

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD



Annual Report

Fiscal Year Ended September 30, 2015

Three-Year Plan

Fiscal Years 2016-2018

Comments Requested by January 29, 2016

Issued November 16, 2015

Current FASAB Board Members

Tom L. Allen | Chair | 2007–present

Christina Ho | Department of the Treasury | 2014–present

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

Robert F. Dacey | Government Accountability Office | 2004–present

Harold I. Steinberg | Non-federal representative | 2007–present

Dr. Michael H. Granof | Non-federal representative | 2009–present

D. Scott Showalter | Non-federal representative | 2009–present

Dr. Sam McCall | Non-federal representative | 2012–present

Graylin Smith | Non-federal representative | 2012–present

Organization

The Federal Accounting Standards Advisory Board (“FASAB” or “the board”) was established in October, 1990, by 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. 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 board has been designated by the American Institute of CPAs as the body that establishes generally accepted accounting principles for federal reporting entities.

Mission

The 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

“A great accomplishment shouldn’t be the end of the road, just the starting point for the next leap forward.” Harvey Mackay

From the Chairperson

This year marks the twenty-fifth anniversary of the board as well as the end of my ten-year term on the board. I would like to express my gratitude and appreciation to the outstanding and committed staff. It has been a tremendous opportunity working with the many dedicated and hardworking board members. I also count it a privilege working closely with numerous federal entities as we developed and issued federal financial accounting standards, as well as other authoritative guidance.

Highlights Of My 10-Year Term

During my term as FASAB Chair, the board has issued three concepts statements, fifteen accounting standards, and thirteen other types of authoritative guidance. Concepts statements 5, 6, and 7 provide the broad objectives and fundamentals on which financial accounting and reporting standards will be based. They focus on definitions, basic recognition, and measurement for the elements of accrual-basis financial statements. The accounting standards issued cover a number of topics, such as estimates of the historical cost of general property, plant, and equipment; long-term fiscal projections; oil and gas resources; deferred maintenance and repairs; general property, plant, and equipment impairment; and reporting entity.

I consider two of these standards to be major improvements in government-wide reporting. The first is the required reporting of comprehensive long-term fiscal projections. The projections not only provide information that is useful and necessary in assessing fiscal sustainability but also effectively communicate the information in a way that is meaningful and understandable to readers. The required reporting will include information about projected trends in the federal budget deficit or surplus and the federal debt and how these amounts relate to the national economy. The second standard addresses reporting entity and, together with existing guidance, will help ensure comprehensive financial information about federal reporting entities and complex relationships with other organizations is provided.

My Hopes For The Future

My hopes for the future of federal financial management start with the integrity and understandability of the federal financial statements. The requirement this fiscal year for a basic financial statement in the consolidated financial report of the U.S. Government providing the present value of projected receipts and non-interest spending under current

policy without change, the relationship of these amounts to projected gross domestic product (GDP), and changes in the present value of projected receipts and non-interest spending from the prior year is monumental. It will greatly improve the transparency of the government's finances.

Understandability of the financial statements is equally important. I believe the financial statements need to be restructured so there is a bottom line that clearly identifies the improvement or deterioration of the financial condition of the federal government each fiscal year. Another significant step towards more understandable and timely information will be the implementation of the DATA Act. It will provide a unique opportunity to allow access to federal transaction level data and the ability to connect that data with more user-friendly non-financial data.

Your input will ensure we continue to focus our resources on the highest priorities. We have included the three-year plan in this report beginning at page 13. **We encourage you to provide feedback on the plan so that members can consider your views during our review of the plan in February 2016. Please send your comments to fasab@fasab.gov by January 29, 2016.**

Closing—Opportunities and Thanks

Although the past 25 years have brought steady improvement in many areas, opportunities to improve federal financial accounting and reporting remain. Integration of financial and non-financial performance information and reliance on electronic reporting remain great challenges and opportunities. Also, presenting cost and budget information in greater detail, in clearer formats, and with better explanations is necessary to meet users expectations. Improvements in reporting performance, cost, and budget information will require a joint effort among the federal organizations primarily responsible for performance and budget reporting and FASAB.

My time on the board has been an educational experience for me and has given me the opportunity to once again fulfill my passion for public service. I wish nothing but success to Scott Showalter, who will take over as FASAB Chair on January 1, 2016, as he and fellow board members address future federal financial reporting challenges.

In closing, I would like to express my gratitude to all those engaged in the board's work—my fellow board members; the staff; the members of the Appointments Panel; the volunteers serving on FASAB task forces; and all who read and respond to our requests for input. The hard work and commitment of these many people make the board's work possible.



Tom Allen

Key Events in the 25-Year History of FASAB

October 10, 1990

The U.S. Department of the Treasury, the Office of Management and Budget (OMB), and the Government Accountability Office (GAO) jointly agree to sponsor the Federal Accounting Standards Advisory Board (FASAB) by signing a “Memorandum of Understanding Among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board” (Mission MOU)

November 15, 1990

The Chief Financial Officers (CFO) Act signed into law by President George H.W. Bush

January 18, 1991

FASAB sponsors name members, including Elmer Staats as chairman

March 30, 1993

FASAB issues Statement of Federal Financial Accounting Standards (SFFAS) 1, Accounting for Selected Assets and Liabilities

September 2, 1993

FASAB issues Statement of Federal Financial Accounting Concepts (SFFAC) 1, Objectives of Federal Financial Reporting

September 7, 1993

The National Performance Review under the direction of Vice President Gore recommended that FASAB issue a comprehensive set of federal financial accounting standards within 18 months.

September 30, 1996

Executive director Ron Young retires

January 20, 1997

Wendy [Comes] Payne appointed as executive director of FASAB

January 31, 1997

Elmer Staats retires as first chairman of FASAB

February 1, 1997

David Mosso becomes second chairman of FASAB

May 1997

The Accounting and Auditing Policy Committee (AAPC) is organized by OMB, GAO, Treasury, the Chief Financial Officers’ Council (CFOC), and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) (formally the President’s Council on Integrity and Efficiency [PCIE]), as a new body to research accounting and auditing issues requiring guidance

August 1999

FASAB issues SFFAS 17, Accounting for Social Insurance

October 19, 1999

The American Institute of Certified Public Accountants’ (AICPA) Council designates FASAB as the accounting standards-setting body for federal government entities under Rule 203 of the AICPA’s Code of Professional Conduct

November 2, 2006

FASAB issues Report, FASAB’s Strategic Directions—Clarifying FASAB’s Near-Term Role in Achieving the Objectives of Federal Financial Reporting

December 31, 2006

David Mosso retires as second chairman of FASAB

January 1, 2007

Tom Allen becomes third chairman of FASAB

August 21, 2008

FASAB hosts first joint meeting with the Governmental Accounting Standards Board (GASB)

September 28, 2009

FASAB issues SFFAS 36, Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government

February 16, 2011

Tom Allen, Chairman, FASAB, testifies before the House Committee on Oversight and Government Reform Subcommittee on Government Organization, Efficiency and Financial Management regarding recommendations in the December 22, 2010 Reporting Model Task Force Report

March 14, 2011

FASAB issues its first annual report

January 11, 2012

FASAB issues its first Report to Stakeholders: FASAB Three-Year Plan

December 23, 2014

FASAB issues SFFAS 47, *Reporting Entity*

<http://www.fasab.gov/about/our-history/events-in-history/>

FASAB Member History

Chairmen of FASAB

Tom Allen, Chairman

2007- Present

former Utah State Auditor

David Mosso, Chairman

1997 – 2006

former U.S. Department of the Treasury Fiscal Assistant Secretary

Elmer Staats

1991 – 1997

former U. S. GAO Comptroller General

Original Board Members

Elmer B. Staats

Chair

1991–1997

Gerald Murphy

Department of the Treasury

1991–1998

Susan Gaffney

Office of Management and Budget

1991

Donald Chapin

Government Accountability Office

1991–1997

James L. Blum

Congressional Budget Office

1991–1998

Alvin Tucker

Defense & International Agencies

1991–1997

William L. Kendig

Non-defense Agencies

1991–1994

Martin Ives

Non-federal Representative

1991–1997

Cornelius E. Tierney

Non-federal Representative

1991–1997

Subsequent / Past Board Members

Department of the Treasury:

Donald V. Hammond | 1998–1999

Robert Reid | 1999–2008

Nancy Fleetwood | 2009–2010

Mark Reger | 2010–2014

R. Scott Bell | 2014–2014

Office of Management and Budget:

Edward J. Mazur | 1991–1993

Harold I. Steinberg | 1993–1994

Norwood J. Jackson | 1995–1999

Sheila Conley | 1999–2000

Joseph L. Kull | 2000–2003

David M. Zavada | 2003–2006

Danny Werfel | 2006–2009

Debra Bond | 2010–2011

Norman Dong | 2012–2014

Government Accountability Office:

Philip T. Calder | 1997–2004

Congressional Budget Office:

Barry B. Anderson | 1999–2002

Dr. Douglas Holtz-Eakin | 2003–2004

Dr. Elizabeth M. Robinson | 2004–2005

Dr. Donald Marron | 2005–2007

Robert P. Murphy | 2007–2008

Defense and International Agencies:

Nelson Toye | 1997–2002

Non-Defense Agencies:

James E. Reid | 1994–1998

Kenneth J. Winter | 1999–2002

Non-Federal Representatives:

Donald H. Chapin | 1997–2001

Linda J. Blessing | 1997–1999

Joseph V. Anania, Sr. | 2002–2005

Tom L. Allen | 2006

Claire Gorham Cohen | 2002–2007

Dr. James M. Patton | 1999–2009

John A. Farrell | 2001–2009

Norwood Jackson, Jr | 2007–2011

Alan H. Schumacher | 2002–2012

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

BOARD TECHNICAL ACTIVITIES

Standards-setting Activities

The board issued standards identifying how, considering the federal government's complex relationships, the **reporting entity** should be determined and reported. Standards will help ensure financial reports cover the organizations for which elected officials are accountable. The standards provide principles to guide preparers of financial statements in determining what organizations should be included in federal financial reports as well as how to present information about those organizations. The board finalized SFFAS 47, *Reporting Entity*, in September 2014 and issued the final standards in December 2014. SFFAS 47 is effective for periods beginning after September 30, 2017 and early implementation is not permitted.

The **reporting model** project objective is to identify financial information helpful for decision-making, demonstrating accountability, and achieving the reporting objectives. The board conducted research to understand the expectations of users in this era of electronic reporting and the analysis of enormous volumes of data. The research included interviews and surveys of various types of users and the board solicited recommendations from multiple task forces as well as roundtable participants. In addition, the board engaged the National Academy of Public Administration to study how federal executives and senior managers use financial and related information; identify the gaps that might impact their ability to manage effectively; and determine opportunities to close gaps identified. The board continued this effort in 2015 by drafting concepts to serve as a framework for later standards efforts. Several educational sessions were held to enhance members' knowledge of budgetary, revenue, and performance reporting.

The research indicated that users generally had a strong interest in understanding the types of services the government provides, the cost of those services, and their accomplishments. They also expected to compare the cost of services to the amounts budgeted. Executives and senior managers, in particular, expect integrated budget, cost, and performance information and better analyses of the underlying data. Users appeared to reference a hierarchical classification structure as they spoke of drilling-down from highly aggregated data to less aggregated data.

The board considered the research and developed the framework for a concepts statement on an ideal reporting model. The framework includes aspirational statements regarding the model and discussions on topics, such as the different levels of reporting; the relationship between financial statements and other sources of financial information; budgetary information; and performance information. The board has started to deliberate the details of the framework.

The board is in its final stages of re-deliberations regarding the disclosure of **public-private partnerships** (P3s). P3s are increasingly being used to provide much needed capital resources and government services. Comments on the proposed accounting standards and subsequent respondent outreach assisted the board in refining the definition of a federal P3, related risk-based characteristics, and disclosure. The board anticipates finalizing standards requiring disclosures in early FY 2016. The board plans to address recognition and measurement guidance after the proposed disclosures become available in

the FY 2019 financial statements. This phase of the P3 project will be informed by those disclosures and related standards such as reporting entity, leases, and risk assumed which may address relevant recognition and measurement issues.

During fiscal year (FY) 2016, the board expects to release the exposure draft (ED) for comments on the proposed standards for insurance and non-loan guarantee programs (phase I) of the **risk assumed** project. The board undertook this project in order to provide comprehensive and consistent reporting for all significant risks assumed by the federal government. In FY 2016, the board will also begin its evaluation of additional significant risks assumed by the federal government in order to determine the scope for the next phase of this effort.

The Financial Accounting Standards Board (FASB) is expected to issue major revisions to its accounting standards for **leases** soon. Prior and existing FASB standards formed the basis for federal accounting standards and obviated the need for extensive implementation guidance. Consequently, changes in FASB standards will create a void in the federal guidance because existing FASB implementation guidance will no longer be available. The board is working closely with the Governmental Accounting Standards Board (GASB) on appropriate standards for governmental entities. The boards have met jointly to share their views. The FASAB hopes to seek comments on an exposure draft in 2016. Particular emphasis is being afforded to federal intragovernmental leasing activity.

In response to a February 2014 request from the Department of Defense (DoD) the board made **DoD implementation guidance** a priority. The board's staff is serving as a liaison to the DoD working groups on real property, military equipment, environmental liabilities, inventory, and internal use software. Substantial progress on guidance regarding opening balances of inventory, operating materials and supplies, and stockpile materials was made during FY 2015. Final standards are anticipated in FY 2016. The board will act as quickly as possible within its existing resources to address additional matters as DoD makes its concerns and capabilities known.

Implementation Guidance

Implementation guidance was provided to federal agencies through the Accounting and Auditing Policy Committee (AAPC). The AAPC is a committee comprising 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 chairperson 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. The AAPC drafted implementation guidance for SFFAS 10, *Accounting for Internal Use Software*, and issued it for public comment in late FY 2015. The guidance is expected to be finalized in early FY 2016 and will clarify the current standards in relationship to new software development methods and will provide practical examples of implementation.

Collaboration

The board continues to work collaboratively with other standards-setting boards including the GASB, the board that establishes accounting and financial reporting standards for state and local governmental entities in the United States; the FASB, the board that establishes accounting and financial reporting standards for non-governmental entities in the United States; and the International Public Sector Accounting Standards Board (IPSASB), the board that establishes international accounting and financial reporting standards for governmental entities. Generally, such collaboration is at the staff level. However, the project on leases is a collaborative project for which the board holds periodic joint meetings with GASB to allow members to exchange ideas.

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 providing advice to others regarding federal financial accounting. Educational training was provided by members and staff through their participation in numerous international, national, regional and local conferences sponsored by groups such as the AICPA, the Association of Government Accountants, and state CPA societies.

Staff continued 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 continued to emphasize the budget constraints faced by all federal agencies, including their own, but nevertheless affirmed their commitment to supporting the needs of the board. This was demonstrated by restoring FASAB staff to 2012 levels. Two staff vacancies have been filled; one at the start of FY2014 and another in mid-FY 2015. In addition, contract staff supported the board's work on the DoD SFFAS 3 implementation guidance request.

Budgetary resources are reported on page 12. Final FY 2016 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.

The Appointments Panel, in addition to its routine support to the Steering Committee, successfully interviewed candidates for two upcoming vacancies. Gila Bronner and George Scott have been appointed to the board and will begin their five-year terms on January 1, 2016. The panel also recommended appointment of a current member, Mr. D. Scott Showalter, to serve as chairman beginning January 1, 2016.

FASAB general counsel, Gregory Marchand, and GAO Deputy Ethics Advisor, James Lager, provided members with training on ethics. Such training is helpful to update and remind members of these important requirements and to answer questions. The training will be provided annually and cover both ethics and Federal Advisory Committee Act requirements.

The board made no revisions to its mission statement (adopted in 2012) or its rules of procedure (adopted in 2010) during FY 2015.

Operations

Members confirm their independence and adherence to the ethics policy, and complete a board performance survey in an annual assessment of conformance to the five AICPA criteria essential for a GAAP standards-setting body. Through the survey, each member identifies changes –

OUR GOVERNANCE TEAM

The **Steering Committee** is composed of the chairman 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 standards-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

Tom Allen, Chairman
 Robert Dacey, GAO
 Daniel Ebersole, FAF
 F. Carter Heim, AICPA
 Christina Ho, Treasury
 Harold Monk, AICPA
 Mark Reger, OMB

FASAB General Counsel

Gregory Marchand

FASAB Executive Director and Designated Federal Official

Wendy Payne

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 standards-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 standards-setting bodies for analogous circumstances.

A Annual 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 Chairperson 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.

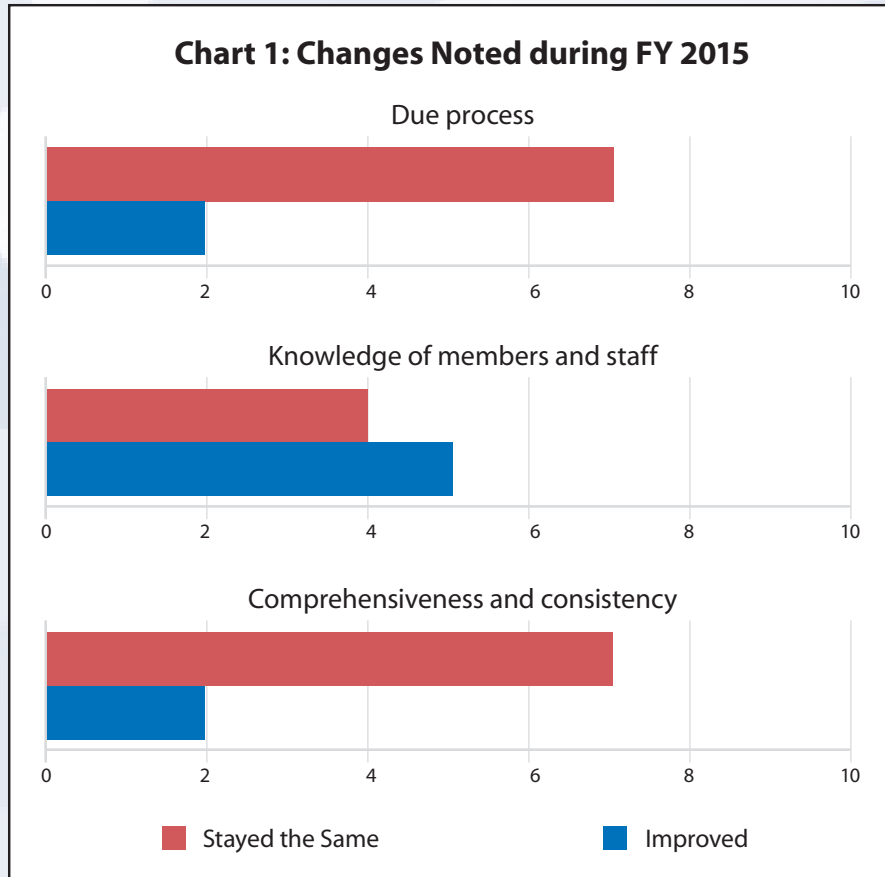
Undue Influence: I have notified the Chairperson of any and all matters that I judge to be undue influence. "Undue influence" is defined as external influences or pressures that impact a member's ability to objectively reach and/or communicate independent conclusions.

positive or negative – in the board's performance relative to the criteria (see the list of the criteria above). Members are encouraged to explain their views as well as offer suggestions for improvement. Members consider all views and suggestions during the development of the annual report. This annual report summarizes the consensus results so that member views are made publicly available on a timely basis.

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 ongoing recognition of the 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.

Further, member survey results identified some areas of improvement from last year and no significant new areas of concern arising during the year. A concern remaining from the prior year relates to future resources.

As noted in Chart 1 below, the majority of members believe there was no change when considering due process and comprehensiveness and consistency. Five members noted improvement in knowledge of members and staff (a component of human resources).



Members encouraged staff to continue the use of task forces, as they help the board consider broader issues in developing standards and responding to comment letters. Members also found the educational sessions helpful and increased their knowledge of federal-specific topics. In addition, members noted that staff did a good job in making sure the board considered all significant stakeholder input received. One member noted that the board should be aware of and capitalize on areas where it can produce a more immediate impact. An example is the DoD Implementation Guidance project that DoD estimates will produce millions of dollars in savings.

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. With the restoration of staff to 2012 levels, members noted that the overall effectiveness of the board improved. The board plans to continue direct interaction with stakeholders and other efficiency measures.

For the remaining two criteria (domain and authority, and financial resources), the survey solicits narrative responses facilitating identification of ideas for improvement. Ideas provided by the members support continuous improvement efforts such as increased use of task forces that have proven successful. Regarding the board’s domain and authority, members stressed that the board needs to remain relevant and proactive when it comes to

matters associated with changes to federal financial reporting. A member advised the board’s leadership to become more aware of and proactive in matters associated with FASAB’s domain and authority. Another member suggested that FASAB take a more active role in participating in the discussions of other standard-setting bodies.

Some members expressed concerns regarding resources both for the current fiscal year and in the future (see the budgetary resources section below for detailed information). In each of the past five years, members have noted resource constraints while lauding efforts to operate efficiently. A few members expressed the view that having additional staff has improved the overall effectiveness of the staff, while two members believe that continuing to add staff would allow the board to provide timely guidance needed on complex matters. Members expressing these concerns noted:

- the importance of productivity to remaining relevant
- the continued use of taskforces helps supplement knowledge of staff
- additional outside resources may be needed to advance the reporting model project
- increase in staff would enable the board to make more rapid progress on key projects, such as the reporting model

Budgetary Resources

Actual funding levels are dependent on final FY 2016 appropriations and will be determined after appropriations are provided to each of the board’s sponsors. Table 1, *Budget 2013-2016*, presents budget resources used from FY 2013 through FY 2015 as well as anticipated resources for FY 2016.

	2013	2014	2015	2016
Salaries and Benefits	\$1,432.3	\$1,482.5	\$1,646.0	\$1,647.1
Member Compensation	148.6	151.6	153.5	156.5
Travel	41.3	41.3	48.9	41.3
Education & Training	14.0	14.5	6.5	10.0
Consultants and other	218.0 ^b	173.5	92.6	74.5
Total	\$1,854.2	\$1,863.4	\$1,930.2	\$1,956.0

^a Actual funding levels are dependent on final FY 2016 appropriations and will be determined after appropriations are provided to each of the board’s sponsors.

^b Note that contractor support was obtained in FY2013 and FY2014 in light of staff vacancies.

Three-Year Plan for the Technical Agenda

The board's three-year plan should help those who use, prepare, and audit financial reports to participate fully in the standards-setting process, and plan for changes in generally accepted accounting principles (GAAP).

In February 2016, the board will discuss priorities and make needed adjustments to this plan. Your assistance in identifying areas needing attention would be very helpful in that discussion. We would greatly appreciate receiving such input before January 29, 2016.

The board prioritizes projects based on the following factors:

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

Additional factors considered significant by individual members in planning the technical agenda include (1) a focus on citizens and citizen intermediaries as the primary users of the financial report of the U.S. government, (2) attention to the needs of Congress and program managers, (3) impacts on preparers and auditors due to declining real budgets, (4) increasing risks due to fiscal uncertainty and operational complexity, and (5) more electronic reporting.

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

The three-year plan in brief begins on page 14. A project plan for each active project follows. The board's research projects are then identified with a brief description. The final item in the technical agenda section is a list of potential projects considered by the board.

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

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

fasab@fasab.gov

or in hard copy to:

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

Table 2: Three-Year Plan in Brief

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

Research Projects

Research projects are not assigned full-time staff but research may occur as resources become available. Projects are listed in order of priority. Anticipated date for assignment to staff indicated where possible

Project and Objective	FY 2015 Actions	Plans		
		FY 2016	FY 2017	FY 2018
<p>Reconciling Budget and Accrual Information – Alignment between Agency and Government-wide Requirements</p> <p>(This project is related to the reporting model project. Incremental changes will be considered first. Decisions regarding next steps will be taken as the ideal model is developed.)</p>		Research		

Current Projects

The Financial Reporting Model

Purpose:

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

- Decision-makers are seeking information on the full cost of programs and citizens are accessing detailed information on spending, such as who received federal funds and what was accomplished with those funds.¹
- Decision-makers also want additional information about the budget, comparisons of full costs with the budget, and projections of future receipts and expenditures.
- Citizens expect financial information about component entities but they have difficulty understanding current financial reports.²
- The public is relying increasingly on electronic media (digital devices, complex networks, and interactivity) to obtain information on demand³ and drill-down to different levels of disaggregated data. Also, executives and senior managers are expecting improved analysis of data.

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

Applicability:

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

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

Objectives:

The primary objectives of this project are to:

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

¹Preparers Focus Group Discussion, February 10, 2009.

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

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

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

Assigned staff: Ross Simms

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

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

Timeline:

August – October 2015 Meetings

- Deliberate details of an ideal model concepts statement

December 2015 – February 2016 Meetings

- Finalize and issue an exposure draft of concepts statement

June 2016 – October 2016

- Consider responses to the exposure draft and identify needed revisions

December 2016

- Finalize concepts statement and consider next steps

Leases

Purpose:

This project is being undertaken by the board primarily because the current lease accounting standards, SFFAS 5, *Accounting for Liabilities of the Federal Government*, and 6, *Accounting for Property, Plant, and Equipment*, have been criticized as ineffective because they do not make meaningful distinctions between capital and operating leases regarding the substance of lease transactions. In addition, the lease accounting standards in SFFAS 5 and 6 are based on Financial Accounting Standards Board (FASB) lease accounting standards, which are likely to be revised. The FASB and International Accounting Standards Board (IASB) have proposed changes that

focus on the conveyance of rights to future economic benefits (such as the right of use). In addition, the Governmental Accounting Standards Board is addressing lease standards. Staff of the FASAB and GASB are collaborating to develop issues and options. Joint meetings of the boards are held periodically to discuss options including differences between the state/local and federal environments.

Applicability:

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

Objectives:

The primary objectives of this project are to:

- a. Develop an approach to lease accounting that would ensure that all assets and liabilities [consistent with SFFAC 5 definitions] arising under lease contracts are recognized in the statement of financial position and related costs are recognized in the statement of net cost.
- b. Evaluate and revise as needed the current lease-related definitions and recognition guidance in SFFAS 5 and 6, including consideration of the advantages and disadvantages of applying the potential FASB/IASB lease standard in the federal environment.
- c. Ensure that the standards to be developed fully address the various lease transactions/activities currently being used in the federal community (e.g. enhanced use leases) as well as intragovernmental occupancy agreements.
- d. Consider how the budgetary treatment of lease-purchases and leases of capital assets as outlined in Office of Management and Budget (OMB) Circular No. A-11 relates to financial statements and disclosures.

Assigned staff:

Monica R. Valentine

Other resources:

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

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

Timeline:

July – December 2015

- Review draft due process document provided by GASB

January – April 2016

- Finalize and issue exposure draft for public comment

July – December 2016

- Consider responses and revisions
- Develop final Statement

January – April 2017

- Finalize and issue Statement

Risk Assumed

Purpose: This project is being undertaken by the board because the current risk assumed standards in SFFAS 5, *Accounting for Liabilities of the Federal Government*, are limited to insurance contracts and explicit guarantees (other than loan guarantees), and therefore, may not result in full disclosure of the significant risk assumed by the federal government.

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

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

Objectives: The primary objectives of this project are to develop: (a) definitions of risk assumed, (b) related recognition and measurement criteria, and (c) disclosure and / or required supplementary information (RSI) guidance through the following phases.

- Phase I: Insurance Programs including explicit guarantees other than loan guarantees
- Phase II:
 - a) natural disaster relief;
 - b) entitlement programs other than social insurance;
 - c) national defense and security; and
 - d) other potential effects on future outflows, such as:
 - i. regulatory actions, and/or
 - ii. government sponsored enterprises (GSE).
- Phase III: commitments and other risk areas

Assigned staff: Robin Gilliam

Other resources: Multi-disciplinary task force, including sub-groups to address specific topics.
Project page: <http://www.fasab.gov/projects/active-projects/risk-assumed/>

Timeline:

October 2015 – December 2015

- Develop and issue Phase I exposure draft (ED)

January 2016 – June 2016

- Begin Phase II research to include scope for which standards should be developed in Phase II.
- Hold public hearing as needed on Phase I

June 2016 – September 2016

- Continue research on the first risk assumed activity in Phase II.

FY 2017

- Finalize Phase I Statement
- Complete research and develop exposure draft on the first activity in Phase II.

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

FY 2018

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

Public-Private Partnerships

Purpose:

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

The board decided to address definitions and disclosures regarding risk before providing recognition and measurement guidance.

Applicability:

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

Objectives:

Objectives of Phase 1 – Risk Disclosures - include:

- Defining terms
- Establishing disclosure requirements regarding the nature of and risks embodied in P3 arrangements

Objectives of Phase II – Recognition and Measurement – include

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

Assigned staff:

Domenic Savini

Other resources:

A multi-disciplinary task force, including sub-groups to address specific topics

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

Timeline:

Present – January 2016

- Finalize and issue Statement

PHASE II:

April / May 2018 – December 2018

- Convene Task Force to confirm, analyze and address major P3 accounting practice issues requiring guidance
- Coordinate progress and results with the Leases and Risk Assumed Project Managers
- Review entity P3 Disclosures

January 2019 – June 2019

- Develop and Issue Exposure Draft(s)

July – December 2019

- Pursue Final Guidance or Standards

Department of Defense- Implementation Guidance Request

- Purpose:** The Department of Defense (DoD) identified several areas of concern for the board's consideration in early 2014 and the board established an active liaison role to respond to areas the board believes warrant FASAB action. The first area addressed was use of reasonable baseline estimates of the cost of inventory and related property. The project objectives were expanded in 2015 to include estimates for real property, military equipment, and internal use software. The liaison role may result in additional areas being identified in the future. The liaison role is an efficient and effective way to identify DoD issues for which GAAP guidance is needed.
- 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:** The use of contractor support for certain aspects as well as a task force. The board recognizes that active DoD participation is needed to address these long-standing concerns.
- Timeline:** **Present – June 2016**
- Continue liaison to the DoD workgroups
 - Develop due process documents and seek input on proposed standards and other guidance

Tax Expenditures

- Purpose:** To determine what information regarding tax expenditures should be included in general purpose federal financial reports. Tax expenditures are “revenue losses attributable to provisions of Federal income tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.” (Section 3(3) of Public Law 93-344) Both the Joint Committee on Taxation (JCT) and Treasury's Office of Tax Analysis (OTA) publish annual estimates of tax expenditures. OTA estimates are included in the annual President's Budget. These estimates would be relied upon for general purpose federal financial reporting.
- 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:** Given the existing availability of tax expenditure estimates, the primary objective of this project is to ensure information needed for readers to understand tax expenditures is provided in general purpose federal financial reports.
- Assigned staff:** Wendy Payne
R. Alan Perry (detailed from the Government Accountability Office)
- Other resources:** A task force will support this effort.

Timeline:

May – July 2015

- Convene task force and discuss objectives and 2 above.

August 2015 Meeting

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

September – November 2015

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

December 2015 Meeting

- Consider recommendation of the task force.

January – June 2016

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

October 2016 Meeting

- Consider comments on the ED.

December 2016 Meeting

- Consider revisions to the proposed standards.

January 2017 – June 2017

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

September 2017

- Issue final standards.

Research Projects

Reconciling Budget and Accrual Information - Alignment between Agency and Government-wide Requirements

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

The detailed provisions are:

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

81. This total should then be adjusted by:

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

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

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

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

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

The board will address the most immediate concern regarding the reconciliation through this project—the potential need to support the government-wide reconciliation by aligning the component level disclosures with the government-wide requirements. This may be accomplished before the related reporting model effort is complete. The reporting model project will address other matters relating to the reconciliation such as meeting users needs for understandable information regarding the relationship between budget and accrual information.

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

Staff next steps include:

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

Input regarding user needs in this area and key questions from preparers and auditors would be helpful in planning this project. Your input would be most welcome.

Potential Projects

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

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

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Rules of Procedure Regarding Agenda Setting

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

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

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

Asset Retirement Obligations

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

Cleanup Costs - Evaluating Existing Standards

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

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

Conceptual Framework – Review and Finalization

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

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

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

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

Cost of Capital

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

Derivatives

Staff has not researched the use of derivatives by federal agencies and has not had any inquiries by agencies or their auditors regarding appropriate accounting for derivatives. This is an area generally addressed in other domains.⁵ The GASB issued Statement No 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*, on the topic. Selected material from the GASB's plain language explanation is presented below.

What is a Derivative?

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

Electromagnetic Spectrum

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

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

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

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

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

Electronic Reporting

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

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

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

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

Given these trends and concerns, the board plans to consider concepts for electronic reporting in its reporting model project. Respondents may wish to consider whether a separate effort would be beneficial and provide insights regarding needed guidance.

Evaluating Existing Standards

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

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

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

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

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

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

Financial/Economic Condition

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

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

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

Financial Performance Reporting

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

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

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

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

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

Hierarchy of Generally Accepted Accounting Principles

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

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

Intangibles

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

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

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

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

Interim Financial Reporting

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

Land

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

Long-Term Construction/Development/Procurement Contracts

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

Managerial Cost Accounting

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

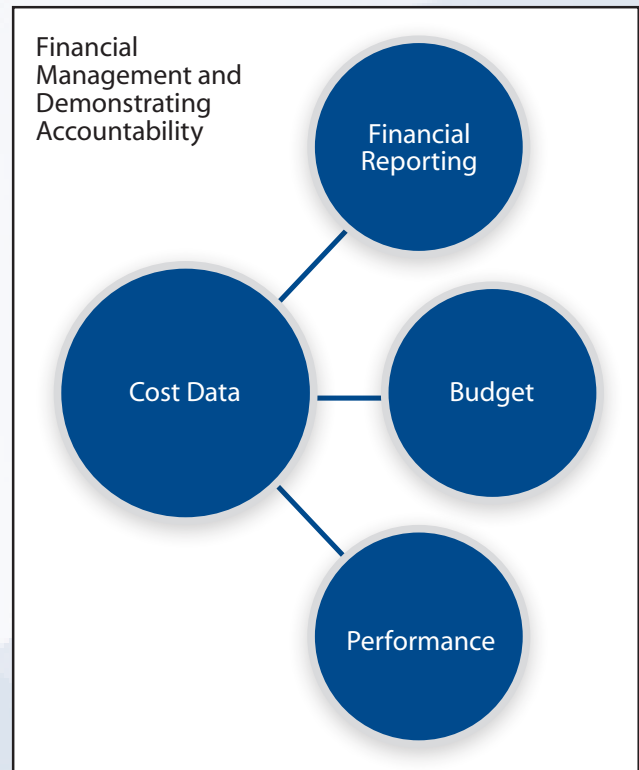
The board’s focus is on external financial reporting and it does not typically address management information needs. In 1995, to support the goals of the CFO Act and the GPRRA, the board established managerial cost accounting standards at the request of then Vice President Gore. While these standards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

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

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

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

Figure 1: Role of Cost Data



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

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

Natural Resources

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

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

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

Nonmonetary Transactions

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

Note Disclosures

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

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

Property with Reversionary Interest

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

Research and Development

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

Reporting Cash Flows

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

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

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

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

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

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

Revenue (Exchange and NonExchange)

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

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

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

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

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

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

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

Stewardship Investments

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

Summary or Popular Reporting

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



FASAB Staff Member History

Current Staff Members

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Jimmie D. Brown | Deputy Executive Director | 1990 - 1993

Robert W. Bramlett | Assistant Director | 1991 - 2005

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

Richard L. Fontenrose | Assistant Director | 1991–2010

M. Lucy Lomax | Assistant Director | 1991–2003

Richard C. Mayo | Assistant Director | 1991–2003

Frank Rexford | Assistant Director | 1991–1993

Monica R. Valentine | Assistant Director | 1991–present

Richard Wascak | Assistant Director | 1991–2008

Original Administrative Personnel

Alice Keels | Administrative | 1991–1993

Marian Nicholson | Administrative | 1991–2006

Richard S. Tingley | Administrative | 1991–2001

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

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

