



**FEDERAL
ACCOUNTING STANDARDS
ADVISORY BOARD**

Annual Report

Fiscal Year Ended September 30, 2017

Three-Year Plan

Fiscal Years 2018-2020

Comments Requested by January 29, 2018

Issued November 15, 2017

Current FASAB Board Members

D. Scott Showalter | Chair | 2016–2019

R. Scott Bell | Department of the Treasury | 2017–present**

Gila Bronner | Non-federal representative | 2016–2021*

Robert Dacey | Government Accountability Office | 2004–present**

Michael Granof | Non-federal representative | 2009–2019

Patrick McNamee | Non-federal representative | 2017–2022*

Mark Reger | Office of Management and Budget | 2014–present**

George Scott | Non-federal representative | 2016–2021*

Graylin Smith | Non-federal representative | 2012–2022*

*Member eligible for a second five-year term.

**Federal members are not term limited.

Organization

Three federal officials responsible for federal financial reporting—the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General of the United States—established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. These three officials possess legal authority under various laws to establish accounting and financial reporting standards for the federal government. Together, they entered into and have periodically modified a Memorandum of Understanding creating the Board as a federal advisory committee.

Membership comprises individuals from each of the three federal agencies that established the Board (the sponsors) and six non-federal individuals. The American Institute of Chartered Public Accountants (AICPA) has designated the Board as the body that establishes generally accepted accounting principles for federal reporting entities.

Mission

FASAB serves the public interest by improving federal financial reporting through issuing federal financial accounting standards and providing guidance after considering the needs of external and internal users of federal financial information.

The Mission Supports Public Accountability

Financial reports, which include financial statements prepared in conformity with generally accepted accounting principles, are essential for public accountability and for an efficient and effective functioning of our democratic system of government. Thus, the Board plays a major role in fulfilling the government’s responsibility to be publicly accountable. Federal financial reports should be useful in assessing (1) the government’s accountability and its efficiency and effectiveness and (2) the economic, political, and social consequences, whether positive or negative, of the allocation and various uses of federal resources.

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Annual Report

FROM THE CHAIR

I am pleased to present our annual report and to invite your feedback on the work of the Board. This marks my second annual report as chair. We made substantial progress in the last year and accomplished much through collaborating with the federal community. Thank you to all who participated in due process including our committed task force members.

Increased Visibility and Recognition

One of my goals upon appointment as chair was to increase the visibility and recognition of the activities and results of the Board. The efforts of the Board remain vital to measuring and reporting the federal government's actual results of operations and financial condition through generally accepted accounting principles (GAAP) based financial statements. The Board's efforts have significantly contributed to the dialogue about the financial position and fiscal sustainability of the federal government. Addressing challenging topics that are unique to national governments—such as fiscal sustainability—contributes to the Board's visibility and relevance. This year, the Board issued a Statement on the disclosure of tax expenditures. While this is an area addressed by few standards-setters, it is also critical to understanding a national government's finances. Information on tax expenditures will further enhance the dialogue with financial statement users about fiscal challenges and program costs.

To expand FASAB's influence and impact, it is important to communicate to the public and the larger profession the role FASAB plays in helping citizens access credible and useful financial information. We have made significant progress increasing the visibility and recognition of the Board's work. This has resulted in increased coverage of Board activities in professional journals and more outreach opportunities. A few examples include the following:

- Participating in the International Public Sector Accounting Standards Board's (IPSASB) second annual Public Sector Standard Setters Forum
- Responding to the IPSASB's consultation paper—*Financial Reporting on Heritage in the Public Sector*
- Attending the joint IPSASB-International Monetary Fund-World Bank seminar entitled "Harnessing the Power of Accrual"
- Observing IPSASB meetings held in North America
- Providing updates at the Organization for Economic Co-operation and Development's annual symposium
- Writing articles for:
 - the Association of International Chartered Professional Accountants' (AICPA) [Government Briefs](#)
 - *Government Executive*
 - The Association of Government Accountant's (AGA) *Journal of Government Financial Management*
- Increasing coverage of official Board publications by the *Journal of Accountancy* and the AGA's Topics

- Refreshing the FASAB newsletter by highlighting key messages in the body of the email to make it easier to track progress on projects
- Using an online survey to significantly increase the feedback we receive on our three-year plan

Standards-setting Accomplishments

The Board has continued to provide standards and other literature to support improved usefulness and effectiveness of federal financial reports this year while also focusing on balancing the costs and benefits of its other guidance. Continued collaboration with stakeholders across the federal financial reporting community makes such accomplishments possible.

Notable collaborative efforts that accelerated development of standards included

- leveraging expertise and experience of both the public and private sector members of the tax expenditure task force to complete tax expenditure standards early in FY 2017;
- collaborating with the Governmental Accounting Standards Board (GASB) and our own task force to develop governmental lease accounting standards to finalize new standards shortly after the close of this fiscal year;
- creating an improved budget to accrual reconciliation format through a joint effort with several agencies that piloted the new format and tested revisions; and
- hearing the views of users, preparers, and auditors regarding the reporting of land to develop a proposal early in FY 2018.

As a result of our close collaborative efforts, we were able to finalize our work on three new standards during the year. The Board issued Statement of Federal Financial Accounting Standards (SFFAS) 51, *Insurance Programs*, and SFFAS 52, *Tax Expenditures*, during the fiscal year. R. Alan Perry, on detail from the Government Accountability Office (GAO) to support the effort, was instrumental in the timely completion of SFFAS 52. The Board finalized and submitted for sponsor review SFFAS 53, *Budget and Accrual Reconciliation*, in late July. These standards should have a significant impact on the effectiveness and informative value of financial statements.

The Board also added to its conceptual framework by issuing Statement of Federal Financial Accounting Concepts (SFFAC) 8, *Federal Financial Reporting*, in late September. The concepts address long-standing questions regarding the relationships among budget, accrual, and online reports. The concepts will inform standards-setting in the future by providing a platform for standards that support financial reporting innovations.

Several proposals and final standards are nearing completion as of the end of the fiscal year. The Board will address complex topics such as land, inter-entity costs, and lease accounting through these proposals and standards.

Member News

In September of this year, the Board bid farewell to Christina Ho, Deputy Assistant Secretary for Accounting Policy and Financial Transparency at the Department of the Treasury. Ms. Ho has contributed greatly to the Board since joining us in 2014. In addition, she led the implementation of the Digital Accountability and Transparency Act and advanced government-wide efforts to improve open, accountable, and participatory government through improved financial management data. Her contributions to the profession will be lasting and her fellow members will miss her. Mr. R. Scott Bell will represent Treasury on the Board until the department selects a new deputy assistant secretary.

Where We Go Next

The Board is mindful of the federal government's ongoing efforts to streamline, including reporting requirements relating to federal financial reports. We are contributing to this effort by reviewing selected existing requirements as well as considering principles to guide disclosures. You are encouraged to contribute to this effort. With your assistance, we will make great progress on both recently initiated and ongoing projects.

Your input will ensure that we continue to focus our resources on the highest priorities for the federal reporting community. The three-year plan is included in this report beginning at [page 15](#). **We encourage you to provide feedback on the plan so that members can consider your views during the Board's review in February 2018. Please send your comments to fasab@fasab.gov or participate in the electronic survey. We will announce details regarding the survey to our mailing list concurrent with the release of this report.**

We also encourage you to continue monitoring our progress and contributing to our standards-setting efforts—through participating on task forces, responding to documents for comment, and/or testifying at public hearings.



D. Scott Showalter

BOARD TECHNICAL ACTIVITIES

Standards-setting Activities

Tax Expenditures

The federal government uses tax expenditures as one of many means to accomplish policy objectives. Tax expenditures resemble federal spending in that they affect the federal deficit or surplus; however, unlike federal spending, tax expenditures affect federal tax revenues.

The Board issued SFFAS 52, *Tax Expenditures*, in May 2017 as a result of the combined efforts of a task force and R. Alan Perry (on detail from the Government Accountability Office to support the project). The new requirements, which will become effective for fiscal year 2018 reporting, will assist users of the consolidated financial report of the U.S. Government in understanding the existence, purpose, and overall impact of tax expenditures. In addition, the report will inform users about other publicly-available reports on the estimated revenue effects of individual tax expenditures.

Reporting Model

The reporting model project objective is to identify financial information useful for making decisions, demonstrating accountability, and achieving the reporting objectives. The Board conducted research to understand users' expectations in this era of electronic reporting of enormous volumes of data. In addition, the Board enlisted the National Academy of Public Administration to research federal agencies' use of financial information, identify gaps in information, and determine opportunities to close these gaps.

The Board continued this effort in 2017 by issuing SFFAC 8, *Federal Financial Reporting*. SFFAC 8 addresses current and evolving reporting needs and capabilities and serves as a framework for later standards. The concepts statement discusses the role of financial statements and required supplementary information (RSI) and their relationship to other reported financial and non-financial information. The concepts statement also discusses 1) the content and presentation of financial statements and RSI for government-wide and component reporting entities, 2) the presentation of budgetary information in component reporting entity financial statements and RSI, 3) the presentation of performance information in financial statements and RSI, and 4) the summary-level information relating to financial statements and RSI. The concepts will assist the Board in developing and improving reporting models for the government-wide and component reporting entities.

In the near-term, the Board is considering two proposals that would streamline required content. One proposal seeks to improve presentation of relevant performance information in management's discussion and analysis by providing various flexibilities, including the option to discuss the availability of a more detailed and timely performance report and where it may be obtained. Another proposal seeks to provide flexibility regarding reporting on stewardship investments, such as trends in research and development expenses. Flexibilities would be responsive to input from preparers and auditors regarding users' access to and preference for other sources of information.

Risk Assumed

The Board undertook this project to provide comprehensive and consistent reporting for all significant risks assumed by the federal government. During FY 2017, the Board finalized the first phase of the risk assumed project by issuing accounting standards for insurance programs (SFFAS 51). The Statement will be effective for FY 2020. The guidance seeks to improve comparability among federal insurance programs by establishing clearer recognition and measurement guidance, as well as more structured disclosures.

The Board will continue the risk assumed project by evaluating additional significant risks assumed by the federal government. During late FY 2017, staff reviewed existing disclosures regarding other significant risks (such as those associated with direct loans and loan guarantees), consulted with experts in specific areas of risk, and identified gaps in information. Beginning in FY 2018, the Board will consider options for addressing the significant gaps.

Leases

For many years, standards-setters including FASAB have recognized that lease accounting standards have failed to capture the economic substance of many lease transactions. After many years of research and deliberations, the Financial Accounting Standards Board (FASB) issued major revisions to its accounting standards for leases. Given the universal concerns and significant work by other standards-setters, the Board undertook a review of its own lease accounting standards.

The Board has worked closely with GASB on appropriate lease accounting standards for governmental entities. The Board used the results from GASB's preliminary deliberations as a baseline and made adjustments to reflect the unique needs of the federal government. FASAB has placed particular emphasis on federal intragovernmental leasing activity to establish beneficial reporting requirements with a reasonable cost. FASAB issued proposed standards in September 2016. The Board expects to complete the standards during FY 2018.

Accounting and Reporting of Government Land

The Board added a project to address significant inconsistencies in how agencies report information pertaining to U.S. government-owned land. Under existing standards, reporting entities capitalize land acquired for or in connection with other general property, plant, and equipment (PP&E) on the balance sheet. Reporting entities do not capitalize "stewardship land" on the balance sheet even when they use it in connection with general PP&E. Instead, a note discloses land management policies, categories of land, and physical quantity information regarding stewardship land.

The recent guidance regarding opening balances of general PP&E—SFFAS 50, *Establishing Opening Balances for General PP&E*—further allows certain federal agencies to exclude land from the balance sheet. Agencies applying SFFAS 50 could report acres in a note disclosure and exclude all land from capitalization on the balance sheet.

These added flexibilities relating to opening balances along with the existing general PP&E and stewardship land categories mean information about land is unlikely to be complete or comparable. As a result, the Board has formed a government-wide task force also including citizens and other users from academia and business to examine how this may affect users of financial reports.

The Board expects to issue a proposal regarding land in FY 2018.

Budget and Accrual Reconciliation

FASAB undertook the budget and accrual reconciliation project primarily because users have criticized the Statement of Financing (SOF) note disclosure as being too complex and not useful. In addition, this project would greatly facilitate the preparation of a critical government-wide financial statement that reconciles the unified budget deficit and net operating cost by aligning the component-level disclosures with government-wide reporting.

FASAB formed a task force comprising individuals with financial reporting preparation and policy background from both federal agencies and private accounting firms. The task force's main goal was to research the current SOF note and develop an alternative

component reporting entity presentation that more closely aligned with government-wide reporting. During FY 2017, the Board evaluated the current SOF note, coordinated an agency pilot test of a revised component reporting format, and subsequently revised the proposed reconciliation format based on the pilot results. The Board released an exposure draft in FY 2017 and issued the standards in early FY 2018.

Note Disclosure

Note disclosures are an integral part of financial statements. Users rely on them to understand the financial statements and reach conclusions about the operating performance and stewardship of government resources. Standards-setters are evaluating the effectiveness of disclosures in light of the volume and complexity of disclosures presented. For example, the Financial Accounting Standards Board (FASB) recently conducted a survey that revealed over 50% of respondents see a need for additional guidance on note disclosures. This view is consistent with that of other standards-setters, including the GASB and the International Accounting Standards Board (IASB), both of which are undertaking disclosure initiatives. Respondents to the 2016 three-year plan also rated highly a project to review note disclosures. This broad interest in note disclosures indicates that improvements in financial disclosures are necessary.

During late 2017, the Board initiated a note disclosure project to review and streamline the financial reporting note disclosures in an effort to improve relevance and effectiveness. Staff has formed a working group to assist in the research efforts. The Board will begin considering results in late FY 2018.

Evaluation of Existing Standards

A general concern expressed by Board members and the federal financial management community has been that resources are increasingly constrained. Because of competing demands on federal resources, some believe the Board should evaluate existing requirements and eliminate those that are unnecessary. As warranted, the Board seeks opportunities for burden reduction by considering feedback from the community.

In addition, DoD's efforts to implement standards have revealed areas in need of clarification or amendment. For example, DoD's highly matrixed operations revealed that inter-entity costing requirements would be especially costly to implement. More importantly, where the outcome of operations requires many sub-components to work together in a matrixed environment, relating cost to performance of an individual sub-component would be unlikely to aid in relating cost to overall performance. This led to a review of implementation of imputed costs across the government. The Board found that imputed inter-entity costs other than those related to employee benefits and Treasury Judgment Fund settlements were immaterial at departments and agencies other than DoD. Based on these findings, the Board issued a proposal to amend the existing requirements.

Other areas evaluated for near term action include (1) identification of intragovernmental exchange transactions, (2) assignment of assets to component reporting entities, and (3) assignment of liabilities to component reporting entities. Staff issued two of three proposed technical bulletins in late FY 2017. Staff expects to issue the third in early FY 2018 and finalize the guidance in early to mid FY 2018. Guidance in each of these areas would clarify acceptable approaches and reduce the cost of applying existing standards.

The Board will identify other areas for evaluation and address each through future efforts under this overarching project.

Implementation Guidance

The Accounting and Auditing Policy Committee (AAPC) comprises representatives from the Chief Financial Officers Council, the Council of Inspectors General on Integrity and Efficiency, the U.S. Department of the Treasury (Treasury), the Office of Management

and Budget (OMB), and the U.S. Government Accountability Office (GAO). The Board's executive director serves as chair of the committee. While the Board provides staff support, the committee accomplishes its mission largely through the efforts of volunteers serving on task forces. Volunteers come from federal agencies, independent public accounting firms, and nonprofit organizations. To ensure volunteers understand how task forces operate, the AAPC adopted "Task Force Roles and Responsibilities" in March 2017. The document gives task force members an overview of expectations and responsibilities.

Department of Defense Request for Guidance

In response to a request from the Department of Defense (DoD), the Board continues to liaise with the DoD workgroups and to assist in providing a cost-effective means to implement GAAP. The AAPC completed its work on two technical releases (TRs) related to new SFFASs regarding establishing opening balances—SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, and SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*. The Board issued TR 17, *Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment*, to amend previously issued TRs to acknowledge the rescission of SFFAS 35. It also clarifies that all standards-level implementation guidance for general property, plant, and equipment (with the exception of certain provisions applicable to internal use software) resides in SFFAS 6, *Accounting for Property, Plant, and Equipment*, as amended. The AAPC approved TR 18, *Implementation Guidance for Establishing Opening Balances*, in August and issued it on October 2, 2017. TR 18 provides additional guidance to reporting entities in applying the alternative methods for establishing opening balances. It also explains the alternative valuation methods in detail and describes examples of potentially acceptable types of documentation that may support the valuation as outlined in SFFAS 6, as amended.

Collaboration

The Board continues to collaborate with other standards-setting boards including GASB, which establishes accounting and financial reporting standards for state and local governmental entities in the United States; FASB, which establishes accounting and financial reporting standards for nongovernmental entities in the United States; and the International Public Sector Accounting Standards Board (IPSASB), which establishes international accounting and financial reporting standards for governmental entities. Generally, such collaboration is at the staff level (for example, one staff member is currently serving on the IPSASB's Heritage working group and another is joining the Infrastructure working group). To encourage international collaboration, the chair and/or executive director routinely attend the Public Sector Standard Setters Forum organized by IPSASB. Such forums provide an opportunity for attendees to learn about emerging issues, share commonalities among countries, and identify possible solutions. The forum provides all participants with information about emerging issues that is helpful in planning future projects.

Presentations and Other Assistance

The Board and its staff continue to actively support the federal financial management community by providing education, facilitating collaboration among agencies, presenting information and ideas in journal articles, and advising others regarding federal financial accounting. Members and staff provided educational training through their participation in numerous international, national, regional, and local conferences sponsored by groups like the AICPA, the AGA, the Joint Financial Management Improvement Program, and state CPA societies.

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

GOVERNANCE, OPERATIONS, AND BUDGETARY RESOURCES

Governance

The Steering Committee members affirmed their commitment to supporting the needs of the Board. The committee demonstrated this by maintaining FASAB staff levels despite ongoing budget constraints faced by all federal agencies.

Budgetary resources are reported on page 12. Final FY 2018 resources are dependent upon appropriations established through the federal legislative process. The committee also provided the executive director's annual performance appraisal and established expectations.

During the fiscal year, Lisa Motley (FASAB general counsel) and James Lager (GAO Deputy Ethics Advisor) provided members with training. General counsel provides the training annually, which covers both ethics and Federal Advisory Committee Act requirements. Such training is helpful to update and remind members of important federal requirements and to answer questions.

The Board made no revisions to its mission statement (adopted in 2012) or its rules of procedure (adopted in 2010) during FY 2017.

Operations

Members confirm their independence and adherence to the ethics policy and complete a Board performance survey. These actions provide information needed for an annual assessment of conformance to the five AICPA criteria essential for a GAAP standards-setting body. This report summarizes the results for the public and the Appointments Panel.

Each member's survey response identifies changes—positive or negative—in the Board's performance relative to the criteria (see sidebar for a list of the criteria). Members explain their views and offer suggestions for improvement.

In addition to these annual processes, members agree that the AICPA will be notified of any reportable events of undue influence if and when they occur. Together, these efforts serve to alert the AICPA to significant changes relevant to the established criteria and to ongoing recognition of FASAB as the GAAP standards-setting body for federal governmental entities. To date, no reportable events have occurred. Again, this year all members confirmed they conformed to the requirements regarding independence, ethics, and reporting undue influence.

OUR GOVERNANCE TEAM

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

The **Appointments Panel**, established in 1999, assists the Board's sponsors in recruiting and selecting non-federal members and advises the Board regarding improvement efforts. The panel comprises the members of the Steering Committee, two representatives of the AICPA, and one representative of the Financial Accounting Foundation (FAF). The panel's assistance contributes greatly to the Board's independence and continued conformance to the criteria for a GAAP standard-setting body. The panel assists in preparing this annual report and monitors annual performance survey results. The panel would convey any concerns to the AICPA in a timely manner.

Appointments Panel Members

D. Scott Showalter, Chair
R. Scott Bell, Treasury
Robert Dacey, GAO
Nancy K. Kopp, FAF
F. Carter Heim, AICPA
Daniel Murrin, AICPA
Mark Reger, OMB

FASAB General Counsel

Lisa Motley

FASAB Executive Director and Designated Federal Official

Wendy Payne

Further, member survey results identified some areas of improvement from last year; no significant new areas of concern arose and no negative changes were reported during the year. Several members believe there was improvement in the areas of due process, knowledge of members and staff, and comprehensiveness and consistency.

- Members noting improvement in due process focused on efficiencies resulting from increased participation and more effective deliberations.
- Members noted the importance of regular educational sessions and the close collaboration with stakeholders.
- Three members noting improvement in comprehensiveness and consistency emphasized the completion of concepts and the consistent staff support.

AICPA Criteria for a GAAP Standards-Setting Body

Independence: The body should be independent from the undue influence of its constituency.

Due Process and Standards: The body should follow a due process that is documented and open to all relevant aspects or alternatives. The body's aim should be to produce standards that are timely and that provide for full, fair, and comparable disclosure.

Domain and Authority: The body should have a unique constituency not served by another existing Rule 203 standard-setting body. Its standards should be generally accepted by its constituencies.

Human and Financial Resources: The body should have sufficient funds to support its work. Its members and staff should be highly knowledgeable in all relevant areas.

Comprehensiveness and Consistency: The body should approach its processes comprehensively and follow concepts consistent with those of existing Rule 203 standard-setting bodies for analogous circumstances.

*A*nnual Confirmation Provided by Every Member

Independence: I acknowledge that I have neither personal nor external impairments that will keep me from objectively reaching independent conclusions on matters under consideration by FASAB, nor did I during the preceding fiscal year. I will promptly notify the Chair if my independence is or may be impaired.

Ethics: I have reviewed the FASAB ethics policy and confirm that I satisfied all requirements and limitations established under the policy during the preceding fiscal year.

Undue Influence: I have notified the Chair of any and all matters that I judge to be undue influence. "Undue influence" is defined as external influences or pressures that impact a member's ability to objectively reach and/or communicate independent conclusions.

Members continue to recognize the benefits of direct interaction with stakeholders, task force members, and other experts. Such interaction helps members gain insight regarding the unique nature of the federal government and leverages scarce staff resources. During the year, federal agencies undertook a streamlining and burden reduction effort. Members received briefings on these efforts and aligned certain projects with those efforts. The Board plans to continue its interaction with stakeholders and to monitor ongoing report streamlining efforts.

In addition to benefiting from direct feedback, the use of task forces allows the Board to make the best use of its resources. Members suggested continuing to recruit experts and to expand the membership of task forces.

This year’s survey results are generally consistent with the previous four years. The Board’s most notable five-year trend was sustained quality in the areas of comprehensiveness and consistency, knowledge of members and staff, and due process.

For the remaining two criteria (domain and authority and financial resources), the survey solicits narrative responses for ideas for improvement. Some members noted that the staff size is small in relation to other standards setters. Most did not believe the staff size was preventing the Board from making progress on its agenda. The use of task forces and detailees allows the Board to make progress on its priorities.

Budgetary Resources

Actual funding levels are dependent on final FY 2018 appropriations and will be determined after appropriations are provided to each of the Board’s sponsors. Table 1, *Budget 2015-2018*, presents budget resources made available from FY 2015 through FY 2017, as well as anticipated resources for FY 2018.

	2015	2016	2017	2018 ¹
Salaries and Benefits	\$1,646.0	\$1,673.8	\$1,708.0	\$1,734.3
Member Compensation	153.5	156.5	154.7	156.8
Travel	48.9	41.3	45.0	45.0
Education & Training	6.5	10.0	9.5	9.5
Consultants and other	92.6	74.5	78.7	79.7
Total	\$1,947.4	\$1,956.0	\$1,996.0	\$2,025.3
(Amounts may not total correctly due to rounding.)				

¹Actual funding levels are dependent on final FY 2017 appropriations and will be determined after appropriations are provided to each of the Board’s sponsors.

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 GAAP.

In February 2018, the Board will discuss priorities and make needed adjustments to this plan. Your assistance in identifying areas needing attention would be very helpful in that discussion. FASAB would greatly appreciate receiving such input before January 29, 2018. In addition to direct responses to this plan, we will conduct online surveys. Please watch for details announced through the FASAB mailing list.

The Board prioritizes projects based on the following factors:

- 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*
- The significance of the issue relative to meeting reporting objectives
- The pervasiveness of the issue among federal entities
- The potential project's technical outlook and resource needs

Individual members also consider additional factors that they deem significant in planning the technical agenda

- A focus on citizens and citizen intermediaries as the primary users of the consolidated financial report of the U.S. Government
- Attention to the needs of Congress and program managers
- Effects on preparers and auditors due to declining real budgets
- Increasing risks due to fiscal uncertainty and operational complexity
- Increased electronic reporting and availability of relevant information in sources other than financial reporting

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

The three-year plan in brief begins on [page 14](#) and is followed by a project plan for each active project. The Board's research projects are then identified with a brief description. The final item in the technical agenda section is a list of potential projects considered by the Board.

You are welcome to submit suggestions on any aspect of this material or any ideas not presented herein.

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

fasab@fasab.gov

or in hard copy to:

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

Table 2: Three-Year Plan in Brief

Project and Objective	FY 2017 Actions	Plans		
		FY 2018	FY 2019	FY 2020
Financial Reporting Model Consider whether the existing model meets user needs and reporting objectives and improve the government-wide and component entity financial reporting models	Finalize concepts Phase I – research opportunities for streamlining financial reports and improving user access to information	Continue research as needed Develop and finalize phase I guidance	Begin phase II – performance reporting research, illustrative reporting models, and discreet projects as determined	
Leases Evaluate existing standards to improve comparability and completeness of reporting	Review responses to the exposure draft Redeliberate	Finalize standards	Consider implementation guidance needs	
Risk Assumed Develop standards so that information is available about risks assumed by the federal government and their potential financial impacts	Finalize insurance standards Research scope for phase II – Activity I	Consider phase II options and proposals Prepare phase I implementation guidance as needed	Develop, finalize and release phase II exposure draft Begin research on next phase as appropriate	Finalize and release phase II – standards
Public-Private Partnerships Consider how financial reporting objectives are met regarding public-private partnerships (disclosure requirements are effective in FY2019)	Convene task force to review implementation issues	Research and provide guidance regarding implementation issues	Phase II – recognition and measurement: develop and issue exposure draft	Phase II – recognition and measurement: finalize guidance or standards
Department of Defense (DoD) Request for Guidance	Implementation guidance for opening balances- two Technical Releases Issued by AAPC	Continue liaising with the DoD workgroups/ assess new areas		
Land	Research and develop proposals	Issue exposure draft	Finalize standards	
Evaluation of Existing Standards	Research Areas 1.imputed cost 2.transfers-in/out versus revenue/expense 3.assigning assets 4.assigning liabilities Issue exposure drafts	Issue exposure drafts Finalize standards and other guidance	Ongoing research	

Project and Objective	FY 2017 Actions	Plans		
		FY 2018	FY 2019	FY 2020
Note Disclosure	Form working group and start research on principle framework	Issue exposure draft on principle framework Start standards – amendment research	Finalize principle framework Issue exposure draft for needed changes to disclosure requirements	Finalize amendments
Classified Activities	Research	Issue exposure draft Review responses to the exposure draft	Finalize standards and consider next steps	

Current Projects

THE FINANCIAL REPORTING MODEL

Purpose:

The Board undertook this project because of increased demands for financial information to facilitate decision-making, demonstrate accountability, and account for the changes in how users expect financial information to be delivered. Our research has noted the following:

- 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 through grants and contracts and what was accomplished with those funds.²
- Decision-makers also want additional information about the budget, comparisons of full costs with the budget, and projections of future receipts and expenditures.
- Citizens expect financial information about component entities, but they have difficulty understanding current financial reports.³
- The public relies increasingly on electronic media (digital devices, complex networks, and interactivity) to obtain information on demand⁴ and drill-down to different levels of disaggregated data. Also, executives and senior managers expect improved data analysis.

The Board will consider how developments in electronic reporting relate to GAAP as well as opportunities to support improvements in electronic reporting. Through this project, the Board will monitor the work of others such as the AICPA's project regarding auditing information containing hyperlinks.

Applicability:

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

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. As a result of this guidance, these groups should be able to understand the purpose and qualitative characteristics of information that should be provided by federal financial accounting and reporting.

Objectives:

There are two primary objectives for this project:

- a) Determine what financial information would be helpful for making decisions, demonstrating accountability, and achieving the reporting objectives given findings that users
 - i. are seeking less aggregated cost information and are interested in what is being provided for the costs incurred.
 - ii. would like to know what has been budgeted and spent and how expenditures compare to full cost.
 - iii. are highly interested in the budget deficit and how it compares with net cost of government operations.

²Preparers Focus Group Discussion, February 10, 2009

³FASAB, *User Needs Study: Citizens*, April 2010

⁴FASAB Reporting Model Task Force, *Report to the FASAB*, December 22, 2010

- b) Given the focus on external user needs for integrated budget, cost, and performance information, the effort will focus on external financial reports and may address matters such as:
 - i. Improvements in the usefulness—including the understandability—of cost and budget information as well as the relationship between cost and budget information
 - ii. Factors to consider in:
 - identifying the type and level of disaggregation (organizational, program, goals, objectives, functions) of most interest to external users
 - determining where trend information is needed and for how long a trend
 - selecting among a variety of presentation types or formats including consideration of the relationship of cost and budget information
 - iii. Identification of cost and budget information useful for performance reporting—that is, optimum points for connecting budget, cost, and performance information
 - iv. Understandability of terminology and presentations including the relationship among statements
 - v. Identification of key terms and establishment of plain language explanations

Assigned staff: Ross Simms

Other resources: Staff engaged a task force to help accomplish the overall project objectives. Staff also enlisted the National Academy of Public Administration to conduct structured interviews of federal executives and senior managers to determine how they use financial and related information, identify the gaps that might impact their ability to manage effectively, and determine opportunities to close these gaps. In addition, staff plans to consider the schedule of spending pilot efforts. Optional resources include access to web-based meeting software like Webex to reduce meeting logistics issues and permit wide participation.

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

Timeline:

FY2018

- Develop and finalize guidance for streamlining financial reporting and improving user access to information (phase I)
- Begin phase II – performance reporting research and illustrative reporting models
- Continue discreet projects as determined

LEASES

Purpose:

The Board has undertaken this project primarily because the current lease accounting standards—SFFAS 5, *Accounting for Liabilities of the Federal Government*, and SFFAS 6, *Accounting for Property, Plant, and Equipment*—have been criticized as ineffective. This is because they do not make meaningful distinctions between capital and operating leases regarding the substance of lease transactions. In addition, SFFAS 5 and 6 are based on lease accounting standards promulgated by the FASB, which have been revised. FASB and the International Accounting Standards Board (IASB) made changes that focus on the conveyance of rights to future economic benefits (such as the right of use). In addition, the GASB is addressing lease standards. Staff has worked with GASB staff to develop options to address this issue.

Applicability:

This project applies to the government-wide reporting entity and to component reporting entities that prepare and present general purpose federal financial reports in conformance

with SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

Objectives:

There are four primary objectives of this project:

- a) Develop an approach to lease accounting that would ensure that all assets and liabilities (consistent with definitions from SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*) 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
- c) Ensure that the standards developed fully address the various lease transactions and activities currently within the federal community (for example, enhanced use leases and intragovernmental occupancy agreements)
- d) Consider how the budgetary treatment of lease purchases and leases of capital assets, as outlined in OMB Circular No. A-11, relates to financial statements and disclosures

Assigned staff:

Monica R. Valentine

Other resources:

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

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

Timeline:

August – October 2017

- Develop final Statement

December 2017 – February 2018

- Finalize and issue Statement

RISK ASSUMED

Purpose:

The Board has undertaken this multi-phased project because the current risk assumed standards in SFFAS 5, *Accounting for Liabilities of the Federal Government*, were limited to insurance contracts and explicit guarantees (other than loan guarantees); therefore, they may not have resulted in full disclosure of the significant risk assumed by the federal government.

To meet the Stewardship and Operating Performance objectives of federal financial reporting,⁵ it is important that the federal government report all significant risks assumed and not just the risks related to insurance contracts and explicit guarantees.

Applicability:

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

Objectives:

The issuance of Statement of Federal Financial Accounting Standards (SFFAS) 51, *Insurance Programs*, on January 18, 2017, effectively concluded the first phase of risk assumed.

⁵ SFFAC 1, *Objectives of Federal Financial Reporting*, par. 100, 122, and 141

In phase II (RA2), the Board will review significant risk events other than adverse events covered by SFFAS 51, *Insurance Programs*, to determine accounting standards that provide concise, meaningful, and transparent information regarding the potential impact to the fiscal health of the federal government.

Assigned staff: Robin Gilliam

Other resources: Staff may organize a multi-disciplinary task force, including sub-groups to address specific topics within each phase.

Risk Assumed – Phase II project page: <http://www.fasab.gov/risk-assumed-phase-ii/>

Insurance Programs archived project page: <http://www.fasab.gov/ra-insurance-programs/>

Timeline: **January 2017 – December 2018**

- Research and develop gap analysis to determine the scope for phase II – task force
- Prepare phase I implementation guidance as needed

January – September 2019

- Develop and finalize phase II ED
- Hold public hearing as needed

FY 2020 – FY 2021

- Release and finalize Phase II Statement
- Determine whether the project objectives were met and the project is complete

PUBLIC-PRIVATE PARTNERSHIPS

Purpose: FASAB added this dual-phased project to the agenda because federal agencies have increasingly turned to public-private partnerships (P3s) to accomplish their goals. Budget pressures are likely to further increase the use of P3s. The overall objective of the project is to make the full costs and risks of such partnerships transparent.

In phase 1, the Board decided to address definitions and disclosures regarding risk before providing recognition and measurement guidance in phase 2. On April 27, 2016, the Board concluded its first phase with the issuance of SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*, effective for periods beginning after September 30, 2018.

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

Objectives: Objectives of phase II—Recognition and Measurement—include the following:

- a) Providing guidance for the recognition and measurement of:
 - assets and liabilities
 - revenues and expenses
- b) Considering implications for other arrangements related to P3s (sale-leaseback or other long-term arrangements)

Assigned staff: Domenic Savini

Other resources: Staff organized a multi-disciplinary task force, including sub-groups to address specific topics.

Project page: <http://www.fasab.gov/public-private-partnerships/>

Timeline:

Phase II:

April/May – December 2018

- Convene task force to confirm, analyze, and address major P3 accounting practice issues requiring guidance
- Coordinate progress and results with the leases and risk assumed project managers

January – June 2019

- Develop and issue ED(s)

July – December 2019

- Review entity P3 disclosures
- Pursue final guidance or standards

DEPARTMENT OF DEFENSE—IMPLEMENTATION GUIDANCE REQUEST

Purpose:

DoD identified several areas of concern for the Board’s consideration in early 2014, and the Board established an active liaison role to respond to areas that warrant FASAB’s action. The first area the Board addressed was use of reasonable baseline estimates of the cost of inventory and related property. FASAB expanded the project objectives in 2015 to include estimates for real property, military equipment, and internal use software. FASAB’s role as liaison may result in identifying additional areas in the future. The liaison role is an efficient and effective way to identify issues experienced by DoD for which GAAP guidance is needed.

Applicability:

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

Objectives:

Provide practical guidance through the issuance of new standards and other vehicles to resolve long-standing issues.

Assigned staff:

Melissa Batchelor

Other resources:

A task force supported this project. The Board recognizes that it needs active DoD participation to address these long-standing concerns.

Timeline:

Present – September 2018

- Continue serving as liaison with the DoD workgroups
- Develop or assist with implementation guidance

LAND

Purpose:

SFFAS 6, *Accounting for Property, Plant, and Equipment*, requires land and land rights acquired for or in connection with other general property, plant, and equipment (G-PP&E) to be capitalized at the cost incurred to bring the assets to a form and condition suitable for use. “*Acquired for or in connection with other general PP&E*” is defined as land acquired with the intent to construct general PP&E and land acquired in combination with general PP&E. This not only includes land used as the foundation, but also adjacent land considered to be the general PP&E’s common grounds.

SFFAS 29 defines “stewardship land” (SL) as land other than land acquired for or in connection with other general PP&E. It is expensed when acquired and requires disclosures regarding policies for managing land, categories of land, and physical quantity information.

Implementation of the above requirements has resulted in significant differences in accounting treatment for land holdings. Because the land acquired during our nation's formation is sometimes used in connection with other general PP&E, it is not generally valued as would be G-PP&E land acquired for similar purposes. That is, G-PP&E only includes land and land rights with an identifiable cost that was specifically acquired for or in connection with construction of G-PP&E. Further, debate exists over the most appropriate way to account for and report land. Issues have led to the following questions:

- Should information on land regardless of its classification as G-PP&E land or SL be consistently accounted for and reported?
- Is currently reported information consistent with reporting objectives and qualitative characteristics?
- Given that cost information (that is, acquisition/historical costs) for capitalized land (G-PP&E) remains unchanged, should consideration be given to either (1) valuing land periodically at re-measured amounts (such as fair value) or (2) providing non-financial measures (such as acreage) instead.

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

Objectives: Specific objectives include the following:

- a) Obtaining an understanding of how the predominant use or managerial intent influences the information needs of users and, potentially, the importance of the reporting objectives (for example, identifying the most appropriate reporting objective)
- b) Identifying the measurement attribute(s) and/or non-financial attributes most appropriate for meeting the reporting objectives
- c) Assessing practical limitations of the selected measurement attributes or non-financial attributes (for example, whether "highest and best use" when considering fair value is appropriate for government and assessing the cost-benefits when determining where non-financial information should reside)
- d) Obtaining agency feedback and best practices relevant to assessing the cost-benefit associated with options under consideration
- e) Recommending recognition, measurement, and disclosure requirements

Assigned staff: Domenic N. Savini

Other resources: A task force supports this effort.

Timeline:

December 2017 – April 2018

- Finalize and issue exposure draft

May – October 2018

- Issue standards

EVALUATION OF EXISTING STANDARDS

Purpose: A general concern expressed by members of the Board and the federal financial management community has been that resources are increasingly constrained. Because of competing demands, some believe existing requirements should be evaluated and any unnecessary requirements eliminated. When appropriate, the Board explores opportunities for burden reduction by considering feedback from the community on changes to existing standards and areas where clarification may be needed.

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

Objectives: Project objectives include being responsive to requests for guidance, especially for requests that meet the above purpose and benefits clearly exceed costs. To accomplish these goals, ongoing efforts may include providing additional forums for preparers, auditors, and users to identify requirements they believe are unnecessary (this could be done through an open-ended written request for input or roundtable discussions). All requests should be assessed against the reporting objectives. Requests may be addressed through the appropriate level of GAAP guidance.

Specific areas to be considered in the first six months:

- **Imputed** cost – Amending SFFAS 4 to rescind the existing requirement to impute costs that are under reimbursed (inter-entity costs) except for business-type activities
- **Intragovernmental** Exchange Transactions – Guidance to aid in classifying certain transactions between government agencies as transfers (recognized on the Statement of Changes in Net Position) or as revenue/expense (recognized on the Statement of Net Cost)
- **Assigning** assets – Assets may be owned by one component of a large department but used and/or funded by another component. There is presently no authoritative guidance to aid management in deciding which component should report each asset.
- **Assigning** liabilities – Liabilities arising from government-related events may be caused by one component of a large department but paid for by another component. There is presently no authoritative guidance to aid management in deciding which component should report each liability.

Assigned staff: Melissa Batchelor

Other resources: TBD

Timeline: The project will be ongoing; each issue area will have its own timeline.

June 2017 – November 2017

- Research
- Develop exposure drafts

December 2017 – April 2018

- Due process
- Finalize / Ballot SFFAS, Interpretation, Technical Bulletin, or Technical Release
- Issue GAAP documents

NOTE DISCLOSURE

Purpose: Generally, note disclosures are established in each Statement of Federal Financial Accounting Standards. The general purpose of disclosures is discussed in SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*. However, no framework exists to guide the establishment of disclosure requirements. The purpose of this project is to establish a framework to streamline and improve note disclosures.

- Applicability:** This project applies only to component reporting entities that present general purpose federal financial reports in conformance with SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. The project will not address government-wide reporting requirements.
- Objectives:** Phase I – identify and develop a set of principles for disclosure to be used by the Board to reduce repetition and improve relevance and consistency
Phase II – use the principles developed to improve the usefulness and effectiveness of the existing note disclosure requirements for the reporting entities
- Assigned staff:** Grace Wu
- Other resources:** A task force will support this effort
- Timeline:** Phase I – framework development
Phase II – based on the disclosure requirements, amend standards on a Statement-by-Statement basis
- July 2017 – August 2018 phase 1**
- Meet with working group and issue exposure draft
 - Start phase II research
- September 2018 – August 2020 phase 2**
- Finalize and issue the phase I principle framework
 - Meet with the working group to identify Statements requiring amendments
 - Issue exposure drafts for Statement amendments

CLASSIFIED ACTIVITIES

- Purpose:** The purpose of this project is to address instances for which reporting in accordance with existing standards might reveal classified information.
- Applicability:** This project applies to the government-wide reporting entity and to component reporting entities that prepare and present general purpose federal financial reports in conformance with SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
- Objectives:** To identify acceptable techniques for protecting classified information that might otherwise be revealed in general purpose federal financial reports.
- Assigned staff:** Monica Valentine and Ross Simms
- Other resources:** TBD
- Timeline:** **January 2017 – October 2017**
- Research regarding issues, potential techniques, and appropriate processes for providing guidance on classified accounting topics
 - Finalize processes
 - Develop an exposure draft
- November 2017 – June 2019**
- Issue proposals
 - Consider comments
 - Finalize standards and related classified interpretations

Potential Projects

After considering factors that may influence project priorities, the Board begins its planning by reviewing potential projects identified by the executive director. Note that the list accumulates over time. Generally, FASAB only removes potential projects if the issue has clearly been addressed through other projects.

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

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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 (for example, hazardous materials required by law to be cleaned up), and the Board has not considered whether asset retirement obligations meet the definition of a liability established in SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual Basis Financial Statements*. GAAP for the private sector includes specific guidance regarding asset retirement obligations developed since issuance of SFFAS 6. Accounting Standards Codification 410-20, *Asset Retirement Obligations* (formerly Financial Accounting Standards Statement No. 143, *Accounting for Asset Retirement Obligations* [issued 6/01]) requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. This creates three inconsistencies between entities following federal GAAP and those following FASB's 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 the following:

1. The existing liability recognition provisions may not be consistent with element definitions established in SFFAC 5
 - a) The liability may be understated because the obligation is to clean up the entire hazardous waste, but SFFAS 6 provides for a gradual buildup of the liability balance as the related PP&E is consumed in service (the full cleanup cost is disclosed in a note).
 - b) The cost of PP&E may be understated because the SFFAS 6 requirement is to capitalize its acquisition cost; the later cost to retire the asset is excluded.
 - c) The scope of liability recognition is limited to costs to clean up hazardous substances rather than the full asset retirement obligation.
2. Cost-benefit issues have been raised relating to the level of precision required for estimates and the timing of recognition of asbestos liabilities (generally when asbestos exists rather than when it is to be removed).

CONCEPTUAL FRAMEWORK – REVIEW AND FINALIZATION

The Board undertook a project to refresh its conceptual framework. Work began in 2006 to create a framework to

- a) provide structure by describing the nature and limits of federal financial reporting including the boundaries of the federal reporting entity,
- b) identify objectives that give direction to standards-setters,
- c) define the elements critical to meeting financial reporting objectives and describe the statements used to present elements,
- d) identify means of communicating information necessary to meeting objectives and describe when a particular means should be used, and

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

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

EDUCATIONAL EFFORTS

Educational resources for appointed Chief Financial Officers and others new to federal financial accounting may be lacking. The Board has considered taking a leadership role in the development of educational materials. Such materials might include an introduction to federal financial statements, guides addressing specific differences between federal and non-federal accounting, and videos on significant topics. If this project were undertaken, the Board would seek to leverage its resources by collaborating with others.

ELECTROMAGNETIC SPECTRUM

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

Regarding the electromagnetic spectrum, the FCC’s goal is to ensure efficient allocation and management of assets that the government controls or influences, such as spectrum, poles, and rights-of-way, to encourage network upgrades and competitive entry.

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

FINANCIAL/ECONOMIC CONDITION

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

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

- What key financial ratios are useful in assessing the financial health of the entity?
- What information about the tax system is viewed as an indicator of financial health (for example, tax gap, tax expenditures, changes in the tax base/structure)?
- Is cost trend information needed at disaggregated levels (for example, 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?

HIERARCHY OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

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

The purpose of this potential project would be to review the four-level GAAP hierarchy to identify and resolve problems experienced in its application. For example, the review might evaluate the following:

- The appropriateness of due process requirements
- The relationship between and experience of preparers and auditors using the four levels of guidance
- The clarity of the four levels of guidance from the perspective of the preparer and auditor community
- The role of concepts

IMPROPER PAYMENTS

Reporting entities often report information on payment integrity—such as improper payments (IPs). The Improper Payments Information Act of 2002 (IPIA), as amended defines an IP as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. An IP includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, payments for services not received, and any payment that does not account for allowable credit for applicable discounts.⁶ OMB guidance also instructs that when an agency’s review is unable to discern whether a payment was proper due to lack of documentation it should also be considered an IP. IPIA, as amended, sets statutory reporting thresholds for IPs and provides OMB the authority to create the implementation guidance for agencies around the legislation.

Reporting entities report information for each program or activity deemed susceptible to significant IPs (as defined by IPIA) as well as information for all programs or activities. Reported information within an agency AFR or PAR for the fiscal year includes the:

- estimated amount of payments that were properly paid, improperly paid, and the corresponding percent for each by program or activity for the current fiscal year;
- estimated amount of IPs that resulted in an overpayment, an underpayment, and the corresponding percent for each by program or activity for the current fiscal year ;
- estimated amount of IPs made directly by the federal agency and the amount of IPs made by recipients of federal money by program or activity for the current fiscal year;
- extensive information regarding root causes, actions to address root causes and results of those actions, including but not limited to:
 - root causes for overpayments and underpayments by amount and by program or activity for the current fiscal year;
 - corrective action plans for reducing the estimated IP rate and amount, including targets by program and activity for the next fiscal year;
 - results of actions taken to address the root causes and the planned or actual completion date of the actions taken to address each root cause;

⁶ Pub. L. No. 107-300, 116 Stat. 2351 (Nov. 26, 2002).

- extensive information regarding actions to address recovery of IPs, including but not limited to:
 - description of any action the agency has taken or plans to take to recover or prevent IPs;
 - justification and summary of the analysis used to determine that conducting a payment recapture audit for the program or activity was not cost effective;
 - actions and methods used by the agency to recoup overpayments and justification of any overpayments that have been determined not collectable;
 - amount recovered through recapture audits and amounts recovered through other sources;
 - summary of how Overpayments Recaptured through Payment Recapture Audits were used;
 - aging schedule of the amount of overpayments identified through the payment recapture audit;
- statutory or regulatory barriers which may limit the agency’s corrective actions in reducing IPs and actions taken by the agency to mitigate the barriers’ effects;
- steps the agency has taken and plans to take to ensure comprehensive accountability for reducing and recapturing IPs through annual performance appraisal criteria;
- description of whether the agency has the internal controls, human capital, and information systems and other infrastructure it needs to reduce IPs to the levels the agency has targeted and, if not, the most recent budget submission to Congress requesting those additional resources; and
- statistical sampling process conducted to estimate the IP rate for each program identified as being susceptible to significant IPs.⁷

Currently, for audit purposes, most IP information is OI. Agency reports and the consolidated financial report may also present IP information in management’s discussion and analysis; which is RSI.

This project would determine whether accounting standards are needed to address the effect IPs may have on information reported in financial statements. Currently, IP information is addressed through IPIA and OMB’s statutory authority to set form and content guidance. This project – if undertaken – would be informed by the extensive existing reporting and auditing requirements when assessing how IPs might affect a reporting entity’s ability to meet federal financial reporting objectives. This project would focus first on determining if there is a need for standards regarding recognition, measurement, and disclosure within the financial statements. If the Board found a significant impact, it would consider alternatives for presenting relevant information in the basic financial statements or RSI as a complement to existing statutory reporting requirements.

INTANGIBLES

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

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

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

The Statement 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

⁷OMB Circular A-136, Financial Reporting Requirements, August 15, 2017.

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 standards also provide 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.

LONG DURATION ACQUISITION CONTRACTS

The need for disclosures regarding complex, long-duration acquisition contracts may exist. Such contracts can involve significant risk that amounts invested to date might not result in assets that deliver expected service levels or that those service levels cannot be achieved without spending significantly more money than had been initially expected. Where significant risk is identified, information regarding the contracts goals, expected cost, and progress may be important to meeting federal financial reporting objectives. Evaluating the management of assets—including acquisition of critical new assets—supports an assessment of Operating Performance.

The risks inherent in long-duration acquisition contracts were highlighted by the GAO’s 2017 High Risk Report. They identified the following relevant risks:

- **Improving** the Management of IT Acquisitions and Operations – “Federal IT investments too frequently fail or incur cost overruns and schedule slippages while contributing little to mission-related outcomes ... the federal government has spent billions of dollars on failed IT investments. These investments often suffered from a lack of disciplined and effective management, such as project planning, requirements definition, and program oversight and governance. In many instances, agencies have not consistently applied best practices that are critical to successfully acquiring IT.”
- **DOD Weapon Systems Acquisition** – “The Department of Defense (DOD) expects to invest \$1.4 trillion (fiscal year 2016 dollars) to develop and procure its portfolio of 79 major defense acquisition programs. Congress and DOD have long sought to improve how major weapon systems are acquired, yet many DOD programs fall short of cost, schedule, and performance expectations, meaning DOD pays more than anticipated, can buy less than expected, and, in some cases, delivers less capability to the warfighter. With the prospect of slowly-growing or flat defense budgets for years to come, DOD must get better returns on its weapon system investments and find ways to deliver capability to the warfighter on time and within budget.”
- **DOD Business Systems Modernization** – “...DOD spends billions of dollars each year to acquire modernized systems that are fundamental to achieving its business transformation goals, including systems that address key areas such as personnel, financial management, health care, and logistics. While DOD’s capacity for modernizing its business systems has improved over time, significant challenges remain. These challenges include fully defining and establishing management controls for business systems modernization. Such controls are vital to ensuring that DOD can effectively and efficiently manage an undertaking with the size, complexity, and significance of its business systems modernization, and minimize the associated risks. DOD’s effort to modernize its business systems environment has been designated as high risk since 1995.”
- **NASA Acquisition Management** – “The National Aeronautics and Space Administration (NASA) plans to invest billions of dollars in the coming years to explore space, understand Earth’s environment, and conduct aeronautics research. We designated NASA’s acquisition management as high risk in 1990 in view of NASA’s history of persistent cost growth and schedule delays in the majority of its major projects. Our work has shown that NASA has made progress over the past 5 years in a number of key acquisition management areas, but it faces significant challenges in some of its major projects largely driven by the need to improve the completeness and

reliability of its cost and schedule estimating, estimating risks associated with the development of its major systems, and managing to aggressive schedules.”

This project would explore what additional information would be helpful in monitoring long duration acquisition contracts and assessing the effectiveness of their management.

NATURAL RESOURCES

FASAB issued SFFAS 38, *Accounting for Federal Oil and Gas Resources*, on April 13, 2010, and it was effective for periods beginning after September 30, 2012. 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. The reporting entity provides these schedules in required supplementary information (RSI) as part of a discussion of all significant federal oil and gas resources under management by the entity.

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

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

NONMONETARY TRANSACTIONS

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

PUBLIC SECTOR SPECIFIC FINANCIAL INSTRUMENTS

The International Public Sector Accounting Standards Board (IPSASB) is addressing public sector specific financial instruments. These include the following:

1. Currency in circulation
2. Monetary gold
3. International Monetary Fund quota subscription and special drawing rights

In July, 2016, the IPSASB issued a consultation paper regarding these central government specific activities. FASAB has not addressed such activities. As the IPSASB project progresses, FASAB may consider whether there is a need to address these activities and discuss the lessons learned from the IPSASB project.

RESEARCH AND DEVELOPMENT

Research and development (R&D) expenditures are included as part of gross costs in the Statement of Net Cost and are presented as required supplementary stewardship information (RSSI). The amounts

presented include both direct R&D spending by agencies and spending which supports non-federal research and development. Generally, staff has found that FASB standards for R&D are referenced to determine what qualifies as R&D (for example, to identify when to begin capitalizing costs as new assets are developed). Certain federal assets, particularly military equipment, undergo an extensive period of development including testing and evaluation. There is presently little guidance regarding the distinction between capitalizable acquisition costs and expensed R&D costs.

Given the significant federal investment in R&D, the unique nature of federal assets such as military equipment, and the potential for diverse practices across the many federal component reporting entities, a review of practices in this area may be warranted. The review would aid in determining if guidance applicable to the federal sector is needed and in developing any needed guidance.

REVENUE (Exchange and Non-Exchange)

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 FY2016, \$375.6 billion of exchange revenue and \$3,345.3 billion of non-exchange revenue were reported government-wide. SFFAS 7 requires disclosures and required supplementary information suggests other accompanying information on the following topics:

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

SFFAS 7 has not been reviewed since it became effective in fiscal year 1998. Feedback suggests that some agencies are relying on FASB standards for more detailed guidance regarding exchange revenue recognition, and the FASB has revised these standards since the issuance of SFFAS 7. Presently, other public sector standards-setters are considering what revenue gives rise to performance obligations and how those obligations relate to recognition of revenue.

With regard to existing federal standards, agencies asked how to account for certain intragovernmental transactions. SFFAS 7 does not provide detailed guidance regarding intragovernmental transactions such as reimbursable agreements that are not stand-alone documents. Other agreements may affect some such agreements, but there is no guidance on how to consider linkages among related agreements. Further, some suggest that a portion of the significant intragovernmental imbalances may be due to disagreements regarding the timing of recognition in intragovernmental transactions.

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 the following:

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. Further, the Board might consider ways to improve the understandability of the presentation of information about taxes given its work on the financial reporting model.

STEWARDSHIP INVESTMENTS

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

SUMMARY OR POPULAR REPORTING

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

We want to hear from you.

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

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

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