



**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*

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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 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)?**



***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	FY2013	FY2014	FY2015	FY2016	FY2017 – and Later
<p><b>The Federal Entity</b> Consider what organizations and relationships should be included in federal entity reports and how information is to be presented</p>	Issue Exposure Draft	Finalize Standards and Implementation Guidance as Needed			
<p><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</p>	<p>Results of Pilots led by CFO Council Develop Issues and Options Decide Vehicle for Guidance and Draft Guidance</p>	Develop and Issue Exposure Drafts and/or Other Drafts for Comment	Finalize Guidance		
<p><b>Leases</b> Evaluate existing standards to improve comparability and completeness of reporting</p>	Research	Develop and Issue Exposure Draft	Public Hearing Redeliberate	Finalize Standards	
<p><b>Risk Assumed</b> Develop standards so that information about risks assumed by the federal government and their potential financial impacts are available</p>	Develop	<p>Issue Phase 1 Exposure Draft(s) Public Hearing Finalize Phase I Standards Begin Phase II and III</p>	Develop Proposals for Phase II and III	Exposure Drafts for Phase II and III	Finalize Phases II and III Implementation Guidance as Needed

Project and Objective	FY2013	FY2014	FY2015	FY2016	FY2017 – and Later
<b>Public-Private Partnerships</b> Consider how financial reporting objectives are met with regard to public private partnerships	Develop Project Plan and Begin Research	Develop and Issue Exposure Draft	Finalize Standards		Finalize Standards or Technical Bulletin
<b>Investments in non-federal securities*</b> Consider how the financial effects of such investments should be measured, recognized, and reported		Begin Research and Develop Exposure Draft	Issue Exposure Draft	Finalize Standards	
<b>Natural Resources*</b> Consider implementation guidance and recognition requirements for information reported during experimental period as Required Supplementary Information	Implementation Guidance as Needed	Develop project plan	Begin Review to Reclassify Information		

\*Project deferred pending action to fill current staff 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:

**February - April 2013 Meeting**

- Review and approve final ED
- Issue ED for comment

**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.

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<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)

# LEASES

## Purpose:

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

## Applicability:

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

## Objectives:

The primary objectives of this project are to:

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

## Assigned staff:

Monica Valentine

## Other resources:

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

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

## Timeline:

*Note: Many of the proposed steps in this timeline are subject to the timing of the release of the FASB/IASB revised exposure draft and the final release of their standards. This project will become active when the first staff vacancy is filled.*

### **December 2011– December 2012**

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

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

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

**June – September 2013**

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

**October – December 2013 Meetings**

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

**February 2014 Meeting**

- Present full analysis of issues and recommendations for board decisions

**April 2014 Meeting**

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

**June – October 2014 Meetings**

- Develop and issue ED

**December 2014 Meeting**

- Present initial analysis of ED comment letters received

**February 2015 Meeting**

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

**April - August 2015 Meeting**

- Present drafts of final standards for board consideration

**October 2015 Meeting**

- Present ballot draft standards for board approval

**February – April 2016**

- Issue SFFAS

## 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 reports all significant risks assumed, not just risks related to insurance contracts and explicit guarantees.

### Applicability:

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

### Objectives:

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

### Assigned staff:

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

#### **June – October 2013**

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

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

### **November – December 2013**

- 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.

### **February 2014**

- Hold public hearing on Phase I

### **March - May 2014**

- 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?)

### **June 2014**

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

### **September 2014**

- Issue final Phase I SFFAS

### **October 2014 – February 2015**

- Develop implementation guidance for Phase I, if necessary

### **December 2015 – December 2016**

- Complete Phase II and III 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

### **February 2014**

- Develop and Issue Exposure Draft

### **October 2014**

- Finalize Guidance or Standards

## NON-FEDERAL INVESTMENTS

### Purpose:

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

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

### Applicability:

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

### Objectives:

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

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

The specific objectives of this project are:

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

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 \$0.1 billion 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>

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

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:
  - 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

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<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.

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

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## EVALUATING EXISTING STANDARDS

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

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

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

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

## FINANCIAL/ECONOMIC CONDITION

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

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

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

## INSURANCE

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

## INTANGIBLES

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

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

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

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

## INTERNAL USE SOFTWARE

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

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

## LINKING COST AND PERFORMANCE

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

## LONG-TERM CONSTRUCTION/DEVELOPMENT/PROCUREMENT CONTRACTS

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

## MANAGERIAL COST ACCOUNTING

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

## OMNIBUS AICPA

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

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

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

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

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

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

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

## 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**

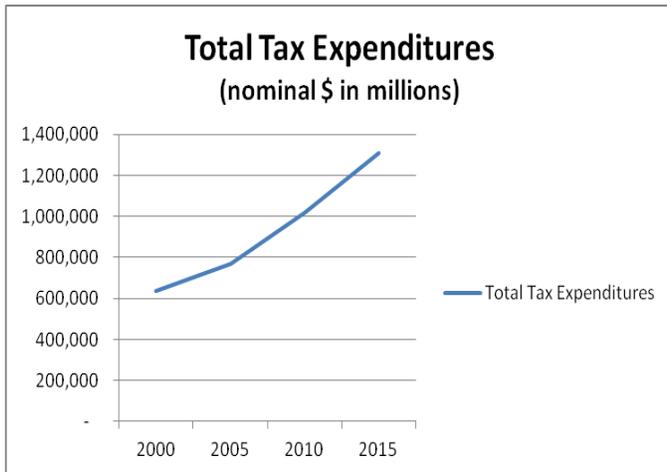
Presently, accounting standards do not require information regarding tax expenditures. SFFAS 7 provides that:

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.....	<u>(23.1)</u>	<u>(20.7)</u>
Accounts receivable, net .....	69.5	68.5
Taxes receivable:		
Gross taxes receivable .....	156.8	151.5
Allowance for doubtful accounts.....	<u>(115.1)</u>	<u>(113.7)</u>
Taxes receivable, net .....	41.7	37.8
 Total accounts and taxes receivable, net .....	 <u>111.2</u>	 <u>106.3</u>

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			Prior Years
		2012	2011	2010	
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 .....	<u>2,525.8</u>	<u>1,648.0</u>	<u>807.5</u>	<u>33.2</u>	<u>37.1</u>
Less: amounts collected for non-Federal entities .....	<u>(0.9)</u>				
Total .....	<u><u>2,524.9</u></u>				

### 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 .....	<u>417.6</u>	<u>8.8</u>	<u>320.8</u>	<u>33.7</u>	<u>54.3</u>

# 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

Adjusted Gross Income (AGI)	Number of Taxable Returns (In thousands)	AGI (In millions of dollars)	Total Income Tax (In millions of dollars)	Average AGI per Return (In whole dollars)	Average Income Tax per Return (In whole dollars)	Income Tax as a Percentage of AGI
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

Total Assets (In thousands of dollars)	Income Subject to Tax (In millions of dollars)	Total Income Tax after Credits (In millions of dollars)	Percentage of Income Tax after Credits to Taxable Income
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.

## Three-Year Plan

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Advancing  
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Accountability

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January 17, 2013

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

Dear Ms. Payne:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's Three Year Plan for the Technical Agenda for the 2013 through 2015 period (Plan). The FMSB is comprised of 25 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed changes to standards and regulations of interest to AGA members. (Local AGA chapters and individual members are also encouraged to comment separately.)

The FMSB has reviewed the 2013 through 2015 Plan and concurs with most of the content and relative prioritization of the projects on the agenda. We have some questions regarding some items as well as some concerns that we would like the FASAB to consider. We also have some additional comments and suggestions that we wish the FASAB to consider as it moves forward. We have grouped our comments by project as shown on page 12 of the Plan document. Our overall comments have been provided at the end of this letter.

Federal Reporting Entity Project - We support the continuation of this project and believe that this is one of the higher priority projects in the Plan for the FASAB. The FMSB had the same conclusion last year when it reviewed the 2012 through 2014 Technical Agenda. Last year, we recommended that this project be merged with the project on Risk Assumed because we believe that they were interrelated. However, it appears that this suggestion was not adopted and the projects are continuing on separate lines as proposed last year.

We continue to believe that some of the factors that will influence decisions regarding what, if any, additional entities should be included in the consolidated Federal Reporting Entity will be influenced by the decisions made under the Risk Assumed project and vice versa. In our letter of comments from last year, we stated that...*"We strongly agree with FASAB's plan to review the Federal Reporting Entity. We believe this project should be integrated closely with the project on Risk Assumed as the 2008 recession illustrated how many implicit*



*assumptions of risk became explicit assumptions of risk, raising concerns about to what degree these resulting investments created control and/or ownership sufficient to change their status as a “core” or “non-core” entity. FASAB should help readers better understand how the concept of risks assumed is different from “commitments and contingencies” in the traditional financial accounting sense.”*

The Plan, as now constructed, shows the Federal Reporting Entity Exposure Draft being issued in 2013 and finalized in 2014 while the Risk Assumed project shows an Exposure Draft being issued in 2014 and finalized in 2015. Because the FASAB will have substantially completed the Federal Reporting Entity project at the time it is deliberating and finalizing an Exposure Draft on the Risk Assumed Project, we are concerned that the opportunity for Risk Assumed matters to fully influence the decisions made related to the Federal Reporting Entity Project will have passed.

We continue to believe that these projects should be aligned if they are not merged. This would allow the FASAB to test the impact of tentative decisions made in one project against tentative decisions made in the other project. We believe that this would avoid unnecessary changes going forward.

We also recommend that the FASAB issue, as soon as possible, some form of advisory or other correspondence regarding what additional entities have been or are being considered for inclusion in the Federal Reporting Entity and why they are being considered. This same document should likewise discuss what specific entities, if any, are not being considered as an addition to the Federal Reporting Entity and why. This would assist interested parties in understanding the project and its ramifications.

Asset Impairment Project - The FMSB has no additional comments at this time.

Financial Reporting Model Project - In our letter of comment on last year’s Technical Agenda, we expressed concern regarding the scope of the Financial Reporting Model project. It appeared that the project was limited to addressing the Statement of Spending and would not address other significant recommendations made by the Financial Reporting Model Task Force in December 2010. We suggested that the project be broadened to address other matters raised by the Reporting Model Task Force. Our review of the 2013 through 2015 Plan shows that the project has been expanded to cover additional areas and we applaud the FASAB in this regard. We would also like to understand how the FASAB considered and disposed of all of the recommendations made by the Financial Reporting Model Task Force and what specific tasks the FASAB wishes to actively consider during the period of the Plan. This would be helpful to the federal financial community to understand the current status of the recommendations of the Task Force and provide further comments.

We also believe that the project could be expanded to develop improvements in the Statement of Net Cost and the Statement of Budgetary Resources so that better information is provided to administrators and the general public. For example, these Statements would become more meaningful if federal entities were required to report how they are consuming appropriated resources on a functional level by each major program and be required to reconcile actual spending with budgetary resources at a functional level. We believe this will enable administrators and the general public to gain a better understanding regarding the efficient of use of resources.

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.

Leases Project - The FMSB agrees that this project should be on the Technical Agenda as standards need to be updated in this area. The FASB also has a lease project underway and in October 2012, they agreed to reissue an exposure draft on leases to allow concerned parties to see the impact of their earlier comments on FASB thinking. Given this delay, the FASAB might also consider a change to their timeline to allow for consideration of the FASB's final product.

Risk Assumed Project - In our letter of comments on the 2012 through 2014 Technical Agenda we recommended that the Risk Assumed Project be merged with the Federal Reporting Entity Project. The current Technical Agenda shows they have not been merged. We believe that at a minimum, the schedule for the two projects should be aligned. (See our previous comments regarding the Federal Reporting Entity Project)

Public-Private Partnerships Project - The FMSB also reviews and comments on exposure materials issued by GASB. We are aware of the increased efforts on the parts of some state and local governments to increase the use of public private partnerships. Many of these increased efforts have been founded on the difficult financial straits brought on by the 2008 Recession. Given this knowledge of state and local efforts, we believe that the FASAB might consider including additional information in the Plan materials on the efforts being undertaken at the federal level to form public private partnerships. This would increase appreciation of the efforts being undertaken and provide better context for future comments by the federal financial community. We also believe that since the Public- Private Partnerships are having a long term timeframe and involvement of various types of organizations, the Project should identify the necessary accounting treatments and disclosures to provide comprehensive and understandable information on cost and benefits, valuation of assets and liabilities, and impact to the budget.

Investments in Non-Federal Securities Project - The FMSB agrees that this project is needed and also agrees with the actions taken by the FASAB to narrow scope of the project in 2011. As indicated in the FASAB's document, this project is on hold pending staff resources. We would hope this resource issue would be addressed and the project started by the time our letter of comment is submitted. If this is not addressed, we recommend that the FASAB reconsider the priority assigned to this project and consider reallocating resources from other non-related projects to this one. We believe that this project addresses issues related to the Risk Assumed and the Federal Reporting Entity Projects in so much as investments held for financial stabilization will continue to be included and possibly new ones added as a result of changes in the federal reporting entity. Standards are needed to assist management in their efforts to value these investments and to estimate any gain or loss when there is limited information in the public domain to assist them. The development of guidance for Non-Federal Securities will improve transparency, insure adequate disclosure and assist management in making judgments related to their value.

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

Other Projects For Technical Agenda – Should there be changes to the Technical Agenda or an increase in the FASAB’s capacity to begin additional projects, the FMSB believes that certain projects warrant additional consideration by the FASAB. We would recommend that if possible the Electronic Reporting and Financial/Economic Condition projects be added to the Technical Agenda. Both of these projects are aimed at a key issue, providing information in a meaningful, understandable, and timely manner.

Concluding Comments - In reviewing the Three-Year Plan for 2013 through 2015, as well as the Technical Agenda from last year, it is apparent that the list of potential projects is growing longer, the topics are more complex and the resources are limited. For example, in our comments on the Federal Reporting Model, we suggested that a new mechanism be established to obtain Congressional input on their need for information. This is important as Congress will be a key, if not the key, group of decision makers going forward on financial and budget matters. This alone will be a complex undertaking.

Based on the review of the annual report, we observed that the participation by Non-federal Members in various Task Forces seems inadequate. There were nine Task Forces with a participation of a total of 290 members. The participation from Federal Agency, Federal Members and Non-federal Members were 53%, 29% and 18%, respectively. We believe the importance of active participation from various types of professional and academia is an important ingredient in the process to improve the Standards and Technical Guidance. FASAB should consider improving the awareness of various types of professional and academia community and seek their increased participation in task forces so that comprehensive guidance could be developed.

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

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

Sincerely,



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

cc: Evelyn A. Brown, CGFM-Retired  
AGA National President

**Association of Government Accountants  
Financial Management Standards Board**

**July 2012 – June 2013**

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Roger Von Elm  
Donna J. Walker  
Stephen B. Watson  
Sheila Weinberg

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



# Greater Washington Society of CPAs and GWSCPA Educational Foundation

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January 31, 2013

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

Dear Ms. Payne:

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

The GWSCPA consists of approximately 2,000 members, and the FISC includes 27 GWSCPA members who are active in accounting and auditing in the Federal sector. This comment letter represents the consensus comments of our members.

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

*Reporting of USG-Financed Fixed Assets of State and Local Governments:* Since the 1950s, the USG has instituted a number of programs whereby part or all of the cost of certain fixed assets are paid for by a Federal agency. These projects include the interstate highways, airports, harbors, canals, locks, water and wastewater treatment plants, and transit systems. State and local governments record these fixed assets on their financial statements, thereby increasing their net equity, while the Federal government generally issues debt to fund a portion of these projects and does not record any corresponding asset to offset the Federal government's debt. This transfer of wealth complicates the ability of the Federal financial statement user in understanding the composition of the accumulated net deficit of our nation. This may only be a disclosure issue, but the FISC believes that it deserves study during the next three years.

\*\*\*\*\*

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

Very truly yours,

Andrew C. Lewis  
FISC Chair



FEB -4 2013

Wendy M. Payne  
Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814 (Mailstop 6k17V)  
Washington, DC 20548

Dear Ms. Payne:

In response to the November 15, 2012 news release, FASAB Issues its Annual Report and Three-Year Plan, and request for comment regarding the Board's three-year project priorities, we believe that several potential projects, listed on Page 22, warrant strong consideration for review at this time. Those projects are:

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

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

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

Sincerely,

A handwritten signature in black ink that reads "Elliot P. Lewis".

Elliot P. Lewis  
Assistant Inspector General for Audit

FEB - 7 2013



Transportation  
Security  
Administration

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

Dear Ms. Payne:

The TSA appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Three-Year Plan (Plan). The FASAB Plan is an ambitious agenda, and includes the key topics that the FISC members believe should be priorities of the Board. We also provide the following suggestion:

Accounting for Internal Use Software (IUS)

**Switch in Software Development Model**

SFFAS 10, Accounting for Internal Use Software, was issued by the FASAB in June, 1998. The purpose of this pronouncement was to provide accounting standards for internal use software used by federal entities. The pronouncement applies to commercial off the shelf software (COTS), as well as to internally and contractor developed software. This pronouncement was effective for periods beginning after September 30, 2000.

Since 1998, significant changes have occurred in the software development industry. At that time, most development efforts used a waterfall based software development lifecycle and IT investment model. The waterfall approach delivered IT projects based on discreet, time boxed phases. Development efforts generally progressed from one phase to the next according to a set plan and easily identifiable dates of phase shift. The framework contained in SFFAS 10 works with a waterfall based approach to software development.

Lately, the waterfall approach to software development activities is being replaced with a more dynamic approach. This new approach – an agile software development approach – is no longer constrained by specific development phases and is much more responsive to program needs and requirements. This approach is much more iterative in nature, and often times has activities being performed simultaneously to create new functionality, to enhance existing functionality, and to upgrade common platforms being used to run multiple independent applications. The

agile software development approach does not adapt well to the financial reporting framework contained in SFFAS 10.

This is a problem in the private sector and is being considered by other accounting standard setting bodies. The FASB issued SOP 98-1, ASC 350-40, Accounting for Costs of Computer Software Developed or Obtained for Internal Use, on March 4, 1998. The SOP discusses the financial reporting of software development costs applicable to all nongovernmental entities and many of its provisions are comparable to the SFFAS 10. The FASB also used the waterfall software development model in drafting the SOP. There is currently an industry effort to have the Emerging Issues Task Force of the FASB consider a new technical guidance that will specifically address software development efforts being performed under an agile development method.

Many of the recent software development contracts at TSA are using an agile development model. We do not believe that the TSA is unique in this respect. TSA encourages the FASAB to consider the agile method of software development and to provide technical guidance to the entire federal reporting community on the proper financial reporting of such development activities.

### **Estimating the Historical Cost of IUS Assets**

TSA applauds the FASAB issuance of Technical Release 13, Implementation Guide for Estimating the Historical Cost of General Property, Plant, and Equipment, which is specifically applicable to IUS assets. We believe that this release provides well-needed guidance to federal entities on using estimates to determine the cost of IUS assets.

In our experience, it is becoming increasingly difficult to trace software development costs to specific vendor invoices. Much of this problem is related to the switch to an agile development approach (discussed above) and also to the types of contracts being used by federal agencies to acquire such contractor development talent. TSA hopes that the FASAB will provide additional guidance and detailed examples in this area – specifically related to IUS assets – for using estimates (Contracts, Project Plans, etc) to determine the historical cost of assets.

### **Accounting for Pooled Software Development Costs**

An additional area that TSA believes needs clarification from FASAB involves the appropriate accounting treatment for pooled development costs. Specifically, we are finding it difficult to allocate certain software development costs to discreet IUS applications. As mentioned above, many software development efforts are focused on making enhancements or other modifications to common platforms being used to run multiple software applications. In other instances, costs are being incurred which benefit multiple applications – but where no clear documentation exists for allocating the development costs between the benefitting IUS applications.

TSA respectfully requests that the FASAB consider allowing a pooled approach to recording capitalizable software development costs incurred within a fiscal year. For those situations where it is not possible to identify a single IUS application or where no clear cost allocation

method is appropriate, it is nearly impossible to effectively allocate costs under the existing framework contained in SFFAS 10.

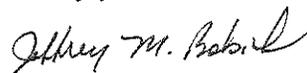
One solution might be the creation of a common software development cohort asset for each fiscal year. The cohort asset would capture all of the common development costs incurred during a fiscal year into a single IUS asset. Amortization of the cohort asset could then be calculated based on a common useful life and a composite depreciation method. This would greatly remediate the difficulties being encountered in identifying capitalized software development costs to a specific application and would still meet the spirit of the requirements contained in SFFAS 10. This type of cost allocation approach might work well, especially with development efforts happening under an agile development approach.

### **Cost Benefit Analysis of Recording Software Development Costs**

Finally, TSA is requesting the FASAB to reconsider the overall requirement to capitalize software development costs. As pointed out several times above, it is becoming increasingly difficult to specifically and accurately identify the development phase of IUS assets. At TSA, an incredible amount of resources are being consumed to monitor the completeness of IUS activities and to accurately identify and record development costs related to software development activities. While SFFAS 10, paragraph 6, specifically states that the requirements need not be applied to immaterial items, it appears that the cost of IUS accounting activities exceeds the benefit that the associated data provides to management and other users of our financial statements. This cost versus benefit consideration is particularly relevant in light of the severe budget constraints facing federal agencies such as the TSA.

Thank you for considering these comments in developing your upcoming Plan related to accounting for IUS. We look forward to the results of your deliberations, and hope to see either a technical release or an amendment to the existing standard, which will address alternatives for financial reporting of IUS assets under the current software development approaches.

Sincerely yours,



Jeffrey M. Bobich  
Director, Financial Management Division  
Transportation Security Administration