportunity to respond to, or influence, the Board than others and whether this may be perceived as political in nature

To avoid violating the FACA requirements regarding meetings but still be responsive to the AGA suggestion, counsel suggested we continue the current congressional interaction for individual projects but engage in broader formal outreach at periodic times not connected to an individual project. Counsel's preference would be that staff also conduct the broader formal outreach but, with appropriate safeguards, is open to member participation if it is limited to one member at each outreach event.. In either case, it is important to understand the objectives of the outreach. So, at the April meeting, I'd like to explore potential objectives for such outreach, desirable approaches, and resource needs.

**Question 1:** Is the Board comfortable with these two objectives?

### **Outreach Methods**

Presently, staff handles Hill contacts (and outreach to other constituents) on a case-by-case basis as the need arises. For example, in the reporting model project we interviewed several Hill staffers and recruited Hill staff to participate on the most recent task forces. Some members commented that we should focus on delivering something of value to members as a way to solicit input. Options for more routine and formal outreach include in no particular order:

1. Seek opportunities to address relevant committees or subcommittees about progress and raise specific questions we would like input on
2. Encourage the CPA Caucus (assuming it is viewed as bi-partisan) to serve as a focal point for FASAB outreach by asking them to meet with the Chairman and staff director annually on current issues and the three-year plan
3. Establish a process to receive input from all Board members for matters they consider important to discuss with congressional staff and charge staff with informal outreach on those issues
4. Hold an annual or semi-annual briefing and invite Hill staff
5. Develop a white paper to educate legislators and their staff and consider ways to deliver it (e.g., perhaps as a component of existing Hill training sessions for new members/staff)

**Question 2:** What outreach approach is most likely to meet the Board's objectives?

### Status of Current Projects

The currently active projects are identified on pages 3 and 4 of the three-year plan (see attachment 1). The timelines are up to date (where changes since April are notable the text is highlighted). For ease of reference the following table presents active projects and their expected completion dates.

Project	Expected Final Completion Date	Staff Assigned
Reporting Entity	FY2014	Melissa Loughan
Reporting Model	FY2015	Ross Simms
Leases	FY2016	Monica Valentine (research only until new hire is on-board)
Risk Assumed	FY2017	Monica Valentine (new hire to assume the project)
Public-Private Partnerships	FY2017	Domenic Savini

Note that we hope to fill one of our two vacancies in the coming month but this is unlikely to change the above timelines since the leases project had been deferred and will become active when the new hire is on board.

The following may result in deviations from the above schedule:

1. The Department of Treasury is developing plans to include more information about the **general fund's** activities in its financial statements. No specific issues have been identified for action but I believe we can reasonably expect some standards level issues to arise.
2. **Natural resources** information is to be reported as RSI beginning in FY2013 and consideration of its reclassification to basic information must be addressed before FY2015. Monitoring and project planning should begin in early FY2014.

At present staffing levels, emerging issues cannot be addressed without adjusting priorities. Note also that we rely heavily on task force participation and such participation will be impacted by the constraints within the federal and vendor communities. We are reducing our support for AAPC and it may become more difficult to resolve implementation issues. Feedback from preparers is that implementation guidance would be helpful regarding deferred maintenance and repairs standards. In addition, as DoD approaches audit readiness, additional implementation guidance may be needed.

The FASB/IASB exposure drafts regarding leases have now been issued. Summaries from various sources have been included in the front section of this binder. We have

discussed collaborating with the GASB since we will both undertake a review of current lease standards and the new FASB/IASB approach. GASB staff will join us in August and lead a discussion regarding scope decisions relating to the review. Generally, periodic joint meetings to share member views on common issues are helpful as well. To facilitate the first such joint meeting on leases, we would need to move our February 26-27, 2014, meeting to March 5 and 6. GASB would then join us on the 5<sup>th</sup> to discuss leases. Note that the GASB members are being asked to consider moving their meeting from March 4-6 to March 3-5 to facilitate this as well. Both GASB and FASAB announce meeting schedules well in advance so that members are able to plan around meetings so it is possible there are already conflicts that will preclude aligning our meetings.

**Question 3:** Does the Board approve moving the February 2014 meeting to March?

As you may recall, at the June meeting members asked what might be done to address questions about **internal use software standards**. Some argue that the standards do not align with current methods for developing systems (arguing that non-linear approaches are more common now than when the standards were developed). I have inquired among preparers and auditors about their interest in developing and proposing options for improving the current standards. We will meet on June 13<sup>th</sup> to explore how the community might do so. I will update you at the Board meeting regarding their plans.

## Member Priorities among Potential Projects

At the April meeting, members identified the following projects for follow-up. That is, you expressed some interest in gaining a better understanding of the purpose and objectives of each of these so that a ranking could be established in June.

We are not able to staff additional projects now but staff will be available to address one project beginning in mid-FY2014 and it is helpful to other staff to know what projects are likely to be assigned next so research can begin as time is available. This ranking will also help our sponsors consider future resource needs.

A majority of the Board expressed interest in six projects (i.e., projects above the gray bar in the table at the right). Because **insurance** will be addressed in the first phase of the risk assumed project, I have excluded this project from the potential projects. Also, the projects **linking cost to performance** and **managerial cost accounting** as well as **tax expenditures and revenue** might logically be addressed together so they have been combined in the discussion that follows. Where projects were combined, sufficient detail is provided so that you can consider limiting the objectives to your higher priorities. To facilitate discussion, the following pages provide more detail regarding the purpose and objectives as well as resource needs of each potential project rated highly by 5 or more members.

The **factors considered by the Board in ranking projects** are presented annually in our three-year plan. The factors also appear on

POTENTIAL PROJECT (staff notes)	#
LINKING COST AND PERFORMANCE (staff combined this with managerial cost accounting)	8
INSURANCE (staff believes this will be addressed through the project on risk assumed)	6
MANAGERIAL COST ACCOUNTING - WHAT INFO NEEDS ARE & WHY AND HOW TO USE INFO	6
RECONCILING BUDGET AND ACCRUAL INFORMATION	6
TAX EXPENDITURES (staff combined this with revenue and an issue raised regarding reporting revenues in fee funded entities)	6
FINANCIAL/ECONOMIC CONDITION	5
REVENUE (Exchange and NonExchange)	4
ELECTRONIC REPORTING	3
INTERNAL USE SOFTWARE	2
STATEMENT OF CHANGES IN CASH	2
COST OF CAPITAL	1
EVALUATING EXISTING STANDARDS	1



page 20 of this memo. Following the factors, a table presents my views regarding how each project relates to the factors established by the Board for ranking projects. Potential projects not ranked highly at the April meeting may be raised for consideration or new potential projects identified. To facilitate that discussion, the attached three-year plan includes the full list of potential projects.

At the meeting, **members will:**

1. **Raise any questions about individual projects (including current projects\*),**
2. **Adjust and agree on the desired purpose and objectives of each project,**
3. **Discuss how each project relates to the factors, and**
4. **Rank the projects they hope to address in the next five-years given the agreed purpose and objectives.**

\*Note that at the last meeting, members questioned whether the investments in non-federal securities project should remain a priority and, after the discussion, it was removed. During the discussion, if members wish to reconsider any currently active projects they may ask for that project to be included in the ranking process.

### ***Linking Cost to Performance and Managerial Cost Accounting***

Background: While performance reporting can be viewed as a stand-alone project, the board has a potentially separate interest in the cost information included in performance reports and how the statement of net cost aligns with and thus supports those reports. SFFAS 4 established managerial cost accounting concepts and standards. At the time, the board expressed the view that standards and practices would “evolve and improve as agencies gain experience in using them.” (par. 24 of SFFAS 4) The objective of a project on cost information might be “to assess the effectiveness of SFFAS 4 in improving the quality and availability of cost information related to programs and consider options for improving the effectiveness of SFFAS 4.” Initial feedback from the reporting model project suggests this is the area in greatest need of improvement. The ideal model effort will identify needed improvements in the presentation of cost information in financial reports. Such improvements may focus on linking cost and performance information. The board might then consider what improvements can be obtained through standards, educational efforts, or other means such as additional cost accounting resources.

In 2010, FASAB staff researched managerial cost accounting including a survey of agencies. Results indicated that a guide to using, developing, and reporting cost information may be helpful. The guide could explore best practices regarding the level of detail in the statement of net cost as well as aspects of developing effective internal development and use of cost accounting. The reporting model project provides insights regarding improvements in the statement of net costs. A guide developed collaboratively by a task force supported by FASAB staff may aid preparers in developing the needed skills and systems to attain the internal and external reporting

goals. Assistance from outside government, such as relevant professional associations and other experts, would be sought.

A recent special report by the IBM Center for the Business of Government<sup>2</sup> includes the following from C. Morgan Kinghorn. Mr. Kinghorn, then CFO at IRS, chaired the task force that developed SFFAS 4:

The greatest potential to improve program operations in the public sector is the serious implementation of managerial cost accounting, a type of analytics.

There are lots of names people use for managerial cost accounting with many variants, ABC, ABM, etc. In the 1990s while at the IRS, I led the government-wide effort to create Managerial Cost Accounting Standard No. 4. I believed managerial cost accounting needed to be broadbased, focused on management information and not accounting, and flexible enough to fit any organization in the federal government. That standard, still in place today, and I believe still with the potential to be as effective as our working group thought it would be, provides you with an existing, regulatory framework to create an operating environment that has at its core continual process improvement, and that can now rely on the greatly improved financial data and systems developed over the last 20 years.

The reason I believe MCA is so useful is that it enables program managers to understand, sometimes for the first time, how their programs operate because it requires a detailed examination of the business processes. As you build an MCA program, I strongly believe you need to have several attributes that help you and your team understand the effectiveness of each program and key process. Full costs is obviously one; the others are timeliness, the value to the customer of each process, and if you are really living dangerously, the inherent risk of that process. With a single MCA “system” all programs can be analyzed as their full costs, how long it takes to deliver that particular product or service to the citizen, the value your own people believe each process has for the citizen, and the degree of risk to the organization or the product or service of each process. Furthermore, if implemented correctly, the information from the analysis gives you a road map to improve your program’s efficiency and effectiveness, including elements of time, quality, risk, and cost.

#### Purpose and Objectives:

To identify needed improvements in the integration of financial and non-financial performance information and the availability of cost information and analysis. If improvements are needed, consider options to attain those improvements.

Objectives include:

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<sup>2</sup> Fast Government: Accelerating Service Quality While Reducing Cost and Time. Last accessed on June 5, 2013, at <http://www.businessofgovernment.org/sites/default/files/Fast%20Government.pdf> Note that the chapter by Mr. Kinghorn is included among the reports presented at the front of this binder.

1. Assess:
  - a. the current information needs of internal managers (what information is needed and why) and how well those needs are being met
  - b. current performance reporting to determine what cost information is presently included and why (or why not)
  - c. any gap in cost information availability
2. Develop strategies to aid the community and users in making needed improvements
3. Consider amendments to existing standards such as MD&A (which requires performance information) and/or SFFAS 4 (managerial cost concepts and standards)

#### Resources:

This project relates to the reporting model project and work should be integrated with that project so that it supports the ideal model being developed. While user needs outreach has been extensive in support of the reporting model project, additional insights regarding internal managers' information needs would be helpful. Beginning the project by considering these needs and how well these needs are now met would be beneficial. Staff is working with the steering committee to contract for such a study. The results of the study should be available by the end of the calendar year and would inform both the next steps in this project as well as the reporting model project as discussed below.

Further, the "ideal model" being developed through the reporting model project is likely to shed light on how to enhance cost information in external financial reports and how that cost information should relate to performance reporting. Assessing, and then building, capacity through this project may be helpful as the Board considers the path for evolving to the ideal model.

### ***Reconciling Budget and Accrual Information***

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

80. Budgetary and financial accounting information are complementary, but both the types of information and the timing of their recognition are different, causing differences in the basis of accounting. To better understand these differences, a reconciliation should explain the relationship between budgetary resources

obligated by the entity during the period and the net cost of operations. It should reference the reported “obligations incurred” and related adjustments as defined by OMB Circular A-34. It also should include other financing sources not included in “obligations incurred” such as imputed financing, transfers of assets, and donations of assets not included in budget receipts. [Text deleted by SFFAS No. 22] The total of these items comprises obligations and nonbudgetary resources.

81. This total should then be adjusted by:

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

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

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

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

In contrast to the AGA report, many have suggested that the required reconciliation be eliminated from component reports 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.

#### Purpose and Objectives:

To evaluate the component reporting entity reconciliation of obligations to net cost so that it might better meet users needs while supporting the consolidation process improvements identified by the AGA study.

Objectives include:

1. Explore underlying reasons for the current difference in the reconciliations and how they support the reporting objectives
2. Consider the cost of the present reconciliation approach and its benefits versus the cost of alternatives and their benefits

Resources:

This project does not require consideration of many alternatives but would require a full-time staff member and a task force. This is a one- to three-year project. The project will take longer if participants continue to challenge whether such reconciliations are cost-beneficial. Considerable resources were devoted to improving the implementation guidance for the reconciliation (then referred to as the statement of financing) in 2002. (The guide is available at <http://www.fasab.gov/pdffiles/impguid7200204.pdf>)

Subsequently, the statement became a note disclosure (an option permitted within SFFAS 7) but some preparers still raise questions about the need for such a reconciliation. (Note that the effort to develop a schedule of spending may mean that a deeper understanding of outlay data, and its availability for use in the reconciliation process, exists now than in the past.)

### ***Financial/Economic Condition***

Background: The board provided standards regarding fiscal sustainability reporting and the information will transition to basic information in FY2014. However, a broader focus on financial condition reporting might result in additional reporting such as key indicators of financial condition at the agency or government-wide level. GASB has addressed key indicators at the state and local 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?

### Purpose and Objectives:

To review currently available information about financial or economic condition and identify needed improvements.

Objectives include:

1. Assess the understandability of the information currently presented and identify needed improvements such as alternative presentation or analyses of existing information
2. Consider the need for:
  - a. Explanatory or educational material regarding the relationship of projections to accrual or budgetary information
  - b. National indicators of economic health and/or the relative size of government and changes in its size
  - c. Additional information to fill gaps
  - d. An effort to streamline required information so that the most crucial information is presented more prominently
3. Review information regarding state/local government dependency to determine how it relates to federal financial reporting objectives

### Resources:

This project would require a full-time staff person and a diverse task force. As with the fiscal sustainability task force, the task force would comprise economists, public policy, and communication experts.

The project would be a three- to five-year effort and is likely to be controversial.

### ***Tax Expenditures and Revenue Reporting including User Fees***

Background: SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, was developed as part of the core standards in the mid-1990s. It addresses a wide variety of financing sources including exchange and non-exchange revenue, appropriations, donations, imputed financing, and transfers. It also discusses uniquely governmental circumstances such as tax gap and tax expenditures. SFFAS 7, together with SFFAC 2, was also the vehicle for developing the reporting model and includes various requirements relating to the presentation of information. One such requirement is the statement of custodial activities used by agencies to report collections disbursed to others.

SFFAS 7 provides guidance for recognition of exchange and non-exchange revenue. In FY2012, \$350.8 billion of exchange revenue and \$2,518.2 billion of non-exchange revenue was reported government-wide. SFFAS 7 requires disclosures and required

supplementary information as well as suggests other accompanying information on the following topics:

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

Regarding tax expenditures, SFFAS 7 provides that:

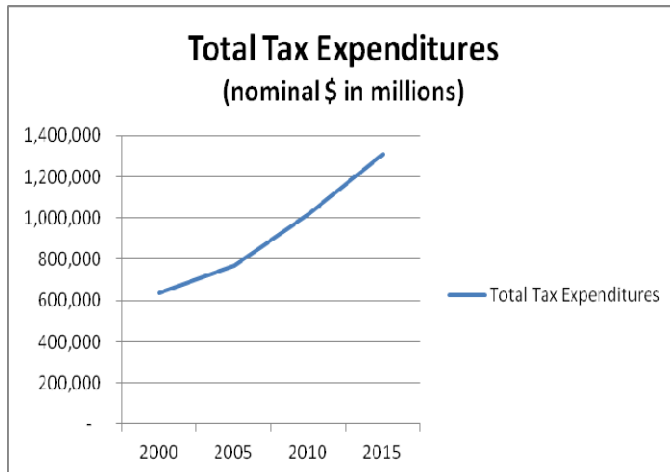
Information on tax expenditures that a reporting entity considers relevant to the performance of its programs may be presented, but should be qualified and explained appropriately to help the reader assess the possible impact of specific tax expenditures on the success of the related programs.

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

For FY2012, estimates of tax expenditures are \$1,092.5 billion while tax revenues are \$1,912.5 billion. (Source: Pew Charitable Trusts at

[http://subsidyscope.org/tax\\_expenditures/summary/](http://subsidyscope.org/tax_expenditures/summary/) - accessed April 10, 2013)

Growth in tax expenditures has been significant since SFFAS 7 first addressed the issue. The following chart shows the growth in tax expenditures from 2000 through 2015 (estimated) based on Treasury estimates:



Tax expenditure information is also available by budget function. In some cases, tax expenditures are significant when considered in comparison to direct spending (outlays) for a particular budget function. Absent information about tax expenditures, it may be difficult to assess the federal government's actions and their costs.

Revenue information is provided in detail through agency reports and consolidated in the financial report of the US Government. Portions of the financial report of the US Government related to these requirements and suggestions for OAI are presented in Attachment 2.

SFFAS 7 has not been reviewed. Feedback from roundtable participants is that some agencies are relying on FASB standards for more detailed guidance regarding exchange revenue recognition and these standards are expected to be revised soon. When SFFAS 7 was established, the Board acknowledged both inherent and practical limitations that made full accrual accounting for non-exchange (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.

Also, at the last meeting, Mr. Steinberg raised concerns regarding certain differences in presentation of information by fee funded organizations. (See attachment 3 for Mr. Steinberg's findings.) SFFAS 7 requires that "exchange revenue should be recognized regardless of whether the entity retains the revenue for its own use or transfers it to other entities." Whether an entity retains the revenue for its own use is governed by appropriations language and different budgetary approaches are used even when revenue is retained. For example, some revenue is available for use in a single period and unused revenue from that period is not available for use in the next period.

Mr. Steinberg suggests the following:

I see a similar situation [similar to state and local pre-GASB practices] with the reporting of financing by fees. The agencies can report in accordance with the appropriations laws. On the other hand, the appropriations laws were written to define how to finance the agency and control the use of funds. The presentation of the actual financial results can be a lot clearer by simply disclosing how the costs were financed and what is left over for future uses.

Also, by having a single approach to presentation, there can be comparisons of the nature and results of the financing among the many agencies financed wholly by fees.

Mr. Steinberg refers to the appropriations laws as a source of differences among agencies. In brief, the appropriations laws attempt to distinguish between market and governmental activity (the government's net transactions with the public). Transactions considered "market activity" are offset against outlays rather than being included as general budgetary receipts. Generally, business-like transactions (with the public and other federal government entities), donations, and similar transactions are offset against outlays in reporting for budgetary purposes. That is, outlays are reported "net" in budgetary presentations and total receipts always exclude these offsetting amounts collected from users of services or goods and donors.

Practice in this area is governed by law and there may be cases where the substance of the receipt differs from that described above. Nonetheless, budgetary presentation is established by the law – or form – rather than the substance.

There are two types of receipts that are offset in the budget – offsetting collections and offsetting receipts. How these amounts are "offset" within the budget varies and affects both the statement of budgetary resources (SBR) and the statement of changes in net position (SCNP).

**Offsetting collections** are available for use by the entity and are accounted for in the same budgetary account from which expenditures are made. Offsetting collections may be insufficient to fund operations so they may be supplemented by appropriations. Also, use of offsetting collections may be limited to a certain amount with excess collections transferred to the general (or other) fund. On the SBR, offsetting collections are identified as a budgetary resource and details are provided in the final section reporting outlays. Any appropriations needed to supplement these collections – or to fund programs not covered by the collections - are also identified on the SBR. On the SCNP, if the offsetting collections are the only funding source no appropriations used amounts will appear (e.g., see the Patent and Trademark Office in Attachment 3). Usually, there will be appropriations for the reasons listed above.

**Offsetting receipts** are not accounted for in the same account as the expenditures. Instead, they offset outlays at the agency and sub-function levels. Certain large collections such as royalties are offset at the government-wide level because they are not related to the spending of a particular agency (not exchanged for goods financed by the agency). On the SBR, appropriations (that is, the expenditure funding) are reported in the budgetary resources section. Details regarding the offsetting receipts are provided in the outlays section of the SBR. In many cases, the SCNP will also show appropriations used because the offsetting receipts do not fully cover the cost of operations or because there was a limitation on their use by the agency and a transfer was made to the general fund.

The table below summarizes how the differences in budgetary treatment affect the statements of net costs, changes in net position, and budgetary resources (presented on a budgetary basis). In all cases, exchange revenue is reported on the statement of net costs. Depending on the financing arrangements for any shortfall or transfers of funds, appropriations used will appear on the statement of changes in net position. The statement of changes in net position is intended to reveal how the entity financed its activities. Variations arise because of the need to supplement resources available from fees or to finance transfers of funds to other accounts.

<b>Classification of in Budget:</b>	<b>Statement of Net Costs</b>	<b>Statement of Changes in Net position</b>	<b>Statement of Budgetary Resources – Resources section</b>
Offsetting Collection (a single budget account with expenditures and receipts offsetting)	Exchange Revenue		Authority to spend offsetting collections (no appropriations)
Offsetting Receipt (a budget account for expenditures and a separate account for receipts. Receipts offset outlays at the agency or government-wide level)	Exchange Revenue	<p>Sometimes an appropriation used amount appears for agencies with offsetting receipts. Possible reasons for the appropriation include:</p> <ul style="list-style-type: none"> <li>- the offset is at the government-wide level so the agency must show the appropriation and the transfer of funds</li> <li>- not enough funding was available from receipts so an additional appropriation was provided</li> </ul>	<p>Appropriations (because the expenditure is reported gross)</p> <p>[Collections of receipts and their disposition is shown in other sections]</p>
Appropriations		Appropriations Used	Appropriations

### Purpose and Objectives:

To assess whether improvements are needed so that comprehensive and understandable information regarding federal government revenue is available. The project will address both component reporting entities and the government-wide presentation.

Objectives include:

1. Convey a clear understanding of current revenue policies including to what extent policies are used as an alternative means of financing solutions to public policy problems (tax expenditures)
2. Evaluate the understandability of revenue information resulting from current disclosure requirements (which focus on receivable balances, collectability, collections and refunds in various places)
3. Assess whether additional or revised guidance for the recognition of exchange revenue is needed
4. Consider if there is a need to more clearly present the financing of fee based entities so that readers are able to discern whether fees cover the cost of services or goods and whether amounts remain available for future use, were supplemented by general revenues or borrowing, or also funded other operations
5. Given the Board's conclusions in SFFAS 7 (par. 171), ask whether income tax system improvements can now support additional disclosures or accruals and consider the desirability of full accrual information regarding taxes
6. Review existing requirements to determine if all required disclosures are needed

### Resources:

A full-time staff member and a task force with extensive revenue experience including estimation of tax expenditures.

The project may be addressed through phases so that immediate low-cost improvements are attained. This is likely a three- to five-year project and may become controversial.

## Factors to Consider in Setting Priorities

The three-year plan always includes information about how the Board establishes priorities. Currently, the plan provides that:

The board prioritizes projects based on the following factors:

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

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

The table below presents my thoughts on each project relative to each factor. Where numbers are presented they represent a ranking of the four projects' contribution toward meeting that factor.

Potential Projects:				
Factors to Consider in Setting Priorities:	Linking Cost to Performance and Managerial Cost Accounting	Reconciling Budget and Accrual	Financial/Economic Condition Reporting	Tax Expenditures, Revenue, and Fee Funded Entities
significantly contribute to meeting the operating performance and stewardship reporting objectives	1 - Highly likely	4 - Likely to improve the understandability of information but unlikely to provide significant new information	3 - Highly likely to contribute to stewardship objective	2 - Likely to improve understanding of the diverse inputs associated with performance and to help meet the operating performance objective. <sup>3</sup> Also likely to help meet the stewardship objective by enhancing understanding of sustainability of trends in revenue/tax policy.

<sup>3</sup> The operating performance objective includes providing information about “the manner in which these efforts and accomplishments have been financed.”

<b>significance of the issue relative to meeting reporting objectives</b>	1 - Critical to meeting reporting objectives because the objectives envision an integrated (linked) report.	2 - To the extent this helps resolve long-standing preparation issues that detract from the value of the report, overall objectives may be better met.	4 - Highly significant given the level of interest in fiscal sustainability information.	3 – Improved clarity of financing sources
<b>pervasiveness of the issue among federal entities</b>	All entities	All entities	Government-wide	Government-wide, Treasury, non-exchange revenue collecting agencies, and fee funded entities (intra-governmental since it may affect timing of revenue recognition between agencies)
<b>potential project's technical outlook</b>	3	1	2	3

<b>potential project's resource needs</b>	This project could build on the reporting model project but otherwise would require a full-time staff manager and a task force with diverse experience represented	Significant work is available to build upon. (AGA studies, GAO, Treasury and OMB experience as well as agency experience) would require a full-time staff manager and a task force	Would require a full-time staff manager and a task force with appropriate background in economics and/or public policy represented.	Could build upon existing tax expenditure and revenue reporting experience as well as FASB/IASB revisions to revenue standards to expand and clarify existing guidance. Would require a full-time staff manager and possibly multiple task forces with tax expertise represented.
<b>a focus on citizens and citizen intermediaries as the primary users of the financial report of the US government</b>	1	4	3	2
<b>impacts on preparers and auditors due to declining real budgets</b>	4 – most impact/cost because all agencies would be affected but also most likely to increase the overall benefit derived from the financial reporting	1 – least impact/cost because reconciliations already exist but could be improved	3 – greatest impact on the CFR preparers and auditors with agencies likely to have additional analytical demands	2 – Primary impact on Treasury and the CFR preparers and auditors. Lesser impact on fee funded organizations



<b>increasing risks due to fiscal uncertainty and operational complexity</b>	2 – Likely to produce information relevant to decisions (reform)	Neutral	1 – most likely to produce information relevant to decisions (reforms)	3 – May produce information relevant to decisions (reforms)
<b>more electronic reporting</b>	May inform the framework for or evolution of electronic reporting	Neutral	Neutral	Neutral

**Question 4:** Do members have any questions about individual projects (including current projects)?

**Question 5:** Do members wish to adjust the purpose and objectives of any projects?

**Question 6:** What are member views regarding how each project relates to the factors?

**Question 7:** How would you rank the projects given the agreed purpose and objectives?

## QUESTIONS

### Congressional Liaison

**Question 1:** Is the Board comfortable with these two objectives?

**Question 2:** What outreach approach is most likely to meet the Board's objectives?

### Potential Projects

At the end of the meeting, we hope to have a ranking of projects that are high priorities for the Board over the next five years. The factors considered in ranking the projects are presented on page 20 and a table is provided on the next page to facilitate your analysis. During the discussion, we hope to cover the following questions so that members will have a shared understanding of each project—its scope and objectives—as well as its relative merit given the factors used.

**Question 3:** Does the Board approve moving the February 2014 meeting to March to facilitate a joint meeting with GASB regarding leases?

**Question 4:** Do members have any questions about individual projects (including current projects)?

**Question 5:** Do members wish to adjust the purpose and objectives of any projects?

**Question 6:** What are member views regarding how each project relates to the factors?

**Question 7:** How would you rank the projects given the agreed purpose and objectives?

<b>Factors to Consider in Setting Priorities:</b>	<b>Linking Cost to Performance and Managerial Cost Accounting</b>	<b>Reconciling Budget and Accrual</b>	<b>Financial/Economic Condition Reporting</b>	<b>Tax Expenditures, Revenue, and Fee Funded Entities</b>
significantly contribute to meeting the operating performance and stewardship reporting objectives				
significance of the issue relative to meeting reporting objectives				
pervasiveness of the issue among federal entities				
potential project's technical outlook				
potential project's resource needs				
a focus on citizens and citizen intermediaries as the primary users of the financial report of the US government				
impacts on preparers and auditors due to declining real budgets				
increasing risks due to fiscal uncertainty and operational complexity				
more electronic reporting				



Tab C - ATTACHMENT 1

***FEDERAL  
ACCOUNTING STANDARDS  
ADVISORY BOARD***

***THREE-YEAR PLAN  
Fiscal Years 2014-2016***

## 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).

The board prioritizes projects based on the following factors:

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

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

This document presents the three-year plan in brief on page 3. A project plan for each active project follows. The final item in the document is a list of potential projects considered by the board.

**Table 2: THREE-YEAR PLAN IN BRIEF**

Project and Objective	FY2014	FY2015	FY2016	FY2017 – and Later
<b>The Federal <u>Reporting</u> Entity</b> Consider what organizations and relationships should be included in federal entity reports and how information is to be presented	Finalize Standards and Implementation Guidance as Needed			
<b>Financial Reporting Model</b> Consider whether the existing model meets user needs and reporting objectives Segments may include consideration of improvements in: -Cost information -Performance reporting -Budget presentation -Other areas such as the articulation of the financial statements	Develop and Issue Exposure Drafts and/or Other Drafts for Comment	Finalize Guidance	<u>Decide on Next Steps (additional standards or guides)</u>	
<b>Risk Assumed</b> Develop standards so that information about risks assumed by the federal government and their potential financial impacts are available	Issue Phase 1 Exposure Draft(s) Public Hearing Finalize Phase I Standards Begin Phase II and III	Develop Proposals for Phase II and III	Exposure Drafts for Phase II and III	Finalize Phases II and III Implementation Guidance as Needed
<b>Public-Private Partnerships</b> Consider how financial reporting objectives are met with regard to public private partnerships	Develop and Issue Exposure Draft	Finalize Standards <u>for Additional Disclosures</u>	<u>Develop Implementation Guidance and/or Adapt Lease/Entity Standards to Fit P3s</u>	Finalize Standards or Technical Bulletin

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Project and Objective	FY2014	FY2015	FY2016	FY2017 – and Later
<del>Leases*</del> Evaluate existing standards to improve comparability and completeness of reporting	Develop and Issue Exposure Draft	Public Hearing Redeliberate	Finalize Standards	
<b>Natural Resources*</b> Consider implementation guidance and recognition requirements for information reported during experimental period as Required Supplementary Information	Develop project plan	Begin Review to Reclassify Information		

~~Deleted: ¶ Investments in non-federal securities\*\*¶~~  
Consider how the financial effects of such investments should be measured, recognized, and reported

~~Deleted: ¶ ¶~~  
Issue Exposure Draft

~~Deleted: ¶ ¶~~  
Finalize Standards

~~Deleted: ¶~~ Begin Research and Develop Exposure Draft

\*Project deferred pending action to fill current staff vacancies.

## CURRENT PROJECTS

### THE FEDERAL REPORTING ENTITY

Purpose:

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

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

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

Applicability:

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

Objectives:

Identify organizations that should be included in the financial reports of the government-wide reporting entity and each component reporting entity to meet federal financial reporting objectives.

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

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



Assigned  
staff:

Melissa Loughan

Other  
resources:

Staff has engaged a task force to help accomplish the project objectives.

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

Revised  
Timeline:

**August 2013 Meeting**

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

**October and December 2013 Meetings**

- Discuss draft standards and approve a final Statement
- Submit standards to sponsors in January 2014

**March/April 2014**

- Issue standards
- Consider the need for implementation guidance

## THE FINANCIAL REPORTING MODEL

### Purpose:

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

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

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

### Applicability:

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

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

### Objectives:

The primary objectives of this project are to:

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

<sup>1</sup> Preparers Focus Group Discussion, February 10, 2009.

<sup>2</sup> FASAB, *User Needs Study: Citizens*, April 2010.

<sup>3</sup> FASAB Reporting Model Task Force, *Report to the FASAB*, December 22, 2010.

- b. Determine how financial information should be presented to be most responsive to users and the manner in which they obtain information.
- c. Consider how a schedule of spending should relate to other financial statements and financial information presented in reports.

Assigned staff:

Ross Simms

Other resources:

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

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

Timeline:

**February - December 2013**

- Draft ED(s) or other proposals

**January 2014 – June 2014 Meetings**

- Review ED(s) or other proposals

**August 2014 Meeting**

- Issue ED(s) or other proposals for comment

**October and December 2014 Meetings**

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

**February and April 2015**

- Draft Statement(s) or other guidance

**May 2015**

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

**July 2015**

- Issue Statement(s) and decide on next steps to facilitate “ideal model”

## LEASES

### Purpose:

This project is being undertaken by the board primarily because the current lease accounting standards, SFFAS 5, *Accounting for Liabilities of the Federal Government*, and 6, *Accounting for Property, Plant, and Equipment*, have been criticized as ineffective because they do not make meaningful distinctions between capital and operating leases regarding the substance of lease transactions. In addition, the lease accounting standards in SFFAS 5 and 6 are based on Financial Accounting Standards Board (FASB) lease accounting standards which are currently being revised. The FASB and International Accounting Standards Board (IASB) have undertaken a joint project on lease accounting that focuses on the conveyance of rights to future economic benefits (such as the right of use). In addition, the Governmental Accounting Standards Board is undertaking a project to address lease standards. ~~Staff of the two Boards will collaborate in developing issues and options. Joint meetings of the Board will be held periodically to discuss options including differences between the state/local and federal environments.~~

**Comment [WP1]:** The first joint meeting on leases is planned for March 2014.

### Applicability:

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

### Objectives:

The primary objectives of this project are to:

- a. Develop an approach to lease accounting that would ensure that all assets and liabilities [consistent with SFFAC 5 definitions] arising under lease contracts are recognized in the statement of financial position and related costs are recognized in the statement of net cost.
- b. Evaluate and revise as needed the current lease-related definitions and recognition guidance in SFFAS 5 and 6, including consideration of the advantages and disadvantages of applying the FASB/IASB lease standard in the federal environment.
- c. Ensure that the standards ~~fully address the various lease transactions/activities currently being used in the federal community (e.g. enhanced use leases).~~
- d. Consider the differences between lease accounting and the budgetary treatment of lease-purchases and leases of capital assets as outlined in Office of Management and Budget (OMB) Circular A-11.

**Deleted:** to be developed

### Assigned staff:

Monica Valentine

Other resources:

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

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

Timeline:

~~This project will become active when the first staff vacancy is filled.~~

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

**December 2011– December 2012**

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

**June 2013 Meeting**

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- ~~FASB/IASB ED published summaries provided (no discussion scheduled)~~

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**August 2013 Meeting\*** **Dates adjusted assuming FASB's ED is issued in the second quarter of 2013**

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- ~~Discuss~~ FASB/IASB revised lease accounting proposal ~~based on~~ an overview of revised FASB/IASB lease accounting proposals
- ~~Consider the scope of the project with the assistance of GASB staff~~

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**September 2013 – August 2014**

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

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October – December 2013 Meetings¶

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**October 2014 Meeting**

- ~~Review draft standards section~~

**Deleted:** Analyze final FASB/IASB lease accounting standard; working in conjunction with task force and FASB staff¶

**Deleted:** February

**December 2014 Meeting**

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

**Deleted:** Present full analysis of issues and recommendations for board decisions

**Deleted:** April 2014

**February 2015 Meeting**

- ~~Issue ED~~

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**June – October 2015 Meetings**

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

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#### December 2015 Meeting

- Discuss any issues identified for board consideration

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**Deleted:** Present full analysis of ED comment letters received along with

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#### February – April 2016 Meetings

- Present drafts of final standards for board consideration
- Present ballot draft standards for board approval

**Deleted:** Conduct public hearing

**Deleted:** April - August 2015

#### August 2016

- Issue SFFAS

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October 2015 Meeting¶

**Deleted:** February – April

## RISK ASSUMED

### Purpose:

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

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

### Applicability:

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

### Objectives:

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

### Assigned staff:

New Hire with support from Monica Valentine

### Other

### resources:

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

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

### Timeline:

#### **February 2013 – May 2013**

- **Phase I:** Explicit Indemnification Arrangements (insurance and guarantees other than loans):
  - Identify alternative measures of loss exposure (value at risk)

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<sup>4</sup> SFFAC 1, *Objectives of Federal Financial Reporting*, pars. 100, 122, and 141

- Consider recognition of elements in accrual financial statements (measurement and recognition guidance)
- Consider needed disclosures and/or RSI

**June – ~~December 2013~~**

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- Begin developing an exposure draft (ED) or other request for feedback with board input and feedback

**~~January – May 2014~~**

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

**~~June 2014~~**

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- Hold public hearing on Phase I

**~~May - October 2014~~**

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

**~~December 2014~~**

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- Transmit proposed Phase I SFFAS to sponsors for 90-day review

**~~March 2015~~**

**Deleted:** September 2014

- Issue final Phase I SFFAS

**~~December 2014 – June 2015~~**

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- Develop implementation guidance for Phase I, if necessary

**~~2015 - 2017~~**

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



## PUBLIC-PRIVATE PARTNERSHIPS

Purpose: This project was added to the agenda because federal agencies have increasingly turned to public-private partnerships (e.g., PPPs, P3s) to accomplish goals. Budget pressures are likely to further increase the use of P3s. Making the full costs of such partnerships transparent would be the overall objective of the project. A detailed project plan along with active work on this project would not begin until FY2013 with final standards following a two to three year effort.

Specific objectives could include:

- Defining terms (e.g., service concession arrangements, P3s)
- Providing guidance for the recognition and measurement of:
  - assets and liabilities
  - revenues and expenses
- Considering implications for other arrangements related to P3s (sale-leaseback or other long-term arrangements).

Applicability: This project applies to the federal government as a whole and all component entities that present general purpose federal financial reports in conformance with SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles (GAAP), Including the Application of Standards Issued by the Financial Accounting Standards Board (FASB)*.

Objectives: Because fairly robust FASAB guidance exists regarding the recognition and measurement of assets/liabilities and revenues/expenses, the primary objective of this project would be to consider issuing either a Technical Bulletin or standards. Technical Bulletins provide guidance for applying FASAB Statements and Interpretations and resolving accounting issues not directly addressed by either the Statements or Interpretations.

Assigned staff: Domenic Savini

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

Project page: N/A

Timeline: **October 2012**

- Develop Project Plan and Begin Research

#### June 2013 Board Meeting

- Update board and address scope and sequencing

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#### July – December 2013

- Present individual issues to task force and board

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#### February 2014

- Develop and Issue Exposure Draft for additional disclosures

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#### October 2014

- Finalize Guidance or Standards for additional disclosures

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#### 2015-2017

- Develop implementation guidance and/or standards in concert with leases and reporting entity projects

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## NON-FEDERAL INVESTMENTS – May be Deferred

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#### Purpose:

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

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

#### Applicability:

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

Objectives:

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

- a) Operating Performance: What and where are the important assets of the U.S. government, and how effectively are they managed?
- b) Stewardship: Did the government's financial position improve or deteriorate over the period?

The specific objectives of this project are:

- a) Establish definitions and meaningful categories of investments
- b) Develop recognition and measurement guidance, including remeasurement as well as risk assumed information (consistent with the principles established in the risk assumed project)
- c) Develop disclosure requirements

Assigned staff:

Not Assigned due to staff vacancy

Other resources:

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

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

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

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

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

Project page: <http://www.fasab.gov/projects/active-projects/investments->

[and-other-equity-interests/](#)

Timeline:

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

This project will become active when the second staff vacancy is filled.  
Estimated time to completion is three years.

## NATURAL RESOURCES

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

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

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

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

Assigned staff:

Not assigned due to staff vacancy

Timeline:

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

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

## POTENTIAL PROJECTS

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

Stakeholders are encouraged to contact the Executive Director to suggest potential projects or to provide insight regarding the projects identified here. Instructions for submitting comments are presented on page [2](#).

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## ASSET RETIREMENT OBLIGATIONS

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

### 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.

#### Figure 1: Rules of Procedure Regarding Agenda Setting

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

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

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

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

## CONCEPTUAL FRAMEWORK – REVIEW AND FINALIZATION

The Board undertook a project to refresh and complete 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,
- 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 standards. The Board envisioned a final review of the resulting concepts to ensure consistency across the framework and to confirm its completeness. The Board completed new concepts on elements of accrual bases financial statements and measurement of those elements as well as placement of information (basic, RSI and OAI).

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

If this project were undertaken, the Board would review its framework (including the results of the reporting model and reporting entity projects) and ensure the framework is complete and 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. The GASB issued Statement No 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, an amendment of GASB Statement No. 53, on the topic. Selected material from the GASB's plain language explanation is presented below as background.

### WHAT IS A DERIVATIVE?

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

Governments enter into derivatives for at least four reasons:

- Governments often intend derivatives to be *hedges*. This type of derivative is an attempt to significantly reduce a specific financial risk that a government identifies, such as the risk of increasing commodity costs.
- Some governments find that they can *lower their borrowing costs* by entering into a derivative in connection with debt they issue.
- Some governments engage in derivatives that are investments—governments are trying to *generate income*, as they would by buying other financial instruments.
- Some governments enter into derivatives to *manage their cash flows*. These derivatives may include an up-front cash payment to the government from the other party. The payment arrangements or terms of the derivative agreement essentially provide for the repayment of the up-front cash.

The FY2012 Financial Report of the US Government includes the following regarding derivatives:

Note 1:

A derivative is a financial instrument or other contract with all three of the following characteristics:

- It has (1) one or more underlyings and (2) one or more notional amounts or payment provisions or both.
- Those terms determine the amount of the settlement or settlements, and, in some cases, whether a settlement is required.
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

- Its terms require or permit net settlement, it can readily be settled net by a means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

An underlying is a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, or other variable. An underlying may be a price or rate of an asset or liability but is not the asset or liability itself. A notional (or face) amount is a number of currency units, shares, bushels, pounds, or other units specified in the contract. The settlement of a derivative instrument with a notional amount is determined by interaction of that notional amount with the underlying. The interaction may be simple multiplication, or it may involve a formula with leverage factors or other constants. A payment provision specifies a fixed or determinable settlement to be made if the underlying behaves in a specified manner.

The accounting for derivative instruments are governed by FASB Accounting Standards Codification (ASC) Topic 815, Derivatives and Hedging, which aims to highlight to financial statement users additional disclosures on an entity's objectives in its use of derivatives and the method of accounting for such financial instruments. This standard requires that entities with derivatives disclose the following:

- How and why an entity uses derivatives,
- How derivatives and related hedged items are accounted for under this accounting standard, and
- How derivatives and related hedged items affect an entity's financial statements.

For further information, see Note 10—Derivatives.

Note 10 - Derivatives are financial instruments that entities use to hedge their particular exposure to some sort of financial risk. These financial risks include interest rate risk, market price risk, credit risk, foreign exchange risk, and commodity risk. As FASAB (which determines GAAP for Federal entities) is silent on this issue, the accounting for derivative instruments is governed by FASB ASC Topic 815, Derivatives and Hedging, which aims to highlight to financial statement users additional disclosures on an entity's objectives in its use of derivatives and the method of accounting for such financial instruments. Derivatives are accounted for at market value in accordance with this standard. Derivatives are marked to market with changes in value reported within financial income. The hedge strategy (i.e., fair value, cashflow, or foreign currency) employed determines the financial statement impact on their statement of operations and net position. Per ASC Topic 815, the fair value of derivative instruments shall be presented on a gross basis when they are subject to master netting agreements.

PBGC uses derivatives to mitigate investment risks, enhance investment returns (derivatives are not used to leverage investment portfolios) and as a liquid and cost efficient substitute for positions in physical securities. PBGC utilizes a no hedging designation which results in the gain or loss on a derivative instrument being recognized currently in earnings. PBGC elects to net its derivative receivables and derivative payables and the related cash collateral received for its non-exchange derivative contracts subject to International Swaps and Derivatives Association, Inc. master agreements. As of September 30, 2012, PBGC had \$0.0 billion of derivatives in an asset position (recorded in other assets). PBGC had \$0.1 billion of derivatives in an asset position (recorded in other assets) as of September 30, 2011, and \$(0.01) billion of derivatives in a liability position (recorded in other liabilities) as of September 30, 2012, and 2011.

Other than certain derivative instruments in investment funds, TVA uses derivatives purely for hedging purposes and not for speculative purposes. The accounting for changes in fair value of these instruments depends on whether TVA uses regulatory accounting to defer the derivative gains and losses, and whether the derivative instrument qualifies for hedge accounting treatment. As of September 30, 2012, and 2011, respectively, TVA had \$0.2 billion and \$0.4 billion worth of derivatives in an asset position (recorded in other assets), and \$2.4 billion and \$2.1 billion worth of derivatives in a liability position (recorded in other liabilities).

The gain/(loss) on derivatives was \$0.1 billion and \$0.1billion for PBGC and \$(0.4) billion and \$(0.1) billion for TVA for fiscal years 2012 and 2011, respectively. Please refer to the individual financial statements of PBGC and TVA for more detailed information related to derivatives.

## ELECTROMAGNETIC SPECTRUM

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

The FCC’s goal is to:

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

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

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

The convergence of wireless telecommunications technology with the Internet Protocol (IP) is fostering new generations of mobile technologies. This transformation has created new demands for advanced communications infrastructure and radio frequency spectrum capacity that can support high-speed, content-rich uses. Furthermore, a number of services, in addition to consumer and business communications, rely at least in part on wireless links to broadband (high-speed/high-capacity) infrastructure such as the Internet and IP-enabled networks. Policies to provide additional spectrum for mobile broadband services are generally viewed as drivers that would stimulate technological innovation and economic growth.

The Middle Class Tax Relief and Job Creation Act of 2012 (P.L. 112-96, signed February 22, 2012) included provisions to expedite the availability of spectrum for commercial use. These include expediting auctions of licenses for spectrum designated for mobile broadband; authorizing incentive auctions, which would permit television broadcasters to receive compensation for steps they might take to release some of their airwaves for mobile broadband; requiring that specified federal holdings be auctioned or reassigned for commercial use; and providing for the availability of spectrum for unlicensed use. The act also includes provisions to apply future spectrum license auction revenues toward deficit reduction; to establish a planning and governance structure to deploy public safety broadband networks, using some auction proceeds for that purpose; and to

## ELECTRONIC REPORTING

Electronic reporting is increasingly viewed as a means to convey financial information about government. This is evidenced not only by sites such as Recovery.gov but also by the universal practice of posting annual financial reports to federal websites and the emerging practice of

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

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

1. “An organization, group or taskforce of stakeholders should be appointed from the standard-setting community, federal, state and local government preparers, representatives from various public interest groups, and citizen-users — all with the collective charge to develop guidelines through an open dialogue and with a shared vision for data formatting and common reporting. This group should also encourage the discovery and recommendation of and reward for best practices in government financial, non-financial and performance information reporting.”
2. The above group should “set definitions and strategies and create uniform standards for data content, database design and logical data model constructs for easier extraction, transformation and processing. Integrating federal, state and local information is critical. Standardization must be stable and able to survive challenges from preparers, data providers, systems vendors and users among others who are wedded to their existing systems and approaches.”
3. “Going for “low-hanging fruit” creates small successes that can be celebrated early and often. Do not get too bogged down in the oversight and linkage of data within and across old legacy systems. Consider the “restaurant approach” and develop a menu of reports that may be used across governments to report similar information. Consider using existing formats, such as AGA’s Citizen-Centric Reporting model, for reporting relevant information to citizens in plain language. Create an interactive financial reporting model starting with audited financial statements with simple drill-down links to data and reconciled reports beneath the audited financial statements that focus on the basic information citizens want. Focus on efficiency and results with five or six key standard metrics common across governments. Provide context to help make the information both understandable and meaningful.”

4. “Policy makers and standard setters should capitalize on the convening power of AGA. Use AGA to continue to explore and research best practices, as well as to construct bridges across the local, state and federal governments.”<sup>5</sup>

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

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

<sup>5</sup> Association of Government Accountants, *e-Reporting*, July 2012, pages 20-21.

<sup>6</sup> Note that it is not suggested that each of these is a matter of concern that FASAB should address through standards. For example, some members suggested educational materials such as best practices.

- a) Is the data downloadable to facilitate analysis?
- b) Are appropriate historical data available?
- c) Are internal and external links maintained (no broken links)?
- 5) Are security/control measures adequate?
  - a) Process of posting data prevents errors
  - b) Appropriate authorization to edit data
  - c) Controls to prevent unauthorized access (both internally and externally)
  - d) Hyperlinks to unaudited data – is adequate disclosure in place and does security extend to the unaudited data? Is the user able to differentiate between complete and incomplete data?
  - e) Auditor relationship with electronically published data
    - i) Relationship with existing GAAP based financial reports
    - ii) Assurance over real-time electronic reporting?
  - f) Quality assurance over unaudited data
    - i) Source of data (e.g., financial systems, procurement data base, cuff records)
    - ii) Controls
    - iii) Reconciliation to other data sources

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## EVALUATING EXISTING STANDARDS

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

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

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

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

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

## FINANCIAL/ECONOMIC CONDITION

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

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

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

## INTANGIBLES

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

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

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

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

### Deleted: INSURANCE¶

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

## INTERNAL USE SOFTWARE

SFFAS 10 provides standards for internal use software. Since its implementation, federal preparers have expressed concerns regarding (1) the relevance of capitalized costs which are limited to the development phase (both OMB guidance and GAO's cost estimating guide focus broadly on project – or life-cycle – costs), (2) the need to assign full costs – which include general and administrative costs – to software, and (3) the ability to identify phases under current IT practices. The objectives of the project would be to:

- Evaluate whether restricting capitalized costs to the development phases is useful and, if not, consider changes such as allowing capitalization from project inception to completion or expensing costs.
- Consider alternatives to the current full cost requirements and/or guidance to support efficient agency implementation

## LINKING COST AND PERFORMANCE

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

## LONG-TERM CONSTRUCTION/DEVELOPMENT/PROCUREMENT CONTRACTS

In its work on National Defense PP&E (ND PP&E), the board considered the need for disclosures regarding complex, long duration contracts for the development and acquisition of weapons systems. One proposal included a disclosure of the ten largest acquisition programs showing budgeted amounts, expected amounts, cost to date and progress to date. Exposure of this proposed disclosure requirement revealed a number of technical areas that required clarification as well as resistance to this non-traditional disclosure among some commentators. The board elected to move forward to eliminate the special category ND PP&E and any disclosures unique to the category. As a result, the board set aside its work in this area. However, the board noted (in the Basis for Conclusions to a subsequent ED and SFFAS 23 – *Eliminating the Category National Defense PP&E*) its intention to return to this proposal on a government-wide basis in the future.



## MANAGERIAL COST ACCOUNTING

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

## OMNIBUS AICPA

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

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

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

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

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

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

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

## PROPERTY WITH REVERSIONARY INTEREST

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

## RESEARCH AND DEVELOPMENT

Research and development (R&D) costs are presented as required supplementary stewardship information (RSSI) and include both direct R&D spending by agencies and spending which supports non-federal research and development. Generally, staff 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 (\$136 billion in 2011) 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.

## RECONCILING BUDGET AND ACCRUAL INFORMATION

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

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

81. This total should then be adjusted by:

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

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

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

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

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

## 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 FY2013, \$350.8 billion of exchange revenue and \$2,518.2 billion of non-exchange revenue was reported government-wide. SFFAS 7 requires disclosures and required supplementary information as well as suggests other accompanying information on the following topics:

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

Portions of the financial report of the US Government related to these requirements and suggestions are presented in Appendix 1.

SFFAS 7 has not been reviewed. Feedback suggests that some agencies are relying on FASB standards for more detailed guidance regarding revenue recognition and these standards are expected to be revised soon. 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.

## STATEMENT OF CHANGES IN CASH

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

financing needs.” The recommendations also include consideration of the status of this statement as basic or required supplementary information.

## **STEWARDSHIP INVESTMENTS**

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

## **SUMMARY OR POPULAR REPORTING**

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

## **TAX EXPENDITURES**

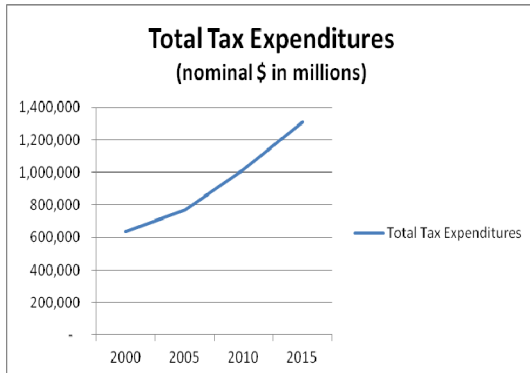
Presently, accounting standards do not require information regarding tax expenditures. SFFAS 7 provides that:

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

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

For FY2012, estimates of tax expenditures are \$1,092.5 billion while tax revenues are \$1,912.5 billion. (Source: Pew Charitable Trusts at [http://subsidyscope.org/tax\\_expenditures/summary/](http://subsidyscope.org/tax_expenditures/summary/) - accessed April 10, 2013)

Growth in tax expenditures has been significant since SFFAS 7 first addressed the issue. For FY2013, The following chart shows the growth in tax expenditures from 2000 through 2015 (estimated) based on Treasury estimates:



Tax expenditure information is also available by budget function. In some cases, tax expenditures are significant when considered in comparison to direct spending (outlays) for a particular budget function. Absent information about tax expenditures, it may be difficult to assess the federal government's actions and their costs.

<b>Budget Function</b> (\$ in millions)	<b>2000</b>	<b>2005</b>	<b>2010</b>	<b>2015</b>
Commerce and housing - Tax Exp.	242,455	278,810	365,230	509,180
Outlays	3,207	7,566	(82,316)	(40,793)
Income security - Tax Exp.	125,884	119,675	143,330	211,423
Outlay	253,724	345,847	622,210	534,499
Health - Tax Exp.	91,080	135,540	187,830	237,300
Outlays	154,504	250,548	369,068	514,058
General purpose fiscal assistance - Tax Exp.	67,720	63,620	57,330	107,420
Education, training, employment, and social services - Tax Exp.	57,750	97,750	141,190	104,720
Outlays	53,764	97,555	128,598	106,476
International affairs - Tax Exp.	16,630	23,120	50,910	55,090
Outlays	17,213	34,565	45,195	53,861
Energy - Tax Exp.	2,030	4,920	8,990	8,490
Outlays	(761)	429	11,611	10,725

See Appendix 1 for excerpts from the FY 2012 financial report regarding tax revenues (these do not include the suggested other accompanying information regarding tax expenditures).

## **SUPPORT AND OUTREACH THROUGH GUIDANCE AND EDUCATION**

While this item would best be considered in the context of strategic planning, it is listed here as a reminder of alternatives other than addition of major technical projects. Staff provides advice to preparers and auditors on an informal basis and supports education through review of textbooks, public speaking and other educational avenues (such as the CGFM program). Allocation of additional resources to this area might include (1)

development of user guides, (2) more formal implementation guidance, or (3) evaluation of user needs and focus groups on communicating effectively through financial reports.

## **B. Basis of Accounting and Revenue Recognition**

These financial statements were prepared using U.S. GAAP, primarily based on Statement of Federal Financial Accounting Standards (SFFAS). Under these principles:

- Expenses are generally recognized when incurred.
- Nonexchange revenues, including taxes, duties, fines, and penalties, are recognized when collected and adjusted for the change in net measurable and legally collectable amounts receivable. Related refunds and other offsets, including those that are measurable and legally payable, are netted against nonexchange revenue.
- Exchange (earned) revenues are recognized when the Government provides goods and services to the public for a price. Exchange revenues include user charges such as admission to Federal parks and premiums for certain Federal insurance.

The basis of accounting used for budgetary purposes, which is primarily on a cash and obligation basis and follows budgetary concepts and policies, differs from the basis of accounting used for the financial statements which follow U.S. GAAP. See the Reconciliations of Net Operating Cost and Unified Budget Deficit in the Financial Statements section.

The basis of accounting used and the detail of the basis for the Statement of Social Insurance (SOSI) and the Statement of Changes in Social Insurance Amounts are covered in Note 26—Social Insurance.

## **D. Accounts and Taxes Receivable**

Accounts receivable represent claims to cash or other assets from entities outside the Government that arise from the sale of goods or services, duties, fines, certain license fees, recoveries, or other provisions of the law. Accounts receivable are reported net of an allowance for uncollectible accounts. An allowance is established when it is more likely than not the receivables will not be totally collected. The allowance method varies among the agencies in the Government and is usually based on past collection experience and is re-estimated periodically as needed. Methods include statistical sampling of receivables, specific identification and intensive analysis of each case, aging methodologies, and percentage of total receivables based on historical collection.

Taxes receivable consist primarily of uncollected tax assessments, penalties, and interest when taxpayers have agreed the amounts are owed or a court has determined the assessments are owed. The Balance Sheets do not include unpaid assessments when neither taxpayers nor a court have agreed that the amounts are owed (compliance assessments) or the Government does not expect further collections due to factors such as the taxpayer's death, bankruptcy, or insolvency (writeoffs). Taxes receivable are reported net of an allowance for the estimated portion deemed to be uncollectible. The allowance for doubtful accounts is based on projections of collectibles from a statistical sample of unpaid tax assessments.



## Note 3. Accounts and Taxes Receivable, Net

### Accounts and Taxes Receivable as of September 30, 2012, and 2011

(In billions of dollars)	2012	2011
Accounts receivable:		
Gross accounts receivable .....	92.6	89.2
Allowance for uncollectible accounts .....	(23.1)	(20.7)
Accounts receivable, net .....	69.5	68.5
Taxes receivable:		
Gross taxes receivable .....	156.8	151.5
Allowance for doubtful accounts .....	(115.1)	(113.7)
Taxes receivable, net .....	41.7	37.8
Total accounts and taxes receivable, net .....	111.2	106.3

Accounts receivable includes related interest receivable of \$7.5 billion and \$6.6 billion as of September 30, 2012, and 2011, respectively.

Treasury comprises approximately 37.3 percent of the Government's reported accounts and taxes receivable, net, as of September 30, 2012. Refer to the individual financial statements of Treasury, the Social Security Administration, the Department of Defense, the Department of Health and Human Services, the Department of Agriculture, the Department of Energy, the Department of Homeland Security, the Department of the Interior, the Pension Benefit Guaranty Corporation, and the Department of Labor for significant detailed information on gross accounts and taxes receivable and the related allowance for doubtful accounts. These agencies comprise 89.7 percent of the Government's accounts and taxes receivable, net, of \$111.2 billion as of September 30, 2012.

## Miscellaneous Liabilities

Some of the more significant liabilities included in this category are for (1) legal and other contingencies (see Note 22—Contingencies), (2) Bonneville Power Administration liability to pay annual budgets of several power projects for its electrical generating capacity, and (3) payables due to derivative contracts and the purchases of securities. In addition, many Federal agencies reported relatively small amounts of miscellaneous liabilities that are not otherwise classified.

## Note 20. Collections and Refunds of Federal Revenue

### Collections of Federal Tax Revenue for the Year Ended September 30, 2012

(In billions of dollars)	Federal Tax Revenue Collections	Tax Year to Which Collections Relate			
		2012	2011	2010	Prior Years
Individual income and tax withholdings .....	2,160.0	1,415.4	699.5	20.7	24.4
Corporation income taxes .....	281.5	197.3	73.1	0.7	10.4
Unemployment taxes .....	66.6	34.8	18.0	13.7	0.1
Excise taxes .....	82.6	62.2	20.2	-	0.2
Estate and gift taxes .....	14.5	0.1	6.8	0.2	7.4
Railroad retirement taxes .....	4.8	3.6	1.2	-	-
Fines, penalties, interest, and other revenue .....	6.3	6.1	0.1	0.1	-
Customs duties .....	30.5	30.5	-	-	-
Subtotal .....	<u>2,646.8</u>	<u>1,750.0</u>	<u>818.9</u>	<u>35.4</u>	<u>42.5</u>
Less: amounts collected for non-Federal entities .....	<u>(0.4)</u>				
Total .....	<u>2,646.4</u>				

Treasury is the Government's principal revenue-collecting agency. Collections of individual income and tax withholdings include FICA/SECA and individual income taxes. These taxes are characterized as non-exchange revenue.

Excise taxes, also characterized as non-exchange revenue, consist of taxes collected for various items, such as airline tickets, gasoline products, distilled spirits and imported liquor, tobacco, firearms, and others.

**Federal Tax Refunds Disbursed for the Year Ended September 30, 2012**

(In billions of dollars)	Refunds Disbursed	Tax Year to Which Refunds Relate			
		2012	2011	2010	Prior Years
Individual income and tax withholdings .....	327.7	0.5	293.5	23.7	10.0
Corporation income taxes .....	44.0	5.1	10.6	7.4	20.9
Unemployment taxes .....	0.1	-	0.1	-	-
Excise taxes .....	1.5	0.5	0.8	0.1	0.1
Estate and gift taxes .....	0.5	-	0.2	0.1	0.2
Customs duties .....	1.9	1.9	-	-	-
Total .....	<u>375.7</u>	<u>8.0</u>	<u>305.2</u>	<u>31.3</u>	<u>31.2</u>

**Reconciliation of Revenue to Tax Collections for the Year Ended September 30, 2012, and 2011**

(In billions of dollars)	2012	2011
Consolidated revenue per the Statements of Operations and Changes in Net Position .....	2,518.2	2,363.8
Tax refunds .....	375.7	417.6
First-time Homebuyers Tax Credit .....	-	(2.2)
Making work pay credit .....	(0.3)	(13.9)
Earned income tax credit and child tax credit imputed revenue .....	(77.0)	(78.3)
Other tax credits and accrual adjustments .....	(15.8)	(13.9)
Federal Reserve earnings .....	(82.0)	(82.5)
Nontax-related fines and penalties reported by agencies .....	(52.7)	(49.5)
Nontax-related earned revenue .....	(19.7)	(16.2)
Collections of Federal tax revenue .....	<u>2,646.4</u>	<u>2,524.9</u>

Consolidated revenue in the Statements of Operations and Changes in Net Position is presented on a modified cash basis, is net of tax refunds, and includes other nontax related revenue. Earned Income Tax Credit and Child Tax Credit, Other tax credits amounts (unaudited), Making work pay credit, and First-time Homebuyer Credit are included in gross cost in the Statements of Net Cost as a component of Treasury Collections of Federal tax revenue. The table above reconciles total revenue to Federal tax collections.

### Collections of Federal Tax Revenue for the Year Ended September 30, 2011

(In billions of dollars)	Federal Tax Revenue Collections	Tax Year to Which Collections Relate			
		2011	2010	2009	Prior Years
Individual income and tax withholdings .....	2,102.0	1,357.0	703.9	19.0	22.1
Corporation income taxes .....	242.8	165.7	62.6	1.9	12.6
Unemployment taxes .....	56.2	30.4	14.3	11.4	0.1
Excise taxes .....	75.7	56.3	19.0	0.1	0.3
Estate and gift taxes .....	9.1	-	6.4	0.7	2.0
Railroad retirement taxes .....	4.7	3.5	1.2	-	-
Fines, penalties, interest, and other revenue .....	5.4	5.2	0.1	0.1	-
Customs duties .....	29.9	29.9	-	-	-
Subtotal .....	2,525.8	1,648.0	807.5	33.2	37.1
Less: amounts collected for non-Federal entities .....	(0.9)				
Total .....	2,524.9				

### Federal Tax Refunds Disbursed for the Year Ended September 30, 2011

(In billions of dollars)	Refunds Disbursed	Tax Year to Which Refunds Relate			
		2011	2010	2009	Prior Years
Individual income and tax withholdings .....	344.4	1.1	302.8	26.5	14.0
Corporation income taxes .....	67.8	6.3	16.6	6.5	38.4
Unemployment taxes .....	0.1	-	0.1	-	-
Excise taxes .....	2.2	0.8	1.0	0.2	0.2
Estate and gift taxes .....	1.8	-	-	0.4	1.4
Customs duties .....	1.3	0.6	0.3	0.1	0.3
Total .....	417.6	8.8	320.8	33.7	54.3

# United States Government Other Accompanying Information (Unaudited) For the Years Ended September 30, 2012, and 2011

## Unexpended Budget Balances

The Federal budget and budget process largely use obligational accounting—a distinct administrative control through which Federal agencies control, monitor, and report on the status of funds at their disposal. Unexpended budget balances consist of the unobligated and obligated, but unliquidated, budget balances.

Unobligated budget balances, including amounts for trust funds, are the cumulative amount of budget balances that are not obligated and that remain available for obligation. In 1-year accounts, the unobligated balance is not available for new obligations after the end of the fiscal year. In multiyear accounts, the unobligated balance may be carried forward and remains available for obligation for the period specified. In no-year accounts, the unobligated balance is carried forward until specifically rescinded by law or the head of the agency concerned determines that the purposes for which it was provided have been accomplished and disbursements have not been made against the appropriation for 2 consecutive years. The total unobligated budget balances as of September 30, 2011, and 2010, are \$829.4 billion and \$885.1 billion, respectively.

Obligated budget balances are the cumulative budget balances that have been obligated but not liquidated. The obligated balance can be carried forward for a maximum of 5 years after the appropriation has expired. The total obligated budget balances as of September 30, 2011, and 2010, are \$1,428.5 billion and \$1,530.9 billion, respectively.

The President's Budget is located at [www.whitehouse.gov/omb](http://www.whitehouse.gov/omb); unexpended budget balances are shown in the supporting documentation section under "Balances of Budget Authority." The President's Fiscal Year 2013 Budget (issued on February 13, 2012) includes the actual unobligated and obligated amounts for fiscal year 2011. The President's Budget with fiscal year 2012 actual amounts is expected to be published in February 2013.

## Tax Burden

The Internal Revenue Code provides for progressive tax rates, whereby higher incomes are generally subject to higher tax rates. The following tables present the latest available information on income tax and related income, deductions, and credit for individuals by income level and for corporations by size of assets.

**Individual Income Tax Liability for Tax Year 2010**

<b>Adjusted Gross Income (AGI)</b>	<b>Number of Taxable Returns (In thousands)</b>	<b>AGI (In millions of dollars)</b>	<b>Total Income Tax (In millions of dollars)</b>	<b>Average AGI per Return (In whole dollars)</b>	<b>Average Income Tax per Return (In whole dollars)</b>	<b>Income Tax as a Percentage of AGI</b>
Under \$15,000 .....	37,602	87,421	1,587	2,325	42	1.8%
\$15,000 under \$30,000 .....	30,858	681,419	14,314	22,082	464	2.1%
\$30,000 under \$50,000 .....	25,605	1,000,098	47,754	39,059	1,865	4.8%
\$50,000 under \$100,000 .....	30,533	2,171,323	167,026	71,114	5,470	7.7%
\$100,000 under \$200,000 ....	13,998	1,869,639	224,423	133,565	16,033	12.0%
\$200,000 under \$500,000 ....	3,472	985,431	192,826	283,822	55,537	19.6%
\$500,000 or more .....	825	1,293,811	303,745	1,568,256	368,176	23.5%
Total .....	<u>142,893</u>	<u>8,089,142</u>	<u>951,675</u>			

**Corporation Income Tax Liability for Tax Year 2009**

<b>Total Assets (In thousands of dollars)</b>	<b>Income Subject to Tax (In millions of dollars)</b>	<b>Total Income Tax after Credits (In millions of dollars)</b>	<b>Percentage of Income Tax after Credits to Taxable Income</b>
Zero assets .....	45,444	13,840	30.5%
\$1 under \$500 .....	6,280	1,088	17.3%
\$500 under \$1,000 .....	3,273	734	22.4%
\$1,000 under \$5,000 .....	11,116	3,043	27.4%
\$5,000 under \$10,000 .....	6,206	2,002	32.3%
\$10,000 under \$25,000 .....	9,865	3,237	32.8%
\$25,000 under \$50,000 .....	8,968	2,883	32.1%
\$50,000 under \$100,000 .....	12,209	3,925	32.1%
\$100,000 under \$250,000 .....	20,445	6,430	31.5%
\$250,000 under \$500,000 .....	24,838	7,492	30.2%
\$500,000 under \$2,500,000 .....	91,990	26,347	28.6%
\$2,500,000 or more .....	654,215	133,974	20.5%
Total .....	<u>894,849</u>	<u>204,995</u>	

## Tax Gap

The tax gap is the difference between what taxpayers should pay and what they actually pay due to not filing tax returns, not paying their reported tax liability on time, or failing to report their correct tax liability. The tax gap, about \$450.0 billion based on updated fiscal year 2006 estimates, represents the amount of noncompliance with the tax laws. Underreporting of income tax, employment taxes, and other taxes represents 84 percent of the gross tax gap. The IRS remains committed to finding ways to increase compliance and reduce the tax gap, while minimizing the burden on the vast majority of taxpayers who pay their taxes accurately and on time.

The tax gap is the aggregate amount of tax (i.e., excluding interest and penalties) that is imposed by the tax laws for any given tax year but is not paid voluntarily and timely. The tax gap arises from three types of noncompliance: not filing required tax returns on time or at all (the nonfiling gap), underreporting the correct amount of tax on timely filed returns (the underreporting gap), and not paying on time the full amount reported on timely filed returns (the underpayment gap). Of these three components, only the underpayment gap is observed; the nonfiling gap and the underreporting gap must be estimated. Each instance of noncompliance by a taxpayer contributes to the tax gap, whether or not the IRS detects it, and whether or not the taxpayer is even aware of the noncompliance. Obviously, some of the tax gap arises from intentional (willful) noncompliance, and some of it arises from unintentional mistakes.

The collection gap is the cumulative amount of assessed tax, penalties, and interest that has been assessed over many years, but has not been paid by a certain point in time and which the IRS expects to remain uncollectible. In essence, it represents the difference between the total balance of unpaid assessments and the net taxes receivable reported on the IRS' balance sheet. The tax gap and the collection gap are related and overlapping concepts, but they have significant differences. The collection gap is a cumulative balance sheet concept for a particular point in time, while the tax gap is like an income statement item for a single year. Moreover, the tax gap estimates include all noncompliance, while the collection gap includes only amounts that have been assessed (a small portion of all noncompliance).

~~Please refer to the individual financial statements of DOI, DOD, USDA, DOE, and VA for detailed significant information on deferred maintenance and repairs, including the standards used for acceptable operating condition and changes in asset condition.~~

## Other Claims for Refunds

Management has estimated amounts that may be paid out as other claims for tax refunds. This estimate represents an amount (principal and interest) that may be paid for claims pending judicial review by the Federal courts or, internally, by appeals. The total estimated payout (including principal and interest) for claims pending judicial review by the Federal courts is \$6.1 billion and \$8.1 billion for fiscal years 2012 and 2011, respectively. For those under appeal, the estimated payout is \$5.3 billion and \$7.5 billion for fiscal years 2012 and 2011, respectively. There are also unasserted claims for refunds of certain excise taxes. Although these refund claims have been deemed to be probable, they do not meet the criteria in SFFAS No. 5 for reporting the amounts in the balance sheets or for disclosure in the Notes to the Financial Statements. However, they meet the criteria in SFFAS No. 7 for inclusion as Required Supplementary Information. To the extent judgments against the Government for these claims prompt other similarly situated taxpayers to file similar refund claims, these amounts could become significantly greater.

## Tax Assessments

The Government is authorized and required to make inquiries, determinations, and assessments of all taxes that have not been duly paid. Unpaid assessments result from taxpayers filing returns without sufficient payment, as well as enforcement programs such as examination, under-reporter, substitute for return and combined annual wage reporting. Assessments with little or no future collection potential are called write-offs. Although compliance assessments and write-offs are not considered receivables under Federal accounting standards, they represent legally enforceable claims of the Government. There is, however, a significant difference in the collection potential between compliance assessments and receivables.

Compliance assessments and pre-assessment work in process are \$89.6 billion and \$105.0 billion for fiscal years 2012 and 2011, respectively. The amount of allowance for uncollectible amounts pertaining to compliance assessments cannot be reasonably estimated, and thus the net realizable value of the value of the pre-assessment work-in-process cannot be determined. The amount of assessments agencies have statutory authority to collect at the end of the period but that have been written off and excluded from accounts receivable are \$125.1 billion and \$106.6 billion for fiscal years 2012 and 2011, respectively.



Attachment 3 – Hal Steinberg’s Analysis and Accompanying Data  
**REPORTING REVENUES**

	FHFA	USPTO	FTC	NRC	SEC
How is agency financed	Note 1D indicates that FHFA is financed entirely from assessment of Regulated Entities	Note 1 states that USPTO’s funding has been primarily through the collection of user fees.	No disclosures in footnotes, but MD&A states that gross costs of \$286MM were offset by \$102MM of fees.	Note 1E states NRC is required to offset appropriations by revenues received during year from assessment of fees. The MD&A states NRC is required to collect fee to offset 90% of new budget authority and that \$901.0MM was collected.	Note 1Q states that SEC’s revenue and financing sources are primarily collections of securities transactions and registration fees
How is financing reported	Statement of Budgetary Resources reports appropriations of \$224MM. Neither Balance Sheet nor Statement of Changes in Net Position reported Unexpended Appropriations, and Statement of Changes in Net Position does not report Appropriations Received or Used.	Statement of Budgetary Resources reports no appropriations, but Note 18 states that USPTO was appropriated up to \$2,706MM for fees collected during the fiscal year and the Statement of Budgetary Resources reports \$2,411MM Spending Authority from Offsetting Collections. Neither Balance Sheet nor Statement of Changes in Net Position reported Unexpended Appropriations, nor Appropriations Received and Used.	Statement of Budgetary Resources appropriations reports appropriations of \$210MM and spending authority from offsetting collections of \$103MM. Statement of Changes in Net Position reports appropriations received and used of \$210MM, with no beginning or ending balances. Statement of Net Cost reports gross costs of \$286MM with \$102MM related revenues.	The Statement of Budgetary Resources reports \$894MM appropriations and \$6MM Spending Authority from Offsetting Collections. The Statement of Changes in Net Position reports \$143MM appropriations received, and \$169MM appropriations used, which Note 11 states results from \$1,064MM of funds consumed less the \$894MM of fees collected.	The Statement of Budgetary Resources reports \$58MM appropriations and \$1,289MM Spending Authority from Offsetting Collections. The Statement of Changes in Net Position reports \$32MM appropriations received and \$32MM appropriations used. The Statement of Net Cost reports \$1,648MM related revenue.
Use of Earmarked Funds	Note 1F states FHFA has no funds from dedicated collections	USPTO considers all its funds as earmarked funds	No earmarked funds reported.	No earmarked funds reported.	SEC considers some of its funds earmarked.

	<b>FHFA</b> Appropriations Offsetting Collections Offsetting Receipts	<b>PTO</b> Offsetting Collections	<b>FTC</b> Appropriations Offsetting Collections Offsetting Receipts	<b>NRC</b> Appropriations Offsetting Collections Offsetting Receipts	<b>SEC</b> Appropriations Offsetting Collections Offsetting Receipts
<b>Statement of Net Costs</b>					
Gross Costs	\$ 217,501	2,320,947	286,054	1,052,091	1,197,516
less: Exchange Revenue	(225,933)	(2,427,082)	(101,619)	(904,331)	(1,647,859)
Net Costs	(8,432)	(106,135)	184,435	147,760	(450,343)
<b>Statement of Changes in Net Position</b>					
Cumulative Results of Operations					
Beginning Balances	76,431	602,260	93,196	105,193	7,410,388
Budgetary Financing Sources:					
Appropriations Used			210,267	169,056	32,572
Transfers in (Out)		(1,000)		(697)	(327,123)
NonExchange Revenue				697	757
Other Financing Sources					
Imputed Financing Sources	5,810	19,479	9,726	33,705	30,588
Total Financing Sources	5,810	18,479	219,993	202,761	(263,206)
Net income from Operations	8,432	106,135	(184,435)	(147,760)	450,343
Net Change	14,242	124,614	35,558	55,001	187,137
Cumulative Results of Operations, Ending Balance	90,673	726,874	128,754	160,194	7,597,525

<b>FHFA</b>	<b>PTO</b>	<b>FTC</b>	<b>NRC</b>	<b>SEC</b>
Appropriations	Offsetting Collections	Appropriations	Appropriations	Appropriations
Offsetting Collections		Offsetting Collections	Offsetting Collections	Offsetting Collections
Offsetting Receipts		Offsetting Receipts	Offsetting Receipts	Offsetting Receipts

**Statement of Budgetary Resources**

Budgetary Resources					
Unobligated balance - Brought Forward	27,672	177,705	20,575	48,510	(279,929)
Recoveries of Prior year unfunded oblig	11,018	23,026	4,341	14,428	26,688
Downward Adjustment - Prior Year					141,933
Appropriations	224,352		210,267	1,038,204	58,226
Spending Authority from Offsetting Collections	41,593	2,411,896	102,610	6,914	1,289,139
Total Budgetary Resources	304,635	2,612,627	337,793	1,108,056	1,236,057
[Omitted Status and Changes in Obligated Balance Sections]					
Budget Authority and Net Outlays					
Budget Authority, Gross	265,945	2,411,896	312,877	1,045,118	1,347,365
Actual Offsetting Collections	(41,621)	(2,413,157)	(101,627)	(11,616)	(1,288,998)
Change in Uncollected Customer Payments from Federal Sources	28	261	(983)	4,702	(142)
Budget Authority Net	224,352	(1,000)	210,267	1,038,204	58,225
Gross Outlays	262,252	2,332,263	283,770	1,086,872	1,179,800
Actual Offsetting Collections	(41,621)	(2,413,157)	(101,627)	(11,616)	(1,288,998)
Outlays, Net	220,631	(80,894)	182,143	1,075,256	(109,198)
Distributed Offsetting Receipts	(224,353)		(15,478)	(894,399)	(1,123)
Agency Outlays, Net	(3,722)	(80,894)	166,665	180,857	(110,321)

**April 12, 2013**

Memorandum

To: Members of the Board

*Wendy M. Payne*

From: Wendy M. Payne, Executive Director

Subj: Technical Agenda – **Tab C**<sup>1</sup>

**MEETING OBJECTIVES**

- To discuss the AGA FMSB proposal for a Congressional Liaison
- To review the three-year plan and establish priorities

**BRIEFING MATERIAL**

This memo offers matters for consideration regarding establishing a Congressional Liaison function, discusses our current three-year plan and potential projects, and poses questions for discussion at the meeting.

Attachments provide:

1. *Updated Three-Year Plan for FY2014-2016 based on current status and staff proposals*
2. *Responses to the FY2013-2015 Three-Year Plan*

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

## BACKGROUND

On November 15<sup>th</sup>, Chairman Allen released our *FY2012 Annual Report and Three-Year Plan for FY2013-2015*. Four responses were received (see attachment 2 for the full text). In addition, staff hosted a roundtable discussion with CFO office representatives on January 29th. The feedback received during that discussion addressed the need for implementation guidance relating to recently released standards as well as priorities for future work.

Also, the Association of Government Accountants issued two reports in 2012— e-Reporting and Government-wide Financial Reporting—which should be considered. The full reports are available at <http://www.agacgfm.org/AGA/ResearchPublications/documents/CPResearch32.pdf?ext=.pdf> and [http://www.agacgfm.org/AGA/ResearchPublications/documents/CPAGResearch31\\_treasury.pdf?ext=.pdf](http://www.agacgfm.org/AGA/ResearchPublications/documents/CPAGResearch31_treasury.pdf?ext=.pdf) respectively. Excerpts are included in this paper regarding recommendations for FASAB's consideration.

These reports and feedback are discussed in appropriate sections of the staff analysis below.

## STAFF ANALYSIS

### Congressional Liaison

In response to the three-year plan, the Association of Government Accountants Financial Management Standards Board suggested that FASAB undertake more Congressional outreach. Specifically, they stated:

We also believe that it is important to continue research on the needs of decision makers, particularly those of members of Congress and their staff. We understand that the FASAB has reached out to Congressional committees in the past and that committee staff have not always been forthcoming with ideas and concerns. In the same vein, we believe that the Congressional Budget Office's decision to discontinue its membership on the FASAB was unfortunate. However, Congress remains one of, if not, the most important users of federal financial information and therefore its needs must be considered and addressed. Perhaps the FASAB might consider establishing an on-going liaison group that meets with the key Congressional committees such as Senate Finance and the House Ways and Means to discuss their needs. This liaison group would endeavor to create an atmosphere where the demand for new forms of information would provide regular input into the FASAB's research. We believe that a continuous dialogue must be established between FASAB and such committees as the Senate

Finance Committee and the House Ways and Means Committee to discuss and identify their need for information. (emphasis added)

### **Past Outreach**

FASAB has not conducted broad outreach to Congress in the past but has interacted with members and Hill staff. Our past outreach has been project specific and conducted by staff.

Prior formal outreach includes transmitting exposure drafts to relevant committees and submitting capital asset standards for the 45-day review required by the CFO Act. In such instances, staff confers with GAO's Congressional Relations (CR) staff and/or our general counsel regarding appropriate points of contact and means of communicating (email vs hard copy). For example, the Reporting Entity exposure draft was provided to the chairman's and ranking member's staff director for six committees staff believes are interested in the topic. I believe we have received written responses only regarding past social insurance proposals.

Staff also contacts Hill staff and members directly to solicit oral input and generally receives such input. The most recent contacts related to the Reporting Model user needs research. Mr. Simms and I met with several staff members and found them very open to sharing their views. For the fiscal sustainability project, two members of Congress joined the task force to provide views regarding communicating information to citizens. Overall, experience shows we are able to gain needed feedback on specific matters through informal outreach.

### **Potential Outreach**

To be successful, clear objectives for the outreach and a plan for engaging the right people in the right ways are critical. Various outreach mechanisms are possible. For example, the AICPA recently hosted a well-attended educational session for Hill staff regarding taxes. They provided staff with information useful to constituents as tax season approaches and made them aware of financial literacy tools provided by the AICPA and state societies. Such educational sessions require resources and a Hill sponsor may be needed to guarantee access to a room. Other approaches may be to meet directly with members or staff from relevant committees.

The Federal Advisory Committee Act must be considered if members are to participate in outreach. For example, we would want to weigh whether:

- It is likely that discussion of issues would occur such that public access to the meeting should have been provided
- One user group would have greater opportunity to respond to, or influence, the Board than others and whether this may be perceived as political in nature

To avoid violating the FACA requirements regarding meetings but still be responsive to the AGA suggestion, counsel suggested we continue the current congressional interaction for individual projects but engage in broader formal outreach at periodic times not connected to an individual project. Counsel's preference would be that staff also conduct the broader formal outreach but, with appropriate safeguards, is open to member participation if it is limited to one member at each outreach event.. In either case, it is important to understand the objectives of the outreach. So, at the April meeting, I'd like to explore potential objectives for such outreach, desirable approaches, and resource needs.

### **Discussion Areas**

- **What objectives does the Board have for any Congressional outreach program?**

Potential outreach objectives include to:

1. Maintain an open dialogue and increase awareness of FASAB and its processes (relationship building)
2. Keep the Board's Congressional constituents informed of developments in federal financial reporting (encouraging participation by sharing knowledge)
3. Obtain their views as users of financial information regarding emerging issues and priorities (explicitly seeking informal input on our technical agenda)
4. Seek their views on the structure and focus of financial reports that would enable them to clearly communicate with their constituents so they may better understand the government's financial position and results of operations (user needs assessment and promote elected officials use of information in constituent outreach)
5. Offer educational resources to members and their staff (educational effort to promote use of information on the Hill)
6. Encourage members of Congress to alert their constituents (or the media) regarding the availability of federal financial reports (educational effort to encourage citizen and citizen intermediary use of information)
7. Build support for improving federal financial reporting (relationship building directed to needed improvements or sustaining present capacity)

- **To whom should the outreach be directed?**

Options include:

1. contact members individually (for example, leveraging individual relationships),
2. seek opportunities to address relevant committees or subcommittees,
3. encourage the CPA Caucus to consider federal reporting, or
4. build relationships with Hill staff.

- **Who should undertake the outreach effort?**

Depending on the objectives and to whom the outreach is directed, the Board might consider:

1. Charging the chairman and executive director with outreach duties
2. Establish a process to receive input from all Board members for matters they consider important to discuss with congressional staff
3. Requesting that staff focus additional resources on outreach (particularly if the effort is educational and focused on engaging Congressional staff)
4. Directing staff to hold an annual or semi-annual briefing and invite Hill staff

- **Depending on the outcome of the above discussion items, resources may be required (e.g., additional travel funds, staff time to develop educational materials, costs of hosting events). A general sense of how the Board prioritizes this effort among its ongoing efforts would be helpful in developing a plan for discussion in June.**



### Status of Current Projects

The currently active projects are identified on pages 3 and 4 of the three-year plan (see attachment 1). The timelines are up to date (where changes since February are notable the text is highlighted). For ease of reference the following table presents active projects and their expected completion dates.

<b>Project</b>	<b>Expected Final Completion Date</b>	<b>Staff Assigned</b>
Reporting Entity	FY2014	Melissa Loughan
Reporting Model	FY2015	Ross Simms
Leases	FY2016	Monica Valentine (research only until new hire is on-board)
Risk Assumed	FY2017	Monica Valentine (new hire to assume the project)
Public-Private Partnerships	FY2015	Domenic Savini

Note that we hope to fill one of our two vacancies in the coming month but this is unlikely to change the above timelines.

Three of these five projects (leases, risk assumed, and public-private partnerships) are not yet on the Board's deliberative agenda. This means that Board meetings will be lighter than usual until specific issues are raised for deliberation. We anticipate bringing issues for discussion or providing educational sessions on each within the next six months. My preference is to bring issues after consultation with our task forces – as is our normal practice – rather than advance issues prematurely to fill the Board's agenda.

The following may result in deviations from the above schedule include:

1. A Department of Defense request for amendments relating to military equipment.
2. The Department of Treasury is developing plans to include more information about the general fund's activities in its financial statements. No specific issues have been identified for action but I believe we can reasonably expect some standards level issues to arise.
3. Natural resources information is to be reported as RSI beginning in FY2013 and consideration of its reclassification to basic information must be addressed before FY2015. Monitoring and project planning should begin in early FY2014.

Emerging issues cannot be addressed without adjusting priorities. Note also that we rely heavily on participation on task forces and such participation will be impacted by the constraints within the federal community. This may make it more difficult for the AAPC – which is largely volunteer driven – to provide implementation guidance regarding new standards such as deferred maintenance and repairs and asset impairment. In addition, we have reduced our staff support to AAPC significantly in the past two years as the PP&E issues have been resolved.

### Input Received Regarding Three-Year Plan

As noted in February, participants in the January 29<sup>th</sup> roundtable identified the following areas of concern (in no particular order):

- Leases – potential inconsistency in practice especially regarding disclosure of scheduled future payments, structuring arrangements to avoid scoring as a capital lease, and reliance on FASB standards to fill voids in federal guidance
- Exchange Revenue – the FASB is developing new standards and provide more detailed guidance than SFFAS 7 – may FASB standards be used to fill voids given that SFFAS 7 addresses exchange revenue? The new FASB guidance may result in a change in practice that is more detailed but better matches revenue and costs.
- Internal Use Software – issues relating to determining “full cost” and useful life - see also the response from the Transportation Security Administration (Attachment 2).
- Investments (not arising from interventions) – guidance for derivatives, Exchange Stabilization Fund holdings, etc.
- Statement of Custodial Activities – is it necessary?
- Statement of Net Cost – a need for guidance relating to the cost of department management – should it be allocated to strategic goals or reported separately and should this be consistent across departments and agencies?

The individual letters are available for review at Attachment 2. In summary, the written responses suggested the following regarding projects (active and recommended) as well as processes:

1. Reporting model:
  - a. focus on improvements to the Statement of Net Cost and the Statement of Budgetary Resources (particularly the display of information on a functional level by each major program and with a reconciliation at that level)
  - b. provide a status report regarding the 2010 task force recommendations (note: staff will provide a draft status report for consideration at the meeting)
2. Risk assumed: Align the project with the reporting entity project

3. Public-private partnerships: suggested improving the project plan by including examples of partnerships undertaken at the federal level (note: staff will do so as the project continues to identify P3s)
4. Investments in Non-federal Securities: suggested reallocating resources from other projects to this project as it relates to risk assumed and reporting entity. Noted that management needs guidance on how to value these investments when there is limited information in the public domain to assist them.
5. Recommended Projects:
  - a. Electronic Reporting
  - b. Financial/Economic Condition
  - c. Reporting of fixed assets financed by the federal government but owned by the state or local governments (the letter noted that users may be confused by the fact that the federal debt finances assets which are not reported on its balance sheet; disclosures may enhance an understanding of the investment nature of certain federal expenses as well as the cumulative investment)
  - d. Managerial Cost Accounting
  - e. Linking Cost and performance
  - f. Evaluating Existing Standards
  - g. Asset Retirement Obligations
  - h. Derivatives
  - i. Internal Use Software
6. Recommended Process Improvements:
  - a. Form an advisory committee similar to GASAC
  - b. Improve awareness of and participation in FASAB task forces among the professional and academic communities

### Member Discussion Topics

In response to the feedback on the plan as well as work by other standards-setters and the AGA's research reports, I have added to the potential projects list. New potential projects are (1) a review of our conceptual framework, (2) reconciling budget and accrual information, and (3) revenue accounting. In addition, I have provided additional background information regarding tax expenditures and an appendix presenting the revenue information included in the government-wide report for FY2012.

At the meeting, I would like members' feedback regarding the factors to consider in setting priorities and their highest priority projects from among the potential projects to address in a five-year window, medium priority projects to address in a ten-year window, and projects not considered a priority now. We may wish to consider whether any of the projects not presently a priority should be removed from the list. At the June

meeting, we will discuss how our current resources align with these priorities. While we are not able to staff additional projects now, the priority setting will help (1) staff identify areas where research should begin and (2) our sponsors consider future resource needs.

The three-year plan always includes information about how the Board establishes priorities. Currently, the plan provides that:

The board prioritizes projects based on the following factors:

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

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

**Do members wish to revise the information regarding priority setting (either by removing, adding to, or clarifying existing wording)?**

**How would members rank each project: as a high priority (5 years or sooner), medium priority (5 to 10 years), or not a priority (which we may consider removing from the list)?**

## QUESTIONS

### Congressional Liaison

1. What objectives does the Board have for any Congressional outreach program?
2. To whom should the outreach be directed?
3. Who should undertake the outreach effort?
4. Depending on the outcome of the above discussion items, resources may be required (e.g., additional travel funds, staff time to develop educational materials, costs of hosting events). A general sense of how the Board prioritizes this effort among its ongoing efforts would be helpful in developing a plan for discussion in June.

### Potential Projects

5. Do members wish to revise the information regarding priority setting (either by removing, adding to, or clarifying existing wording)?
6. How would members rank each project: high priority (5 years or sooner), medium priority (5 to 10 years), or not a priority (consider removing from the list)?