



August 12, 2010

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Federal Reporting Model – TAB D¹

MEETING OBJECTIVE

The objective of the meeting is to discuss the reporting model task force efforts, next steps, and deliverables and a project plan for evaluating disclosures.

BRIEFING MATERIAL

Attachment I – Disclosures Discussion Document, beginning on page 15.

Attachment II – Plan for Evaluation of Disclosures, beginning on page 39.

BACKGROUND

For the purposes of the meeting, the Background section discusses the reporting model project and provides the setting for the Board's consideration of a project plan for evaluating disclosures.

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

Reporting Model

The reporting model project is one component of a larger conceptual framework project undertaken by the FASAB. The primary objective of the reporting model project is to identify and describe the key components used to communicate information, such as management's discussion and analysis (MD&A), financial statements, disclosures (notes), required supplemental information (RSI), and other accompanying information (OAI). The project will:

- Identify user needs and how they relate to the federal financial reporting objectives (objectives)
- Explain how each financial statement helps meet objectives
- Describe the essential financial statements
- Consider methods of communicating important information to users

Project Approach

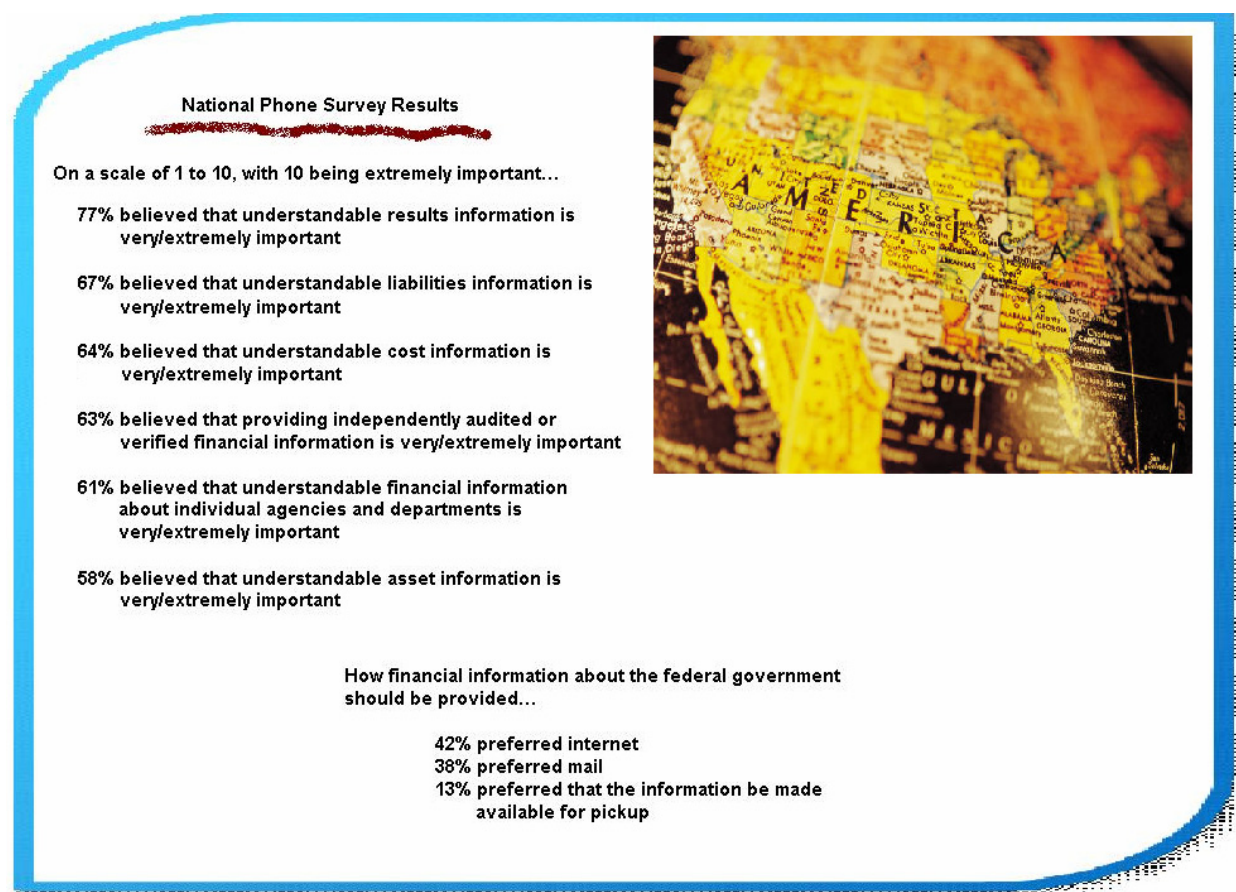
The project began with an effort to determine user needs and how they relate to the reporting objectives. Staff conducted focus groups and a survey to reach citizens. Structured interviews of program managers were conducted to determine information needs and the current level of awareness and satisfaction with reports. In addition, staff spoke with available Congressional staff and reviewed a listing of congressionally mandated reports. Staff prepared separate reports for each user group and, in summary, staff research found the following:

- Citizens and some executives and managers noted difficulty in understanding information in financial reports. They believed that the documents are intended for accountants or economists rather than citizens and managers. In some instances, executives and managers develop their own data and reports.
- Citizens were not aware that the federal government and agencies prepared audited financial statements and some executives and managers had not seen their own agency's financial statements.
- Some executives and managers noted that they need training in financial management.
- Congress seeks timely, easy to understand information to address particular issues.
- Congress seeks financial information about specific issues of the day and uses many sources to obtain the information it needs such as obtaining the information directly from agencies and utilizing legislative support organizations, i.e., the Government Accountability Office, Congressional Budget Office, and Congressional Research Service.
- Congress also routinely seeks information about the budgetary effect of legislative proposals on the budget and the cumulative effects of legislation.
- Executives and managers use multiple systems, cuff systems, or systems other than financial systems to get financial information, including basic budgetary information.

- Both cash and accrual basis accounting appears to be needed to provide the information users need.
- Executives and managers need information at least monthly, but timelier, if possible. However, some did not believe that timelier information was possible.

Also, results from staff's national phone survey are presented in Figure 1: National Phone Survey Results on page 3.

Figure 1: National Phone Survey Results



In April 2010, the FASAB organized a task force to consider the user needs results and the Board's views and concerns regarding the reporting model. The Board's views and concerns are those of individual Board members and not a Board consensus. The views and concerns shared by members are:

Financial Report Presentation

- Explore other ways of presenting information other than the standard financial statements such as different levels of reporting for different users.
- Consider ways of providing simpler information on a timelier basis, such as quarterly.
- Consider ways to bring about greater clarity about the relationship between financial information used in financial statements and the information useful for management.
- Explore how to display information on spending, given that currently, different bases are used - cash, budget, and accrual. The first consolidated report presented cost by function. However, some of the numbers did not track easily with the way the budget information was recorded, particularly offsetting receipts. Now the consolidated report presents cost by department.
- Do not limit consideration to traditional presentations.
- Discuss different levels of reporting. An example of different levels of reporting is as follows (in descending order based on level of detail or dis-aggregation):
 - Spending data on the internet
 - Management's Discussion and Analysis (MD&A), basic financial statements, required supplementary information (RSI), other accompanying information (OAI)
 - Information on where do we stand now and Information on what did we do during the past year
 - What does the future look like
 - Citizens' Report
- A different medium other than the Citizens Guide may be necessary. The information should be gathered and provided in a way that the citizen can easily obtain it and use it. It also may be good to discuss the needs of the media.
- Determine how information should be conveyed.
- The FASAB has an opportunity to do something innovative and the pyramid approach (or different levels of reporting as described above) could do that. However, it would be difficult to have a pyramid approach without electronic reporting; therefore, electronic reporting is the direction in which the Board should go.
- The Citizens' Guide is a sophisticated document and most citizens would not understand it.

Reconsideration of Certain Financial Statements

- While a balance sheet is needed to put a “stake in the ground” for measurement purposes, consider whether other existing financial statements are needed. Some statements may not be used because they are difficult to understand, such as the Statement of Budgetary Resources.
- A statement of position and an operating statement are needed. Individuals ask where are we and how did financial position change. Citizens may be confused about where the federal government stands, given the many numbers that are expressed in the media. The statement of financial position anchors everything, such as long-term projections and cost of service.

Items of Information that Should be Presented

- Consider ways to prioritize information to help guide the Board in focusing on the more important information.
- Consider some way to communicate what is important on major spending programs.
- Consider a presentation of interperiod equity.
- There should be some key financial information which would be fed by other statements. If we report information the way it is being used, users would not have to pull information from different places in the financial report.
- Our ultimate aim should be what information people want to know. Today, people want to know information like the cost of the war in Afghanistan.
- Annual reports have extensive disclosures including the number of material weaknesses by agencies. This type of information imposes discipline on the agencies, but from a user perspective, it does not provide useful information.

Task Force Approach

The task force began by considering the government-wide financial report. The effort began with the government-wide report because, for external users such as citizens and citizen-intermediaries, it is a likely starting point in the search for federal financial information. Focus group efforts showed that citizens are not likely to be aware of individual departments or agencies. Therefore, they are most likely to be introduced to federal financial reports through a single financial report for the U. S. federal government. Information that is useful in aggregate for the whole of government is likely to be useful on a disaggregated level as well. Therefore, what is learned about the whole of government report may inform consideration of component entity reports produced by departments and agencies.

At its first meeting, the task force identified the following concerns and ideas:

Financial Report Presentation and Reconsideration of Financial Statements

Federal financial information should be presented electronically and be understandable. Additionally, the task force should not necessarily seek to add more data to that already being provided or be confined to traditional financial statements. Financial statements are essential for any democratic society, but they may not produce the mechanism necessary to cause decision makers to act. Providing information in electronic form would permit users to select items of information from a menu of key items of information, perform drill-downs to more detailed information, and extract and array the data into the information they desire. A lot of this data may have been audited as part of a financial or performance audit. Utilizing electronic technology allows individuals to decide on the information they need, such as the cost of programs. Also, visualizations and graphic tools should be used to communicate the information which would be consistent with current trends where individuals are reading “tweets” that are 140 characters or less in length and viewing videos to satisfy their information needs.

Intended Audience for the Government-wide Report and Need for Educating Potential User

The focus of the project should be on providing information to the public, primarily those willing to educate themselves on federal financial matters. This would contribute to the Congress’ needs because they are concerned about the information that their constituents want. This group would include governors and elected local officials, investors in Treasury securities, those who are planning their financial future, think tanks, and concerned citizens groups. Also, consider that citizens seem to care about broad numbers, like pension liabilities, and how those numbers impact them. The Governmental Accounting Standards Board (GASB) Statement 34, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments, paragraph 185 provides core values that could be considered as part of the project.

Information that Should be Presented

The key information that should be provided includes forward looking information, explanations to help users understand the context of the information, explanations of the relationship of the federal government’s operations to other levels of government, businesses, and the public, discussions on the positive and negative impact on the public, and a presentation of the top programs or delivery mechanisms. The federal government should be able to tell its “story” to the public and useful financial information provides individuals with information on what current policies imply about the future. For agencies, people want to know how much the federal government received, how much was spent, and what the federal government obtained for what was spent.

Other Items

Other matters noted included the following:

The data being sought should have integrity and be neutral, i.e. no conclusions drawn.

A goal should be to reduce the cost of citizens' access to information and increase its value to them.

Consequently, the task force noted that the MD&A standards discuss forward-looking information and the FASAB's work on fiscal sustainability and social insurance included a component to change the MD&A at the Consolidated Financial Report (CFR) level. The standards for the CFR MD&A require key numbers from basic financial statements to be presented in a central location and have narrative explanation. However, the consensus of the Board was not to be too prescriptive in the standards. This would allow a level of flexibility as circumstances change.

Given the need to take action promptly, the task force decided to focus on the summary level information of the CFR, i.e. the Citizen's Guide and MD&A sections and organize a subgroup to consider the government-wide financial statements. FASAB staff could begin to identify what information should be presented and improvements needed for presenting the information at the summary levels by looking at how the media presents financial information.

FASAB staff completed an analysis of news sources citing the CFR using its official title, *Financial Report of the United States Government* (FRUSG). The purpose of the analysis was to determine the news sources that are likely to cite the document and inform the public about its contents. Using Nexis to search for news sources that referred to the FRUSG during the five year period ending June 2, 2010,² the task force noted that press releases, blogs, and congressional testimony are the news sources likely to inform the public about information presented in the FRUSG.³

In addition, FASAB staff completed interviews with 15 state and local government officials located in 14 states. The purpose of the interviews was to determine what federal financial information state and local government planners need and how the summary sections of the FRUSG can be improved. State and local government respondents primarily sought information on the amount of money the federal government provides to states, local governments, and to others. They would like to know what areas of the country receive federal dollars and why. This information would assist them in planning their programs, developing their budgets, and comparing their performance with others. Also, staff noted that only six of the respondents had reviewed the FRUSG. As a result, no themes regarding what information they found

² The methodology sought explicit references to the FRUSG. We did not search for references to information that is available in and, therefore, might have been obtained from the FRUSG without acknowledgement.

³ See Financial Reporting Model Project: News Sources Citing the Financial Report of the United States Government, June 3, 2010, for additional information.

useful or interesting in the FRUSG could be developed.⁴ Staff briefed the FASAB on the status of the task force's efforts at the June 2010 Board meeting.

Task Force Next Steps and Deliverable

At its July 2010 meeting, the task force began to develop a report to the FASAB. The report would not be the final product of the project, but it would convey recommendations that relate to the reporting model broadly rather than narrowly focusing on the aspects governed by accounting standards issued by the FASAB. Recognizing that the benefit to be obtained from federal financial reports is affected not only by the content of the reports but also by outreach to users and potential users, cultural factors, and delivery mechanisms (e.g., electronic innovations), the task force believed the broad view would be most helpful to FASAB, its sponsors and the larger federal financial management community.

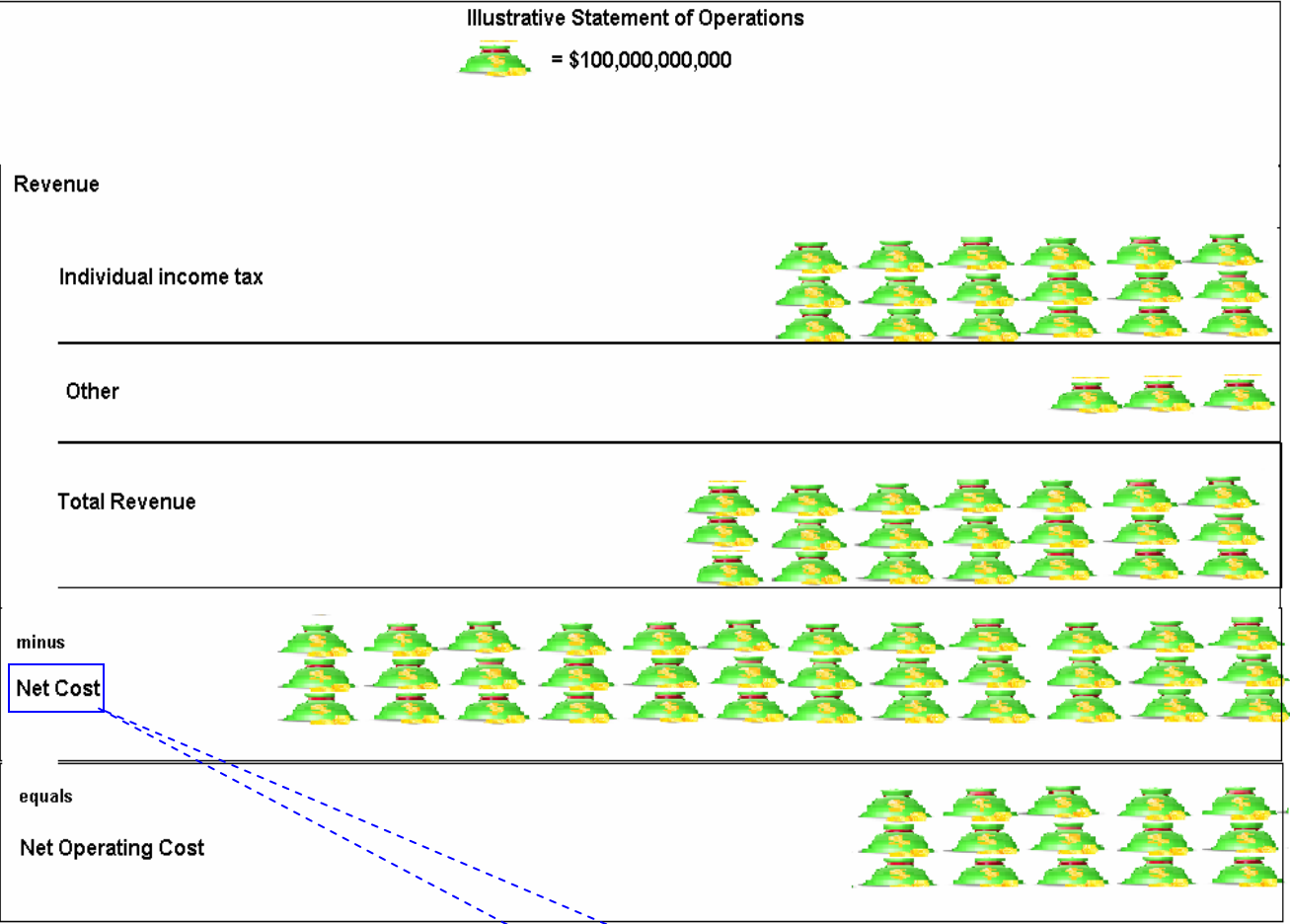
On August 2, 2010, the task force reviewed a draft of the report to the FASAB. The draft report discussed an enhanced reporting model with illustrations of how the model may be used. For example, during our focus group discussions, staff noted that users more readily understood graphics and pictures rather than information presented in a table. As a result, staff designed Figure 2: Illustrative Statement of Operations presented on page 9. The figure presents a simplified statement of operations that uses pictures to illustrate dollar amounts and would use hyperlinks to guide the user to more detail and explanations, such as the components of net cost. Figure 3: Illustrative Detail of Net Cost by Function on page 10 provides an illustration of net cost by function. Although the illustrations are not intended to replace traditional tabular statements, they could assist citizens in understanding federal financial information.

Based on efforts to date, staff anticipates that the primary recommendation will relate to matters not governed by standards – such as electronic delivery of information. Staff anticipates some recommendations regarding information presented in the basic financial statements. FASAB staff is in the process of considering task force member comments on the first draft report and preparing a revised draft which would also include suggestions for implementing the enhance model. The task force plans to meet on September 21, 2010, to finalize the report.

We hope the report will be available for Board consideration at the October meeting. At that time, the Board can consider which recommendations may lead to further FASAB efforts.

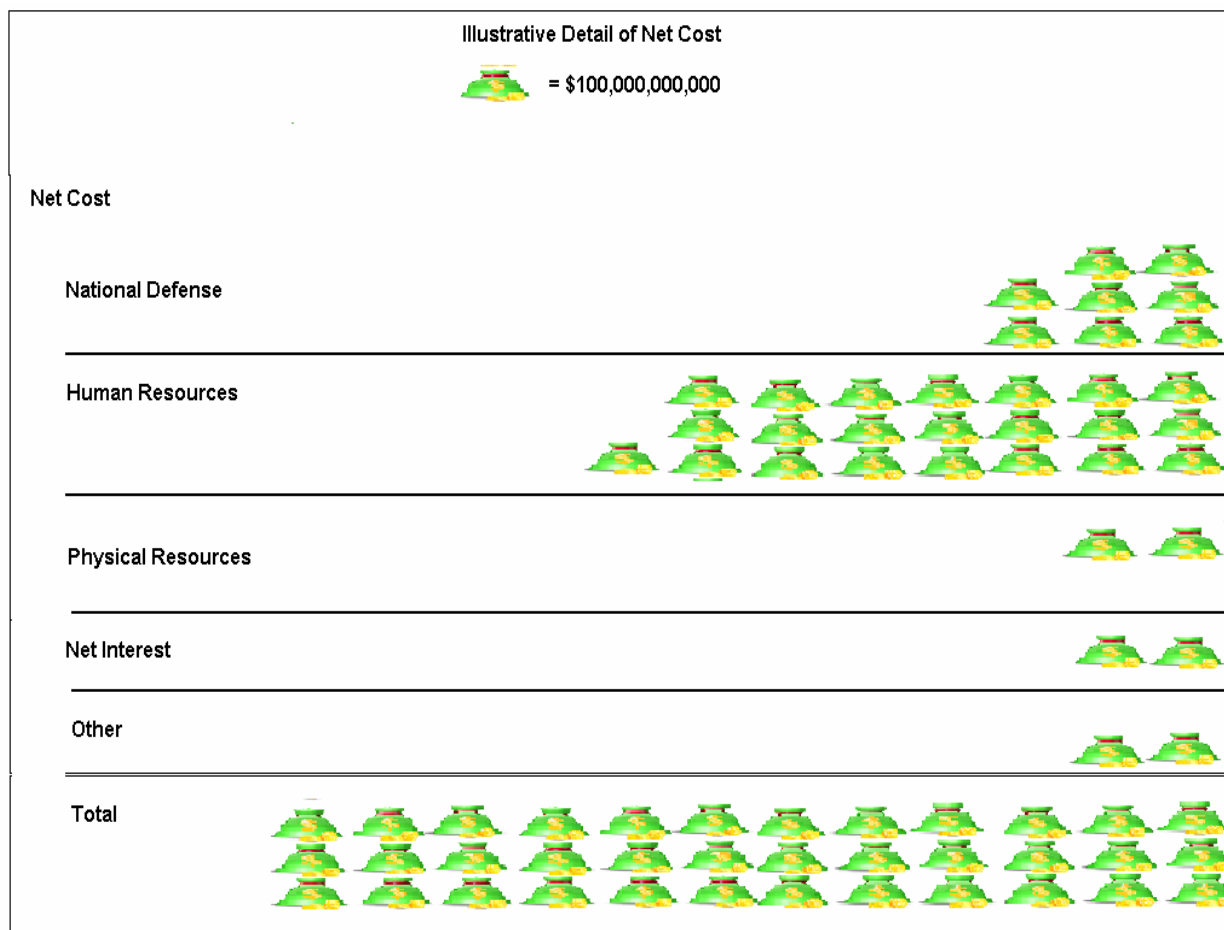
⁴ See Financial Reporting Model Project: Interviews with State and Local Government Officials, June 7, 2010, for additional information.

Figure 2: Illustrative Statement of Operations



User clicks on a
hyperlink for
additional
information such as
details of net cost
(see Figure 3:
Illustrative Detail of
Net Cost by function
on page 10)

Figure 3: Illustrative Detail of Net Cost by Function



Evaluating Disclosures

In the past, the FASAB considered disclosures⁵ primarily in relation to the individual pronouncement of which they were a part. Also, the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements* provides guidance for disclosures and the GAO/PCIE *Financial Audit Manual* (FAM) provides a checklist to assist federal entities in preparing financial statements in conformity with generally accepted accounting principles (GAAP) and auditors in auditing them.

In response to concerns that disclosures had become too detailed, the Board believed it would be beneficial to reconsider disclosures as a single body of standards. Consequently, staff developed a discussion document (see Attachment I: Disclosures Discussion Document beginning on page 15) and a plan to reexamine FASAB

⁵ The term “disclosures” refers to notes or narrative presented in conformity with generally accepted accounting principles.

disclosure requirements (see Attachment II: Plan for Evaluation Disclosures beginning on page 39). The discussion document includes examples of following disclosures to assist Board members in reviewing the plan:

- Direct Loans and Loan Guarantees (see Appendix I, beginning on page 23, for an example of the disclosure.)
- Clean-up Costs (see Appendix II, beginning on page 35, for an example of the disclosure.)

Also, while reviewing the plan, Board members should consider the following questions:

1. Staff proposes to begin by conducting a preliminary survey of preparers and auditors and asking for their views regarding which disclosures should be the focus of the disclosure evaluation effort. Given the number of disclosure requirements, does the Board agree with this approach?
2. Does the Board agree with the preliminary survey questionnaire (beginning on page 43)? If not, what steps or questions should be included or removed?

NEXT STEPS

Staff plans to continue working with the reporting model task force to develop a report to the FASAB which would include recommendations relating to the reporting model and, regarding disclosures, staff will begin surveying preparers and auditors.

If you have questions or need additional information, please contact me at 202-512-2512 or by email at simmsr@fasab.gov as soon as possible. I will be able to consider and respond to your request more fully in advance of the meeting.

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Background

Disclosures evolved from the use of parenthetical explanations on the face of financial statements. Entities used parenthetical explanations to provide additional information about items presented in financial statements. The objective was to provide a more complete description to help readers understand the significance of the item. Parenthetical explanations described the nature, of the item, what it represents, its origin and other explanations. However, accountants realized that lengthy parenthetical explanations distract the reader from the information presented in the financial statements. As a result, they began using parenthetical explanations for brief information and disclosures for information which could not be presented in a brief manner. Subsequently, due to uncertainties during World War II and other matters, such as the adoption of pension and profit-sharing plans, the use of disclosures began to expand.⁶ Disclosures have become a significant part of financial reports and encompass most of its pages.

Accounting Standards Setters' Views on Disclosures

To assist in determining what items of information should be presented in disclosures, accounting standards setters developed conceptual guidance. For instance, the Financial Accounting Standards Board notes that disclosures are an integral part of financial statements prepared in conformity with generally accepted accounting principles (GAAP) and they explain items recognized in financial statements. Statement of Financial Accounting Concepts 5, Recognition and Measurement in Financial Statements of Business Enterprises, paragraph 3 states,

...Information disclosed in notes or parenthetically on the face of financial statements, such as significant accounting policies or alternative measures for assets or liabilities, amplifies or explains information recognized in the financial statements. [Footnote omitted] That sort of information is essential to understanding the information recognized in financial statements and has long been viewed as an integral part of financial statements prepared in accordance with generally accepted accounting principles.

In addition, the Governmental Accounting Standards Board (GASB) developed Concepts Statement 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*. The conceptual guidance discusses the purposes of disclosures and the items of information that should not be included, such as predictions about the effects of future events on financial position. The GASB also believes that disclosures are integral to financial statements and essential to a user's understanding of them. The conceptual guidance states,

⁶ Morton Backer, *Handbook of Modern Accounting Theory*, Prentice Hall (New York: 1955)

35. Notes to financial statements are integral to financial statements and are essential to a user's understanding of financial position or inflows and outflows of resources. Notes provide:

- a. Descriptions of the accounting and finance-related policies underlying amounts recognized in financial statements
- b. More detail about or explanations of amounts recognized in financial statements
- c. Additional information about financial position or inflows and outflows of resources that does not meet the criteria for recognition.

Notes may be narrative or quantitative with appropriate explanations and may include measures other than dollars.

36. Notes have a clear and demonstrable relationship to information in the financial statements to which they pertain and are essential to a user's understanding of those financial statements. In this context, "essential to a user's understanding" means so important as to be indispensable to a user (a) with a reasonable understanding of government and public finance activities and of the fundamentals of governmental financial reporting and (b) with a willingness to study the information with reasonable diligence. The use of professional judgment may be necessary for making a determination about whether an item of information is "essential to a user's understanding."
37. Unlike financial statements, notes may include management's objective explanation of recognized amounts and related known facts, contingencies, certain risks that affect financial statements, subsequent events, measurement methods, accounting policies, and other information essential to understanding the financial statements and to assess compliance with finance-related legal or contractual requirements. However, notes do not include either (a) subjective assessments of the effects of reported information on the reporting unit's future financial position or (b) predictions about the effects of future events on future financial position.

For federal financial reporting, the FASAB defines disclosure as "reporting information in notes or narrative regarded as an integral part of the basic financial statement."⁷ Disclosures in federal financial reports involve a range of subjects, such as:

- Fund Balance with Treasury
- Cash and Other Monetary Assets
- Investments
- Advances and Prepayments
- Receivables
- Direct Loans and Loan Guarantees
- Inventory and Related Property
- General Property, Plant and Equipment
- Heritage Assets and Stewardship Land

⁷ FASAB Statements of Federal Financial Accounting Concepts and Standards, Appendix E: Consolidated Glossary,

- Clean-up Costs associated with hazardous waste removal, containment, or disposal
- Accounts Payable not covered by Budgetary Resources
- Other Current Liabilities not covered by Budgetary Resources
- Contingencies
- Pensions, Other Retirement Benefits, and other Postemployment Benefits
- Capital Leases
- Federal Debt
- Insurance Guarantee Programs, and
- Social Insurance

Based on a preliminary review of federal financial reports, staff noted that disclosures provide:

- Explanations that are essential to a users' understanding of items recognized in financial statements and descriptions of accounting policies supporting amounts recognized. For instance, entities discuss their policy for capitalizing and depreciating property, plant, and equipment.
- Details on items that do or do not meet recognition criteria. For example, entities present amounts for contractual arrangements which may require the use of future financial resources.
- Information to assist in comparing budgetary and accrual basis measures used in reporting, such as reconciling the use of budgetary resources information with accrual-basis cost information.

The following Appendices provide examples of disclosures in federal financial reports:

- Appendix I: .Example Direct Loans and Loan Guarantees Disclosure, beginning on page 23.
- Appendix II: Example Environmental Cleanup and Disposal Liabilities Disclosure, beginning on page 51.

Challenges Regarding Disclosures

Disclosures involve certain conceptual issues. For example, while the Board appears to consider disclosures integral to financial statements and essential for a user's understanding, the conceptual guidance does not explicitly describe the purpose of disclosures. Board agreement on the purpose of disclosures may assist in evaluating their adequacy, i.e. whether they currently accomplish their intended purpose.

In addition, there may be challenges with defining disclosures because, as noted in the Background section, some items of information presented in disclosures could be presented on the face of the financial statements; however, the items may simply result in too much detail or cannot be expressed in numbers.⁸ Also, with advancements in technology and the use of illustrations or pictures, defining disclosures may become more challenging. For example, as presented in Figure 2: Illustrative Statement of Operations (see page 9), pictures may be used rather than numbers and a user can “click” on the face of the statement for additional information. The additional information could be audited or subject to other procedures in accordance with generally accepted government auditing standards. Figure 4: Example of Note Display on page 21 uses the Department of Labor’s FY 2009 Consolidated Statement of Net Cost to illustrate the use of a hyperlink to display additional information regarding items on the face of a “traditional” financial statement.

⁸ Katherine Schipper, “Required Disclosures in Financial Reports,” *The Accounting Review* 82, no.2 (March 1): 301-326.

Figure 4: Example of Note Display

CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2009 and 2008
(Dollars in Thousands)

	2009	2008
NET COST OF OPERATIONS (Notes 1-5 and 15)		
CROSSCUTTING PROGRAMS		
Income maintenance		
Gross cost	\$ 133,351,382	\$ 53,680,770
Less earned revenue	(3,780,083)	(3,365,944)
Net program cost	129,571,299	50,314,826
Employment and training		
Gross cost	7,205,646	5,703,975
Less earned revenue	(11,439)	(12,184)
Net program cost	7,194,207	5,691,791
Labor, employment and pension standards		
Gross cost	720,836	694,041
Less earned revenue	(13,517)	(13,240)
Net program cost		
Worker safety and health		
Gross cost		
Less earned revenue		
Net program cost		
OTHER PROGRAMS		
Statistics		
Gross cost		
Less earned revenue		
Net program cost		
COSTS NOT ASSIGNED TO PROGRAMS		
Gross cost		
Less earned revenue not attributed to programs		
Net cost not assigned to programs		
Net cost of operations		

User clicks on the link
for a display of the
notes

5. Net Cost of Operations

1. Operating costs

Full operating costs are comprised of all direct costs consumed by the program and those indirect costs which can be reasonably assigned or allocated to the program. Full costs are reduced by exchange (earned) revenues to arrive at net program cost. The full and net operating costs of DOL's major programs are presented in the Consolidated Statements of Net Cost, and are also reported by sub-organization in Note 15 to the financial statements.

2. Earned revenue

Earned revenues arise from exchange transactions which occur through the provision of goods and services for a price, and are deducted from the full cost of DOL's major programs to arrive at net program cost. Earned revenues are recognized by DOL to the extent reimbursements are payable from other Federal agencies and from the public, as a result of costs incurred or services performed on their behalf. Major sources of DOL's earned revenue include reimbursements to the Federal Employees' Compensation Act Special Benefit Fund from Federal agencies for the costs of disability compensation and medical care provided to or accrued on behalf of their employees, and reimbursements to the Unemployment Trust Fund from Federal agencies for the cost of unemployment benefits provided to or accrued on behalf of their former employees.

Also, as the federal government engages in increasingly complex events, the need to require disclosures may increase. For example, various states rely on direct and indirect resources from the federal government and could become more dependent on the federal government as economic conditions deteriorate. Moreover, the CFR includes disclosures for the government's beneficial interest in the American International Group stock held by a trust that Federal Reserve Bank of New York established.⁹ However, existing disclosure requirements do not address this activity. Citizens and citizen intermediaries have an interest in understanding this information and disclosure may be beneficial in assisting them.

Staff will consider the above matters in evaluating disclosures. Using a survey of preparers and auditors, staff plans to develop an inventory of disclosures for evaluation. Next, staff plans to rely on focus groups to develop enhancements. See Attachment II: Plan for Evaluating Disclosures. Because the Board has not indicated

⁹ See *Financial Report of the United States Government*, pp. 55 and 74.

a need for a change in the role of disclosures in current practice, the scope of the project does not include determining whether items in the disclosures should be presented on the face of the financial statements.

Other Efforts to Reconsider Disclosures

The FASAB's plan to reconsider disclosures will not be the first. The GASB reconsidered their exiting disclosures in the 90's. The initial focus of the project was to, "identify disclosures that were unnecessary and users of governmental financial statements did not consider when making decisions."¹⁰ The GASB conducted 12 focus group discussions with different types of users and determined that disclosures were not too voluminous and additional disclosures were needed.¹¹

Subsequently, the GASB organized a task force and deliberated the usefulness of existing disclosures. The GASB considered research reports, focus group sessions, and the task force discussions. Consequently, the GASB decided to revise the focus of the project to consider ways of enhancing existing disclosures and requiring new disclosures for areas where disclosures were not complete.¹²

Staff has considered the GASB approach in developing a plan for evaluating disclosures. Primarily, staff intends to initially focus on existing disclosures identified by preparers and auditors rather than seeking input from various types of users, see Attachment II: Plan for Evaluating Disclosures beginning on page 39. Agencies have expressed a concern with the cost of providing information, and staff believes that by seeking initial input from various users, additional disclosures may be determined. Additional disclosures may require additional agency resources to present the information.

¹⁰ GASB Statement 38, *Certain Financial Statement Note Disclosures*, par. 21.

¹¹ *Ibid*, par. 24.

¹² *Ibid*, par. 26.

Appendix I: Example Direct Loans and Loan Guarantee Disclosure

Excerpt from the U.S. Department of Housing and Urban Development Performance and Accountability Report FY 2009

NOTE 7 - DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS

HUD reports direct loan obligations or loan guarantee commitments made prior to FY 1992 and the resulting direct loans or defaulted guaranteed loans, net of allowance for estimated uncollectible loans or estimated losses.

Direct loan obligations or loan guarantee commitments made after FY 1991, and the resulting direct loans or defaulted guaranteed loans, are governed by the Federal Credit Reform Act of 1990 and are recorded as the net present value of the associated cash flows (i.e., interest rate differential, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows).

The Federal Housing Administration, (FHA) ensures Home Equity Conversion Mortgages (HECM), also known as reverse mortgages. These loans are used by senior homeowners age 62 and older to convert the equity in their home into monthly streams of income and/or a line of credit to be repaid when they no longer occupy the home. Unlike ordinary home equity loans, a HUD reverse mortgage does not require repayment as long as the home is the borrower's principal residence.

The FHA also administers the HOPE for Homeowners (H4H) program. The program was established by Congress to help those at risk of default and foreclosure refinance into more affordable, sustainable loans. The principal obligation of all mortgages insured under the H4H program may not exceed \$300 billion. The H4H program was established by the Housing and Economic Recovery Act of 2008 and signed into law on July 30, 2008. Under the H4H program, eligible homeowners may refinance their current mortgage loans into a new mortgage insured by FHA. The program requires borrowers to share with HUD a portion of the equity created upon

Excerpt from the U.S. Department of Housing and Urban Development Performance and Accountability Report FY 2009 (cont.)

the issuance of the new FHA insured loan as well as a portion of any future appreciation on the subject property.

The following is an analysis of loan receivables, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with the loans and loan guarantees for fiscal years 2009 and 2008:

A. List of HUD's Direct Loan and/or Loan Guarantee Programs:

1. FHA
 - a) MMI/CMHI Direct Loan Program
 - b) GI/SRI Direct Loan Program
 - c) MMI/CMHI Loan Guarantee Program
 - d) GI/SRI Loan Guarantee Program
 - e) H4H Loan Guarantee Program
 - f) HECM Program
2. Ginnie Mae
3. Housing for the Elderly and Disabled
4. Low Rent Public Housing Loan Fund
5. All Other
 - a) Revolving Fund
 - b) Flexible Subsidy
 - c) CDBG, Section 108(b)
 - d) Indian Housing Loan Guarantee Fund
 - e) Loan Guarantee Recovery Fund
 - f) Native Hawaiian Housing Loan Guarantee Fund
 - g) Title VI Indian Housing Loan Guarantee Fund
 - h) Green Retrofit Direct Loan Program

Excerpt from the U.S. Department of Housing and Urban Development Performance and Accountability Report FY 2009 (cont.)

B. Direct Loans Pre and Post Credit Reform Act 1990 (dollars in millions):

Direct Loan Programs	2009				
	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA					
a) MMI/CHMI Direct Loan Program	\$ -	\$ 1	\$ (4)	\$ -	\$ (3)
b) GUSRI Direct Loan Program	13	4	(9)	-	8
Housing for the Elderly and Disabled	3,506	38	(13)	1	3,532
Low Rent Public Housing Loans	1	1	-	-	2
All Other					
a) CPD Revolving Fund	5	(1)	(5)	1	-
b) Flexible Subsidy Fund	609	11	(543)	-	77
c) Green Retrofit Program	-	-	-	-	-
Total	\$ 4,134	\$ 54	\$ (574)	\$ 2	\$ 3,616

Direct Loan Programs	2008				
	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA					
a) MMI/CHMI Direct Loan Program	\$ 1	\$ -	\$ (4)	\$ -	\$ (3)
b) GUSRI Direct Loan Program	13	4	(5)	-	12
Housing for the Elderly and Disabled	3,943	48	(12)	-	3,979
Low Rent Public Housing Loans	1	1	-	-	2
All Other					
a) CPD Revolving Fund	5	-	(5)	1	1
b) Flexible Subsidy Fund	626	10	(559)	-	77
Total	\$ 4,589	\$ 63	\$ (585)	\$ 1	\$ 4,068

Excerpt from the U.S. Department of Housing and Urban Development Performance and Accountability Report FY 2009 (cont.)

C. Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method)

(dollars in millions):

2009					
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Current Year Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA					
a) MMI/CMHE Funds	\$ 19	\$ 3	\$ (12)	\$ 16	\$ 26
b) GE/SRI Funds, Excluding HECM	2,677	202	(2,168)	2	713
c) GE/SRI Funds, HECM	4	2	(1)	2	7
Total	\$ 2,700	\$ 207	\$ (2,181)	\$ 20	\$ 746

2008					
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Current Year Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA					
a) MMI/CMHE Funds	\$ 16	\$ 3	\$ (1)	\$ 9	\$ 27
b) GE/SRI Funds, Excluding HECM	2,796	182	(744)	5	2,239
c) GE/SRI Funds, HECM	5	2	-	1	8
Total	\$ 2,817	\$ 187	\$ (745)	\$ 15	\$ 2,274

Excerpt from the U.S. Department of Housing and Urban Development Performance and Accountability Report FY 2009 (cont.)

D. Defaulted Guaranteed Loans from Post-FY 1991 Guarantees (dollars in millions):

2009					
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans
FHA					
a) MMI/CMHI Funds	\$ 560	\$ -	\$ (3,165)	\$ 4,875	\$ 2,270
b) GUSRI Funds, Excluding HECM	625	-	(478)	281	428
c) GUSRI Funds, HECM	772	418	(223)	31	998
All Other	-	-	-	-	-
Total	\$ 1,957	\$ 418	\$ (3,866)	\$ 5,187	\$ 3,696

2008					
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans
FHA					
a) MMI/CMHI Funds	\$ 403	\$ -	\$ (2,219)	\$ 4,053	\$ 2,237
b) GUSRI Funds, Excluding HECM	395	1	(576)	400	220
c) GUSRI Funds, HECM	565	277	(89)	13	766
All Other	-	-	-	-	-
Total	\$ 1,363	\$ 278	\$ (2,884)	\$ 4,466	\$ 3,223

	<u>2009</u>	<u>2008</u>
Total Credit Program Receivables and Related Foreclosed Property, Net	<u>\$ 8,058</u>	<u>\$9,565</u>

Excerpt from the U.S. Department of Housing and Urban Development Performance and Accountability Report FY 2009 (cont.)

E. Guaranteed Loans Outstanding (dollars in millions):

<u>Loan Guarantee Programs</u>	<u>2009</u>	
	<u>Outstanding Principal, Guaranteed Loans, Face Value</u>	<u>Amount of Outstanding Principal Guaranteed</u>
FHA Programs		
a) MMI/CMHI Funds	\$ 711,827	\$ 674,638
b) GI/SRI Funds	92,361	82,603
c) H4H Program	4	4
All Other	3,531	3,526
Total	<u>\$ 807,723</u>	<u>\$ 760,771</u>

<u>Loan Guarantee Programs</u>	<u>2008</u>	
	<u>Outstanding Principal, Guaranteed Loans, Face Value</u>	<u>Amount of Outstanding Principal Guaranteed</u>
FHA Programs		
a) MMI/CMHI Funds	\$ 479,995	\$ 447,652
b) GI/SRI Funds	93,201	84,069
All Other	3,182	3,177
Total	<u>\$ 576,378</u>	<u>\$ 534,898</u>

Excerpt from the U.S. Department of Housing and Urban Development Performance and Accountability Report FY 2009 (cont.)

Home Equity Conversion Mortgage Loans Outstanding:

<u>Loan Guarantee Programs</u>	<u>2009 Current Year Endorsements</u>	<u>Cumulative</u>	
		<u>Current Outstanding Balance</u>	<u>Maximum Potential Liability</u>
FHA Programs	\$ 30,080	\$ 59,877	\$ 102,500

<u>Loan Guarantee Programs</u>	<u>2008 Current Year Endorsements</u>	<u>Cumulative</u>	
		<u>Current Outstanding Balance</u>	<u>Maximum Potential Liability</u>
FHA Programs	\$ 24,166	\$ 43,741	\$ 77,736

New Guaranteed Loans Disbursed (Current Reporting Year):

<u>Loan Guarantee Programs</u>	<u>Outstanding Principal, Guaranteed Loans, Face Value</u>	<u>Amount of Outstanding Principal Guaranteed</u>
FHA Programs		
a) MMI/CMHI Funds	\$ 330,385	\$ 328,097
b) GI/SRI Funds	6,942	6,922
c) H4H Program	4	4
All Other	607	606
Total	<u>\$ 337,938</u>	<u>\$ 335,629</u>

New Guaranteed Loans Disbursed (Prior Reporting Year):

<u>Loan Guarantee Programs</u>	<u>Outstanding Principal, Guaranteed Loans, Face Value</u>	<u>Amount of Outstanding Principal Guaranteed</u>
FHA Programs		
a) MMI/CMHI Funds	\$ 171,825	\$ 167,352
b) GI/SRI Funds	12,907	12,650
All Other	486	485
Total	<u>\$ 185,218</u>	<u>\$ 180,487</u>

Excerpt from the U.S. Department of Housing and Urban Development Performance and Accountability Report FY 2009 (cont.)

F. Liability for Loan Guarantees (Estimated Future Default Claims, Pre-1992) (dollars in millions):

2009			
<u>Loan Guarantee Programs</u>	<u>Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims</u>	<u>Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)</u>	<u>Total Liabilities For Loan Guarantees</u>
FHA Programs	\$ 136	\$ 33,886	\$ 34,022
All Other	-	131	131
Total	<u>\$ 136</u>	<u>\$ 34,017</u>	<u>\$ 34,153</u>

2008			
<u>Loan Guarantee Programs</u>	<u>Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims</u>	<u>Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)</u>	<u>Total Liabilities For Loan Guarantees</u>
FHA Programs	\$ 183	\$ 19,302	\$ 19,485
All Other	-	128	128
Total	<u>\$ 183</u>	<u>\$ 19,430</u>	<u>\$ 19,613</u>

Excerpt from the U.S. Department of Housing and Urban Development Performance and Accountability Report FY 2009 (cont.)

G. Subsidy Expense for Post-FY 1991 Loan Guarantees:

Subsidy Expense for Current Year Loan Guarantees (dollars in millions):

<u>Loan Guarantee Programs</u>	2009				
	<u>Endorsement Amount</u>	<u>Default Component</u>	<u>Fees Component</u>	<u>Other Component</u>	<u>Subsidy Amount</u>
FHA					
a) MMI/CMHI Funds, Excluding HECM	\$ 330,384	\$ 9,991	\$ (13,639)	\$ 3,496	\$ (151)
b) MMI/CMHI Funds, HECM	30,080	1,043	(1,457)	-	(414)
c) GE/SRI Funds	6,942	203	(350)	1	(146)
d) H4H Program	4	1	-	-	1
All Other	-	16	-	-	16
Total	\$ 367,410	\$ 11,254	\$ (15,446)	\$ 3,497	\$ (694)

Subsidy Expense for Prior Year Loan Guarantees (dollars in millions):

<u>Loan Guarantee Programs</u>	2008				
	<u>Endorsement Amount</u>	<u>Default Component</u>	<u>Fees Component</u>	<u>Other Component</u>	<u>Subsidy Amount</u>
FHA					
a) MMI/CMHI Funds	\$ 171,875	\$ 4,546	\$ (6,601)	\$ 1,620	\$ (435)
b) GE/SRI Funds, Excluding HECM	13,883	435	(566)	-	(131)
c) GE/SRI Funds, HECM	24,311	486	(948)	-	(462)
All Other	-	12	-	-	12
Total	\$ 210,069	\$ 5,479	\$ (8,115)	\$ 1,620	\$ (1,016)

Excerpt from the U.S. Department of Housing and Urban Development Performance and Accountability Report FY 2009 (cont.)

Modification and Re-estimates (dollars in millions)

<u>Loan Guarantee Programs</u>	2009			
	<u>Total</u> <u>Modifications</u>	<u>Interest Rate</u> <u>Re-estimates</u>	<u>Technical</u> <u>Re-estimates</u>	<u>Total</u> <u>Re-estimates</u>
FHA				
a) MMI/CMHI Funds	\$ (362)	\$ -	\$ 7,274	\$ 6,912
b) GI/SRI Funds	(6)	-	3,138	3,132
All Other	-	-	(15)	(15)
Total	\$ (368)	\$ -	\$ 10,397	\$ 10,029

<u>Loan Guarantee Programs</u>	2008			
	<u>Total</u> <u>Modifications</u>	<u>Interest Rate</u> <u>Re-estimates</u>	<u>Technical</u> <u>Re-estimates</u>	<u>Total</u> <u>Re-estimates</u>
FHA				
a) MMI/CMHI Funds	\$ -	\$ -	\$ 8,650	\$ 8,650
b) GI/SRI Funds	-	-	1,709	1,709
All Other	-	-	(9)	(9)
Total	\$ -	\$ -	\$ 10,350	\$ 10,350

Total Loan Guarantee Subsidy Expense (dollars in millions)

<u>Loan Guarantee Programs</u>	<u>Current Year</u>	<u>Prior Year</u>
FHA		
a) MMI/CMHI Funds	\$ 6,347	\$ 8,215
b) GI/SRI Funds	2,986	1,116
c) H4H Program	1	-
All Other	\$ 1	\$ 3
Total	\$ 9,335	\$ 9,334

Excerpt from the U.S. Department of Housing and Urban Development Performance and Accountability Report FY 2009 (cont.)

H. Subsidy Rates for Loan Guarantees by Programs and Component:

Budget Subsidy Rates for Loans Guarantee for FY 2009

<u>Loan Guarantee Program</u>	<u>Default</u>	<u>Fees and Other Collections</u>	<u>Other</u>	<u>Total</u>
FHA Programs				
MMI/CMHI				
Single Family	3.04%	-4.12%	1.06%	-0.03%
HECM	3.45%	-4.82%		-1.37%
GI/SRI				
Multifamily				0.00%
Section 221(d)(4)	4.14%	-5.24%		-1.10%
Section 207/223(f)	1.47%	-4.76%		-3.29%
Section 223(a)(7)	1.47%	-4.76%		-3.29%
Section 232	3.39%	-5.48%		-2.09%
Section 242	2.63%	-5.14%		-2.51%
H4H				
Single Family - Section 257	22.40%	-8.41%	-0.61%	13.38%
All Other Programs				
CDBG, Section 108(b)	-2.26%			-2.26%
Loan Guarantee Recovery	50.00%			50.00%
Indian Housing	2.52%			2.52%
Native Hawaiian Housing	2.52%			2.52%
Title VI Indian Housing	12.34%			12.34%
Green Retrofit Direct Loan Program	89.82%			89.82%

The subsidy rates above pertain only to FY 2009 cohorts. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loan guarantees reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohort. The subsidy expense reported in the current year also includes modifications re-estimates.

Excerpt from the U.S. Department of Housing and Urban Development Performance and Accountability Report FY 2009 (cont.)

I. Schedule for Reconciling Loan Guarantee Liability Balances (post 1991 Loan Guarantees) (dollars in millions):

<u>Beginning Balance, Changes, and Ending Balance</u>	<u>FY 2009</u>	<u>FY 2008</u>
Beginning balance of the loan guarantee liability	\$ 19,613	\$ 7,551
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	-	5,467
(b) Default costs (net of recoveries)	11,254	(8,102)
(c) Fees and other collections	(15,446)	1,620
(d) Other subsidy costs	3,497	-
Total of the above subsidy expense components	\$ (695)	\$ (1,015)
Adjustments:		
(a) Loan guarantee modifications	(367)	-
(b) Fees Received	8,771	5,469
(c) Interest supplemental paid	-	-
(d) Foreclosed property and loans acquired	3,909	4,683
(e) Claim payments to lenders	(10,487)	(8,490)
(f) Interest accumulation on the liability balance	1,086	167
(g) Other	113	(67)
Ending balance of the subsidy cost allowance before re-estimates	\$ 21,043	\$ 8,298
Add or Subtract subsidy re-estimates by component:		
(a) Interest rate re-estimate	-	10,180
(b) Technical/default re-estimate	6,670	1,141
(c) Adjustment of prior years credit subsidy re-estimates	5,540	(6)
Total of the above re-estimate components	12,210	11,315
Ending balance of the subsidy cost allowance	\$ 34,153	\$ 19,613

J. Administrative Expense (dollars in millions):

	<u>FY 2009</u>	<u>FY 2008</u>
<u>Loan Guarantee Program</u>		
FHA	\$ 585	\$ 505
All Other	-	1
Total	\$ 585	\$ 506

Appendix II: Example Environmental Cleanup and Disposal Liabilities Disclosure

Excerpt from U.S. Department of Energy Agency Financial Report FY 2009

15. Environmental Cleanup and Disposal Liabilities

	(\$ in millions)	
	FY 2009	FY 2008
Environmental Management Program	\$ 180,071	\$ 185,503
Other legacy environmental liabilities	57,734	51,173
Total legacy environmental liabilities	237,805	236,676
Active and surplus facilities	29,852	29,405
Total environmental cleanup and disposal liabilities	\$ 267,657	\$ 266,081
Amount funded by current appropriations	(4,905)	(2,451)
Total unfunded environmental cleanup and disposal liabilities	\$ 262,752	\$ 263,630
<i>Changes in environmental cleanup and disposal liabilities</i>		
Total environmental cleanup and disposal liabilities, beginning balance	\$ 266,081	\$ 263,603
Changes to environmental cleanup and disposal liability estimates		
Environmental Management Program	944	2,785
Other legacy environmental liabilities	7,244	6,108
Active and surplus facilities	502	307
Total changes in estimates (Notes 22 and 24)	\$ 8,690	\$ 9,200
Costs applied to reduction of legacy environmental liabilities (Note 22)	(5,639)	(5,313)
Capital expenditures related to remediation activities	(1,475)	(1,409)
Total environmental cleanup and disposal liabilities	\$ 267,657	\$ 266,081

During World War II and the Cold War, the U.S. developed a massive industrial complex to research, produce, and test nuclear weapons. The nuclear weapons complex included nuclear reactors, chemical processing buildings, metal machining plants, laboratories, and maintenance facilities that manufactured tens of thousands of nuclear warheads and conducted more than one thousand nuclear tests.

At all sites where these activities took place, some environmental contamination occurred. This contamination was caused by the production, storage, and use of radioactive materials and hazardous chemicals, which resulted in contamination of soil, surface water, and groundwater. The environmental legacy of nuclear weapons production also includes thousands of contaminated buildings and large volumes of waste and special nuclear materials requiring treatment, stabilization, and disposal. Approximately one-half million cubic meters of radioactive high-level, mixed, and low-level wastes must be stabilized, safeguarded, and dispositioned, including a quantity of plutonium sufficient to fabricate thousands of nuclear weapons.

Assumptions and Uncertainties

Estimating the Department's environmental cleanup liability requires making assumptions about future activities and is inherently uncertain. The future course of the Department's environmental cleanup and disposal will depend on a number of fundamental technical and policy choices, many of which have not been made. The cost and environmental implications of alternative choices can be profound. For example, some contaminated sites and facilities could be restored to a condition suitable for any desired use; they could also be restored to a point where they pose no near-term

health risks to surrounding communities but are essentially surrounded by fences and left in place. Achieving the former conditions would have a higher cost but may, or may not, warrant the costs, or be legally required. The estimates reflect applicable decisions and current expectations as to the extent of cleanup and site and facility reuse, which include consideration of Congressional mandates, regulatory direction, and stakeholder input. The environmental liability estimates include contingency estimates intended to account for the uncertainties associated with the technical cleanup scope of the program.

The environmental liability estimates are dependent on annual funding levels and achievement of work as scheduled. Congressional appropriations at lower than anticipated levels or unplanned delays in project completion would cause increases in life-cycle costs.

The liabilities as of September 30, 2009, and September 30, 2008, are stated in FY 2009 dollars and FY 2008 dollars, respectively, as required by generally accepted accounting principles for Federal entities. Future inflation could cause actual costs to be substantially higher than the recorded liability.

Components of the LiabilityEnvironmental Management Program Estimates

EM is responsible for managing the legacy of contamination from the nuclear weapons complex. As such, EM manages thousands of contaminated facilities formerly used in the nuclear weapons program, oversees the safe management of large quantities of radioactive waste and nuclear materials, and is responsible for the cleanup of large volumes of contaminated soil and water. The FY 2009 EM life-cycle cost estimate reflects a strategic vision

Excerpt from U.S. Department of Energy Agency Financial Report FY 2009 (cont.)

to complete this cleanup mission. This strategy provides for a site-by-site projection of the work required to complete all EM projects, while complying with regulatory agreements, statutes, and regulations. These projections have been documented in detailed plans. Each project estimate includes detailed projections of the technical scope, schedule, and estimable costs at each site for the cleanup of contaminated soil, groundwater, and facilities; treating, storing, and disposing of wastes; and managing nuclear materials. The estimates also include costs for related support activities such as landlord responsibilities, program management, grants and cooperative agreements for participation and oversight by Native American tribes, regulatory agencies, and other stakeholders.

Over the past several years a number of management reforms have been implemented within the EM program. These reforms include: (1) redefining and aligning acquisition strategies; (2) instituting robust project management practices and procedures in executing the cleanup program; and (3) implementing a strict configuration control system for key management parameters of the cleanup program. In FY 2009, progress towards improving efficiency and management of the program continued. Field offices have prepared technical estimates that describe in detail the activities, schedule, and resources required to complete the EM cleanup mission at the respective sites. In addition, EM has implemented an earned value management reporting system to continuously evaluate whether cleanup progress remains on schedule and within budget. In addition to the assumptions and uncertainties discussed above, the following key assumptions and uncertainties relate to the EM estimates:

- The Department has identified approximately 10,500 potential release sites from which contaminants could migrate into the environment. Although virtually all of these sites have been at least partially characterized, final remedial action and regulatory decisions have not been made for many sites. Site-specific assumptions regarding the amount and type of contamination and the remediation technologies that will be utilized were used in estimating the environmental liability related to these sites.
- Cost estimates for management of the Department's high-level waste are predicated upon assumptions as to the timing and rate of acceptance of the waste at a geologic repository. Changes in high-level waste disposition plans could cause EM project costs to increase.
- Estimates are based on remedies considered technically and environmentally reasonable and achievable by local project managers and appropriate regulatory authorities.
- Estimated cleanup costs at sites for which there is no current feasible remediation approach are excluded from the estimates, although applicable stewardship and monitoring costs for these sites are included. The cost estimate would be higher if some remediation were assumed for these areas. However, because the

Department has not identified effective remedial technologies for these sites, no basis for estimating costs is available. An example of a site for which cleanup costs are excluded is the nuclear explosion test area at the Nevada Test Site.

Changes to the EM estimates during FY 2009 and FY 2008 resulted from inflation adjustments to reflect constant dollars for the current year; improved and updated estimates for the same scope of work, including changes resulting from deferral or acceleration of work; revisions in technical approach or scope, including provisions for increases in the cost and duration of high-level waste programs and related increases in contingency estimates; regulatory changes; cleanup activities performed; scope transfers into the EM estimates; and additions for facilities transferred from the active and surplus category discussed below.

Other Legacy Environmental Liabilities

The NWPA established the Department's responsibility to provide for permanent disposal of the Nation's high-level radioactive waste and spent nuclear fuel. The Act requires all owners and generators of high-level nuclear waste and spent nuclear fuel, including the Department, to pay their respective shares of the full cost of the program. To that end, the Act establishes a fee on owners and generators that the Department must collect and annually assess to determine its adequacy. The Department's liability reflects its share of the estimated future costs of the program based on its inventory of high-level waste and spent nuclear fuel. The Department's liability does not include the portion of the cost attributable to other owners and generators.

Changes to the high-level waste and spent nuclear fuel disposition liability during FY 2009 and FY 2008 resulted from inflation adjustments to reflect current year constant dollars, revisions in technical approach or scope, changes in the Department's allocable percentage share of future costs, and actual costs incurred by the Department that were allocated to the Department's share of the liability.

Other legacy liabilities include the estimated cleanup and post-closure responsibilities, including surveillance and monitoring activities, soil and groundwater remediation, and disposition of excess material for sites after the EM program activities have been completed. The Office of Legacy Management (LM) is responsible for the legacy activities at many of the EM closure sites as well as other sites (former uranium mills and certain sites remediated by the Corps). The costs for these post-closure activities are estimated for a period of 75 years after the balance sheet date, i.e., through 2084 in FY 2009 and through 2083 in FY 2008. While some post-cleanup monitoring and other long-term stewardship activities past 2084 are included in the liability, there are others the Department expects to continue beyond 2084 for which the costs cannot reasonably be estimated.

Excerpt from U.S. Department of Energy Agency Financial Report FY 2009 (cont.)

Also included in these liabilities are estimates for the disposition of various materials. The most significant of these materials is surplus plutonium.

The Low-Level Radioactive Waste Policy Amendments Act of 1985 assigned responsibility to the Department for the disposal of commercially generated low-level wastes not suitable for near-surface disposal. Although a final disposal path for this waste has not yet been determined, estimated costs for the range of disposal options being evaluated have been included in the liability.

Active and Surplus Facilities

This liability includes anticipated remediation costs for active and surplus facilities managed by the Department's ongoing program operations and which will ultimately require stabilization, deactivation, and decommissioning. The estimate is largely based upon a cost-estimating model which extrapolates stabilization, deactivation, and decommissioning costs from facilities included in the EM estimates to those active and surplus facilities with similar characteristics. Site-specific estimates are used when available. Cost estimates for active and surplus facilities are updated each year to reflect current year constant dollars; the transfer of cleanup and management responsibilities for these facilities by other programs to EM, as discussed above; changes in facility size

or contamination assessments; and estimated cleanup costs for facilities. For facilities newly contaminated since FY 1997, cleanup costs allocated to future periods and not included in the liability amounted to \$627 million at September 30, 2009, and \$698 million at September 30, 2008.

In September 2006, the Federal Accounting Standards Advisory Board (FASAB) issued Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, which requires Federal agencies to estimate and record liabilities by FY 2010 for removal and disposal of asbestos, including non-friable (not easily crumbled) asbestos, from their plant and equipment, where removal and disposal during or prior to demolition is legally required. The Department has already recorded such liabilities for a sizable portion of its facilities, including facilities that are in the EM cleanup program, active and surplus facilities contaminated with radioactive or hazardous wastes, and other facilities containing friable asbestos (Note 14, environment, safety and health compliance activities). In September 2009, FASAB issued Technical Bulletin 2009-1 which deferred for two years, the effective date of Technical Bulletin 2006-1. The Department will recognize in FY 2012 an additional liability for asbestos mitigation in its remaining facilities in accordance with the provisions of the Technical Bulletin, but has not determined the amount of the additional liability.

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Plan for Evaluating Disclosures

Objective

To determine whether existing disclosure requirements should be (a) eliminated because the required information is no longer relevant or useful or (b) revised to improve the information the standard is intended to provide.

Scope

The scope of the project involves reconsidering disclosure requirements as a single body of standards. Previously, disclosures were considered primarily in relation to the individual pronouncement of which they were a part. Our reconsideration would include requirements that were effective for periods ending in FY 2007 or earlier to allow preparers and auditors time to gain experience applying the requirements. However, the reconsideration would not include disclosure requirements currently being reviewed as part of other FASAB projects, such as Evaluation of Existing Standards - Earmarked Funds. In addition, the project does not include determining what disclosures may be candidates for presentation on the face of financial statements.

Methodology

Staff will survey preparers and auditors to determine their views on the usefulness and burden of disclosures (see Appendix I: Survey Questionnaire beginning on page 43 for survey details) and identify at least five (5) disclosure topics and their respective issues for evaluation. Staff believes that preparers and auditors have experience with the information and could help develop an inventory of disclosure issues that should be reconsidered. Upon completing the survey and developing the inventory, staff will conduct 2 to 3 focus group discussions to determine how the selected disclosure issues may be addressed. The focus groups will consist of analysts or citizen intermediaries. As an alternative, if scheduling focus group discussions are not feasible, staff will conduct structured interviews with 10 to 12 analysts.

Preparer and Auditor Survey

The preparer and auditor survey asks the participants to identify five (5) disclosure topics that should be considered during the project. Also, participants will be asked to briefly explain why they believe the disclosures should be candidates for the project.

To assist the participant in identifying the candidates for the project, staff will provide them with the *Disclosure Analysis Guide* (see page 47). Completion of the Guide will be optional and it would involve a series of four (4) suggested steps. The first step asks participants to conduct an analysis of disclosures. The purpose of this step would be to help the participants consider the full range of disclosures and to guide them in focusing on specific issues of concern to users. The step would involve possible discussions with stakeholders and a review of financial reports and other information.

Second, to help prioritize the issues developed, the Guide provides participants with a listing of disclosure topics to rate. The criteria used for the rating are as follows:

1. Whether the disclosure is useful to financial report readers.
2. Whether the disclosure is relevant or achieves the purposes for which it was intended.
3. Whether the disclosure is costly to provide in audited financial statements.
4. Whether the disclosure primarily presents information that is provided in other reports available to users.

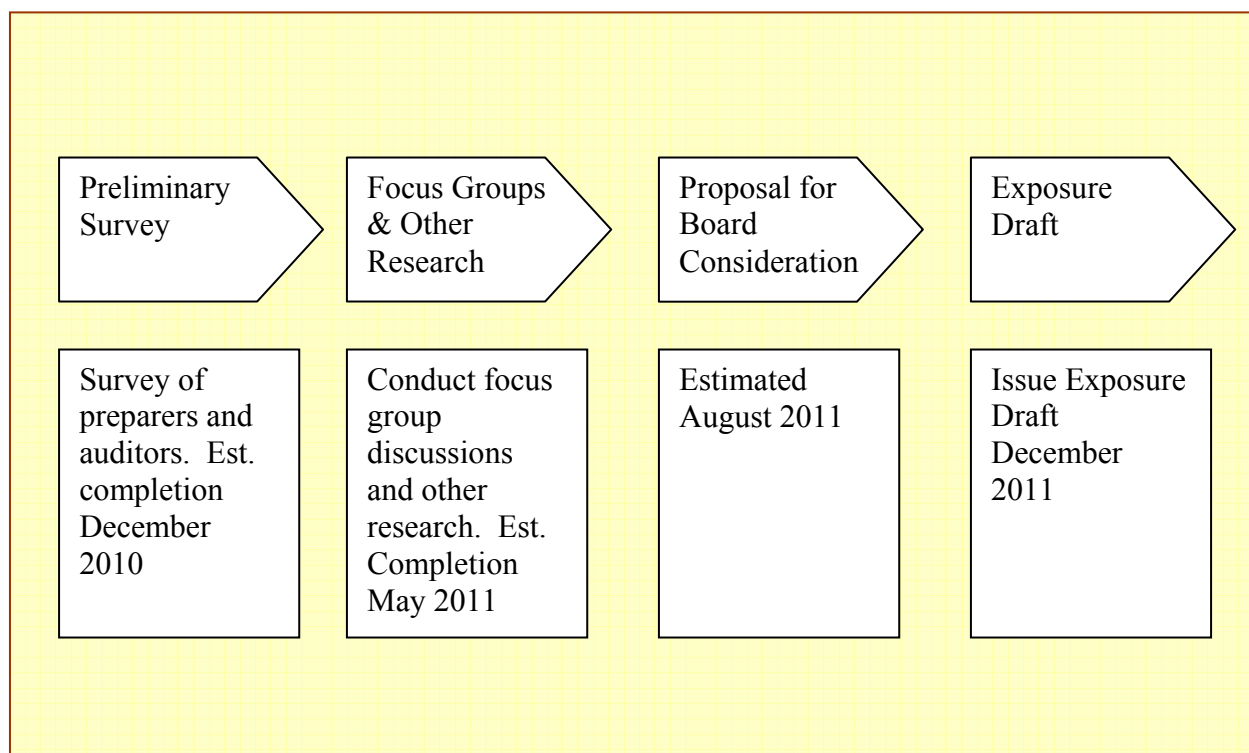
As a result, low rated items may be candidates for evaluation during the project. See Appendix II: Disclosure Topic Ranking Guide beginning on page 51 for the ranking approach.

The third step asks participants to list the five (5) disclosures and the respective issues regarding the disclosure that should be the focus of the evaluation. Also, the participants will be asked to discuss any additional criteria considered in their rankings.

The fourth and last step asks participants to discuss any additional matters that the FASAB should consider during the project.

Timeline and Deliverables

Figure 5: Timeline and Deliverables on page 42 present the estimated completion dates and deliverables for the plan. Staff plans to begin the survey after November 15, 2010. This would allow preparers and auditors time to complete the FY 2010 financial reports and be able to consider their recent experiences in the survey.

Figure 5: Timeline and Deliverables

Question 1

Does the Board agree with the overall approach?

Appendix I: Survey Questionnaire

The U.S. Federal Accounting Standards Advisory Board (FASAB) develops accounting standards for federal entities after considering the information needs of users. The FASAB developed its initial set of standards in the 1990's and now believes it is time to revisit those requirements. As part of the FASAB's efforts to revisit the federal financial reporting model, the FASAB is reconsidering disclosures to determine whether the disclosures (notes to financial statements) should be (a) eliminated because they are no longer relevant or useful or (b) revised to improve the information they provide. The reconsideration includes requirements that were effective for periods ending in FY 2007 or earlier to allow users time to integrate the requirements into their analysis.

To assist the FASAB in this project, please complete the attached questionnaire and identify the top five (5) disclosures that you believe the FASAB should consider for evaluation. By December 15, 2010, please email responses to Ross Simms at simmsr@fasab.gov. If you prefer to be interviewed instead of completing the survey, please contact Ross by e-mail or at (202) 512-2512 to arrange a time to discuss your experiences and insights.

If you have questions, please contact Ross Simms (simmsr@fasab.gov, or 202-512-2512).

Survey Questionnaire

The objective of the FASAB disclosure evaluation project is to determine whether existing disclosure requirements should be (a) eliminated because the required information is no longer relevant or useful or (b) revised to improve the information the standard is intended to provide. The project includes requirements that were effective for periods ending in FY 2007 or earlier to allow preparers and auditors time to gain experience applying the requirements. To assist the FASAB in this project, please list five (5) disclosure topics that you believe should be considered during the project. Also, please provide a brief description of why you believe the topic should be considered, e.g. rather than stating that a disclosure is too long, discuss the items of information that may not be needed and why. To assist you in identifying disclosure topics a *Disclosure Analysis Guide* is attached. The Guide includes **suggested** steps and its completion is **optional**.

Five (5) Disclosure Topics you believe the FASAB should consider.

1.

2.

3.

4. _____

5. _____

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I. Determine and analyze concerns regarding disclosures. Conduct or review discussions with stakeholders, review financial reports, audit reports, and other documents as necessary and determine concerns regarding disclosures in general and particular disclosures. Discuss those concerns below (attach additional pages if necessary). **[Note:** Please be specific in the discussion, e.g. rather than stating that a disclosure is too long, discuss the items of information that may not be needed and why.]

[illegible]

- II. Using the information gathered in Step I, complete the Disclosure Topic Ranking Guide (see Appendix II: Disclosure Topic Ranking Guide on page 51), and identify the Top Five (5) disclosure topics that the FASAB should consider for evaluation.
 - A. Column A. Column A of the Guide presents various topics that are presented in federal financial reports. The topics are discussed in FASAB standards (see <http://fasab.gov/standards.html> for FASAB standards), OMB Circular A-136, *Federal Financial Reporting Requirements*, (see http://www.whitehouse.gov/omb/circulars_index-ffm/), and the *GAO/PCIE Financial Audit Manual 2010 Checklist for Federal Reporting and Disclosures* (see <http://www.gao.gov/special.pubs/gaopcie/>). Also, space is provided for

disclosure topics not listed. Please add the disclosure topic you believe should be considered during the FASAB project and explain why the topic should be included. **Note that the scope of the project only involves disclosures that were effective for periods ending in FY 2007 or earlier.**

- B. Column B. For each disclosure topic listed, Column B of the guide asks for your views regarding the perceived usefulness of the information to financial report readers. On a scale of 1 to 5, with 1 being not useful and 5 being very useful, rate your perceived usefulness of the information in the disclosure. If the disclosure topic is not applicable to your entity or you believe you do not have enough experience regarding the matter, simply insert zero (0).
- C. Column C. For each disclosure topic listed, Column C of the guide asks for your perceptions regarding the relevance of the information or how well it achieves the purposes for which it was intended. On a scale of 1 to 5, with 1 being not relevant and 5 being very relevant, rate your perceived relevance of the information in the disclosure. If the disclosure topic is not applicable to your entity or you believe you do not have enough experience regarding the matter, simply insert zero (0).
- D. Column D. For each disclosure topic listed, Column D of the guide asks for your perceptions regarding the cost of presenting the information in audited financial statements. On a scale of 1 to 5, with 1 being very significant and 5 being less significant, rate your perceived cost of presenting the information in the disclosure. If the disclosure topic is not applicable to your entity or you believe you do not have enough experience regarding the matter, simply insert zero (0).
- E. Column E. For each disclosure topic listed, Column E of the guide asks for your perceptions regarding the degree that the information is provided in other reports available to users, e.g. most of the information in the disclosure is also presented in a report to the Congress and the public. On a scale of 1 to 5, with 1 being presented in its entirety and 5 being not presented, rate your perceived degree of presenting the information in other reports available to users. If the disclosure topic is not applicable to your entity or you believe you do not have enough experience regarding the matter, simply insert zero (0).
- F. Column F. For each disclosure topic, total the values inserted in columns B, C, D, and E and note the topics with the lowest scores.

III. Using the lowest values noted in Column F of the Guide, list the five (5) disclosure topics and any specific issues regarding the disclosure topic that should be the focus of the evaluation project. If additional criteria were considered in the ranking please discuss those as well.

A. _____

B. _____

C. _____

D. _____

E. _____

IV. Additional matters that the FASAB should consider. Please discuss any additional matters the FASAB should consider in evaluating disclosures.

Question 2

Does the Board agree with the preliminary survey questions? If not, what questions should be included or removed?

Appendix II: Disclosure Topic Ranking Guide

(A) Disclosure Topic	(B) Perceived Usefulness (1 to 5) 1 - not useful 5 - very useful	(C) Perceived Relevance (1 to 5) 1 - not relevant 5 - very relevant	(D) Perceived Cost (1 to 5) 1 – very significant 5 – not significant	(E) Degree of Presentation in Other Reports (1 to 5) 1 – presented in entirety 5 – not presented	(F) Total Score Add Columns B, C, D, and E Low score items may be candidates for evaluation
Non-entity Assets					
Fund Balance with Treasury					
Cash and Other Monetary Assets					
Investments					
Receivables:					
Accounts Receivable, Net					
Taxes Receivable, Net					
Interest Receivable, Net					
Direct Loans and Loan Guarantees, Non-Federal Borrowers					
Inventory and Related Property, Net:					
Inventory (primarily held for sale)					
Operating Materials and Supplies					
Stockpile Materials					
Seized Property					
Forfeited Property					
Goods Held Under Price Support and Stabilization Programs					
General Property, Plant, and					

(A) Disclosure Topic	(B) Perceived Usefulness (1 to 5) 1 - not useful 5 - very useful	(C) Perceived Relevance (1 to 5) 1 - not relevant 5 - very relevant	(D) Perceived Cost (1 to 5) 1 – very significant 5 – not significant	(E) Degree of Presentation in Other Reports (1 to 5) 1 – presented in entirety 5 – not presented	(F) Total Score Add Columns B, C, D, and E Low score items may be candidates for evaluation
Equipment (PP&E), Net					
Stewardship PP&E					
Other Assets					
Liabilities Not Covered by Budgetary Resources					
Debt					
Federal Employee and Veterans' Benefits					
Environmental Liabilities					
Cleanup Cost Adjustments					
Other Liabilities					
Leases					
Life Insurance Liabilities					
Commitments and Contingencies					
Earmarked Funds					
Intragovernmental Costs and Exchange Revenue					
Suborganization Program Costs/Program Costs by Segment					
Cost of Stewardship PP&E					
Exchange Revenues					
Budgetary Resources Statement Disclosures					

(A) Disclosure Topic	(B) Perceived Usefulness (1 to 5) 1 - not useful 5 - very useful	(C) Perceived Relevance (1 to 5) 1 - not relevant 5 - very relevant	(D) Perceived Cost (1 to 5) 1 – very significant 5 – not significant	(E) Degree of Presentation in Other Reports (1 to 5) 1 – presented in entirety 5 – not presented	(F) Total Score Add Columns B, C, D, and E Low score items may be candidates for evaluation
Custodial Activity Statement Disclosures					
Social Insurance Statement Disclosures					
Dedicated Collections					
Restatements					
Reconciliation of Net Cost of Operations to Budget					
Fiduciary Activities					
Other					