



**FEDERAL  
ACCOUNTING STANDARDS  
ADVISORY BOARD**

*Annual Report*

Fiscal Year Ended September 30, 2016

*Three-Year Plan*

Fiscal Years 2017-2019

Comments Requested by January 30, 2017

Issued November 15, 2016

## Current FASAB Board Members

**D. Scott Showalter** | Chairman | 2016–2019

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

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

**Michael Granof** | Non-federal representative | 2009–2019

**Christina Ho** | Department of the Treasury | 2014–present\*\*

**Sam McCall** | Non-federal representative | 2012–2016

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

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

**Graylin Smith** | Non-federal representative | 2012–2017\*

**\*Member eligible for a second five-year term.**

**\*\*Federal members are not term limited.**

## Organization

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

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

## Mission

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

### *The Mission Supports Public Accountability*

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

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# Annual Report

*"I call on people to be 'obsessed citizens,' forever questioning and asking for accountability. That's the only chance we have today of a healthy and happy life."*

*Ai Weiwei*

*Chinese Artist and Activist (1957 - )*

## **From the Chairperson**

As the Board's fourth and newest chairperson, I am pleased to present our annual report. Although my term as chairperson will be short due to previous time served on the Board, I have big aspirations for my tenure. Accordingly, I am focusing on a few short-term goals that I hope will have a lasting impact on the effectiveness of the Board.

### **Increased Visibility and Recognition**

My first goal is to increase the visibility and recognition of the activities and results of the Board. The efforts of the Board are vital to measuring the federal government's actual financial condition through generally accepted accounting principles (GAAP) based financial statements. Many of the articles that address the financial condition of the federal government are based on information contained in the consolidated financial report of the U.S. Government, which is produced following GAAP. Those standards require disclosure of the fiscal sustainability of the federal government. This nontraditional requirement demonstrates the Board's desire to lead in standard-setting. Before the Board published this requirement, no standard-setter had required organizations to report on their fiscal sustainability. That move alone has significantly contributed to the dialogue about the fiscal sustainability of the federal government. We need to seek out additional types of information to enhance the dialogue with financial statement users about impending fiscal challenges.

The Board's significant contributions are the result of a lot of hard work by capable and committed professionals. Our Board members, their staff, and FASAB staff have been passionate about federal financial reporting for a long time. Less known are the many volunteers who participate behind the scenes. They join us on task forces, provide input through comment letters, and alert us to emerging issues through the work of professional associations such as the Association of Government Accountants (AGA) and the Greater Washington Society of CPAs. We know we can count on an army of volunteers with deep knowledge and varying perspectives on the issues at hand.

Nonetheless, to expand FASAB's influence and impact it is important to communicate to the public and the larger profession the role FASAB plays in this sea of information. To accomplish this goal, we have increased our communications to numerous media outlets, highlighted opportunities for participating in the standard-setting process, provided alerts about issuance of standards, and identified the outcomes of these standards. Nine months into my term, we have

made significant progress on this goal and are seeing increased coverage of Board activities in professional journals and are identifying greater opportunities for outreach.

A few examples include the following:

- Participating in the International Public Sector Accounting Standards Board's first annual Public Sector Standard Setters Forum
- Providing updates at the Organization for Economic Co-operation and Development's annual symposium
- Writing articles for:
  - the AICPA's publications such as [Government Briefs](#) and the [Journal of Accountancy](#)
  - [Public Finance International](#)
  - Public Money and Management
- Increasing coverage of official Board publications by the Journal of Accountancy and the Association of Government Accountants' Topics
- Providing presentations in new venues such as the Institute of Internal Auditors, the Association for Budgeting and Financial Management, the American Accounting Association, the National Association of State Auditors and Comptrollers, and the Asset Leadership Network
- Reformatting the FASAB [website](#) to make it easier to find resources

### **First Year Results**

As the year nears its close, we have accomplished much and much remains for us to do to continue to improve the usefulness and effectiveness of federal financial reports. Our success is due largely to collaboration with others; a trend acknowledged as effective during previous years.

Notable collaborative efforts that accelerated development of proposals included

- The tax expenditure task force which provided recommendations in just over six months
- Collaboration with the Governmental Accounting Standards Board (GASB) on lease accounting standards
- Six federal agencies pilot testing a new budget to accrual reconciliation format

We were able to finalize three new standards during the year as a result of close collaboration. Statement of Federal Financial Accounting Standards (SFFAS) 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, and SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*, were completed rapidly due to close collaboration with stakeholders. SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*, was finalized with input from a diverse task force.

In addition, we welcomed two new members – Gila Bronner and George Scott. Their expansive backgrounds and demonstrated commitment to excellence ensured they became contributing members right out of the gate. I greatly appreciate their efforts.

The Appointments Panel assisted in the search for a new member who will join the Board on January 1 when Sam McCall completes his term. Sam has contributed significantly to Board deliberations and will be missed; particularly as we have considered ways to enhance performance reporting.

Our incoming member, Pat McNamee, has a deep knowledge of federal governmental accounting and has been monitoring the ongoing efforts of the Board in anticipation of serving. We all look forward to his contributions to the efforts of the Board.

The FASAB staff also underwent changes this year. The administrative officer, Charles Jackson, retired after eleven years of service to the Board in a variety of areas. His efforts to support the Board were greatly appreciated and he will be missed. Many thanks to Charles and all the best in retirement.

A communications specialist was added to the staff for the first time. Ms. Leigha Kiger joined staff in November 2015 and plays a critical role in attaining our visibility and recognition goals.

**Leigha Kiger** is the communications specialist for the Board. Her main duties include assisting in the development of Board publications, editing written information of a technical nature for clarity and consistency, and producing both internal and external communications. Before joining the FASAB team in November of 2015, Ms. Kiger participated in AmeriCorps VISTA, a national service program overseen by the Corporation for National and Community Service. During her year of service, she piloted and coordinated the first financial literacy program of its kind at a local non-profit in Jupiter, Florida. Previous to this endeavor, she taught English in Bucaramanga, Colombia at the country's top-rated bilingual school. She focused her work at the preschool level with children from 18 months old to seven years old, to aid students in laying the groundwork for strong English literacy and grammatical accuracy in speech. Ms. Kiger graduated from Duke University in 2013 with a bachelor of arts degree in English.

### Where We Go Next

Maintaining the momentum of 2016 will be a challenge. With your help, we will make great progress and it begins with focusing on our planned efforts.

Your input will ensure we continue to focus our resources on the highest priorities for the federal reporting community. The Three-Year Plan is included in this report beginning at [page 13](#). **We encourage you to provide feedback on the plan so that members can consider your views during the Board's review of the plan in February 2017. Please send your comments to [fasab@fasab.gov](mailto:fasab@fasab.gov).**

We also encourage you to continue monitoring our efforts and contributing to our standard setting progress – through responding to exposure drafts or testifying at public hearings.



D. Scott Showalter

## BOARD TECHNICAL ACTIVITIES

### Standard-setting Activities

#### Department of Defense Request for Guidance

In response to a request from the Department of Defense, the Board issued standards to assist in providing a cost-effective means to implement GAAP. The Board issued SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*. This Statement allows a reporting entity to apply an alternative valuation method in establishing opening balances for inventory, operating materials and supplies, and stockpile materials when historical records and systems do not provide opening balances in accordance with SFFAS 3, *Accounting for Inventory and Related Property*.

The Board also issued SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*. This Statement provides implementation guidance to allow a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances for general property, plant, and equipment (PP&E). The alternative methods include (1) using a deemed cost to establish opening balances of general PP&E, (2) selecting between deemed cost and prospective capitalization of internal use software, and (3) allowing an exclusion of land and land rights from opening balances with disclosure of acreage information and expensing of future acquisitions.

Application of both SFFAS 48 and SFFAS 50 are available only when presenting information following GAAP either (1) for the first time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method. Both are effective for periods beginning after September 30, 2016, with early implementation encouraged.

#### Tax Expenditures

Tax expenditures resemble federal spending in that they affect the federal deficit or surplus; however, unlike federal spending, tax expenditures impact federal tax revenues. The Board issued proposed standards for reporting on tax expenditures in June 2016. The task force and R. Alan Perry (on detail from the Government Accountability Office to support the project) provided invaluable support and recommendations that allowed the Board to act quickly.

Tax expenditures are used by the federal government as one of many means to accomplish policy objectives. Although not direct outlays of federal funds, tax expenditures are often viewed as alternatives to other policy instruments, such as spending or regulatory programs. The Board believes the service efforts, costs, and accomplishments of the reporting entity—the U.S. government—include those service efforts undertaken, costs incurred through, and accomplishments resulting from the use of tax expenditures. Accordingly, the Board identified a need to improve users' awareness and understanding of tax expenditures. The Board is proposing to require certain information on tax expenditures to assist users of the consolidated financial report of the U.S. Government in understanding the existence, purpose, and impact of tax expenditures.

The Board anticipates completing these standards early in fiscal year (FY) 2017 and proposes that these be effective in FY 2018.

## Reporting Model

The reporting model project objective is to identify financial information helpful for making decisions, demonstrating accountability, and achieving the reporting objectives. The Board conducted research to understand users' expectations in this era of electronic reporting of enormous volumes of data. In addition, the Board enlisted the National Academy of Public Administration to research federal agencies' use of financial information, identify gaps in information, and determine opportunities to close these gaps. The Board continued this effort in 2016 by drafting concepts to serve as a framework for later standards. Throughout this process, FASAB held several educational sessions to enhance members' knowledge of budgetary, revenue, and performance reporting.

The research indicated that users need to understand the relationship between information provided by GAAP and the range of other information made available. Users need information to assist them in understanding the relationship among cost, budget, and performance data. As shown in the surveys, users reference a hierarchical classification structure when drilling-down from highly aggregated data to less aggregated data.

The Board considered the research and developed an exposure draft (ED). The ED proposes concepts regarding the role of financial statements and required supplementary information (RSI) and their relationship to other information presented to achieve the reporting objectives. The proposed concepts include aspirational statements regarding

- the presentation of budgetary information in component reporting entity financial statements and RSI,
- the content and presentation of financial statements and RSI for government-wide and component reporting entities,
- the presentation of performance information in financial statements and RSI, and
- summary level information as it relates to financial statements and RSI.

The proposed concepts will address current and evolving reporting needs and capabilities and will assist the Board in developing reporting models for the government-wide and component reporting entities.

## Risk Assumed—Insurance Programs Phase

During FY 2016, the Board released the insurance programs ED for comment as the first phase of the risk assumed project. The Board expects to release the Statement during FY 2017 with an effective date of FY 2019. The Board undertook this project to provide comprehensive and consistent reporting for all significant risks assumed by the federal government. In FY 2017, the Board will evaluate additional significant risks assumed by the federal government to determine the scope for the next phase of this effort. For example, disaster assistance programs may be addressed in a future phase.

## Leases

The Financial Accounting Standards Board (FASB) issued major revisions to its accounting standards for leases. Prior FASB standards formed the basis for federal accounting standards. Because the FASAB and FASB lease standards were similar, FASB's detailed implementation guidance was appropriate for use by federal agencies and obviated the need for extensive implementation guidance. Given the FASB's revisions and the awareness that the lease accounting standards were not making meaningful distinctions among lease transactions, the Board undertook a review of its lease accounting standards.



The Board has worked closely with GASB on appropriate standards for governmental entities. Using the results from the preliminary deliberations of GASB as a baseline, the Board made adjustments to reflect the unique needs of the federal government. FASAB has placed particular emphasis on federal intragovernmental leasing activity. FASAB issued proposed standards in September 2016 and proposed implementation for FY 2019.

### **Accounting and Reporting of Government Land**

The Board added a project on land to address significant inconsistencies in how agencies report information. Under existing standards, land acquired for or in connection with other general PP&E is capitalized on the balance sheet. Other land is not capitalized on the balance sheet. Instead, this land is stewardship land and is reported in a note disclosure including land management policies, categories of land, and physical quantity information.

The recent guidance regarding opening balances of general PP&E further allows certain federal agencies to exclude land from the balance sheet. Agencies applying SFFAS 50 could report acres in a note disclosure and exclude land entirely from the balance sheet.

Because of the general PP&E and stewardship land categories and the added flexibility relating to opening balances, information about land is unlikely to be complete or comparable. The Board intends to consider how this may affect the users of financial reports.

### **Budget to Accrual Reconciliation**

FASAB undertook the budget to accrual reconciliation project primarily because users have criticized the Statement of Financing (SOF) note disclosure as being too complex and not useful. There was also a potential need to support the government-wide financial statement that reconciles the unified budget deficit (deficit) and net operating cost by aligning the component level disclosures with the government-wide requirements.

During FY 2016, FASAB formed a task force made up of individuals with financial reporting preparation and policy background from both the federal agencies and private accounting firms. The task force's main goal is to research the current SOF note and develop an alternative component reporting entity presentation. The Board will evaluate the current SOF note and the new reconciliation format based on survey feedback and initial agencies' pilot results. FASAB is obtaining feedback from additional federal agencies piloting the format and is planning to seek public comment early in FY 2017.

## **Implementation Guidance**

The Accounting and Auditing Policy Committee (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 completed implementation guidance for SFFAS 10, *Accounting for Internal Use Software*. The guidance clarifies the current standards in relationship to new software development methods and provides practical examples of implementation.

## **Collaboration**

The Board continues to collaborate with other standard-setting boards including GASB, which establishes accounting and financial reporting standards for state and local governmental entities in the United States; FASB, which establishes accounting and financial reporting standards for nongovernmental entities in the United States; and the International Public Sector Accounting Standards Board (IPSASB), which establishes international accounting and financial reporting standards for governmental entities. Generally, such collaboration is at the staff level (for example, one staff member is currently serving on the IPSASB's Heritage working group). 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.

To encourage international collaboration, the chairperson and executive director attended the Public Sector Standard Setters Forum organized by IPSASB and hosted by GASB in Norwalk, Connecticut. Such forums provide an opportunity for attendees to learn about emerging issues, share commonalities between countries, and identify possible solutions. During the meeting, the chairperson and executive director shared progress on the tax expenditures proposal.

## **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. Members and staff provided educational training through their participation in numerous international, national, regional, and local conferences sponsored by groups like the AICPA, the Association of Government Accountants, the Joint Financial Management Improvement Program, and state CPA societies.

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

# GOVERNANCE, OPERATIONS, AND BUDGETARY RESOURCES

## Governance

The Steering Committee members 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. The committee demonstrated this by maintaining FASAB staff levels despite these constraints. In addition, the Steering Committee supported a restructuring of administrative support functions. With the assistance of GAO, some administrative functions were centralized. The resulting savings allowed FASAB to create a new position for a communications specialist. Ms. Leigha Kiger joined the staff as its first communications specialist.

Budgetary resources are reported on page 14. Final FY 2017 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.

In addition to routinely supporting the Steering Committee, the Appointments Panel successfully recommended a candidate – Pat McNamee - for an upcoming vacancy. Mr. McNamee, a retired partner from PricewaterhouseCoopers, will bring a deep knowledge of the federal government and extensive standard-setting experience when he joins the Board in January 2017.

During the fiscal year, we welcomed a new general counsel, Lisa Motley, and bid farewell to former general counsel, Gregory Marchand. Mr. 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. General counsel provides the training annually which covers 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 2016.

## Operations

Members confirm their independence and adherence to the ethics policy and complete a Board performance survey. Through these actions, information needed for an annual assessment of conformance to the five AICPA criteria essential for a GAAP standard-setting body is provided to the public and the Appointments Panel.

## 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 standard-setting body. The panel assists in preparing this annual report and monitors annual performance survey results. The panel would convey any concerns to the AICPA in a timely manner.

### Appointments Panel Members

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

### FASAB General Counsel

Lisa Motley

### FASAB Executive Director and Designated Federal Official

Wendy Payne

Through the survey, each member identifies changes—positive or negative—in the Board’s performance relative to the criteria (see sidebar for a list of the criteria). 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 results so that member views are made publicly available on a timely basis.

### *AICPA* Criteria for a GAAP Standards-Setting Body

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

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

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

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

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

### *A*nnual Confirmation Provided by Every Member

**Independence:** I acknowledge that I have neither personal nor external impairments that will keep me from objectively reaching independent conclusions on matters under consideration by FASAB, nor did I during the preceding fiscal year. I will promptly notify the 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.

In addition to these annual processes, members agree that the AICPA will be notified of any reportable events of undue influence if and when they occur. Together, these efforts serve to alert the AICPA to significant changes relevant to the established criteria and to ongoing recognition of FASAB as the GAAP standard-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; no significant new areas of concern arose this year. The majority of members believe there

was no change in due process, knowledge of members and staff, and comprehensiveness and consistency.

- Two members noted improvement in due process. These members referenced the presence of task force members and other experts at meetings as well as the collaboration with GASB. Such efforts give members a deeper understanding of matters before the Board and make operations more efficient.
- Two members noted decline while one noted improvement in knowledge of members and staff (a component of the AICPA's human resources criterion). During the year, two members with substantial experience completed their terms – Tom Allen and Harold Steinberg. Time will be required to build the knowledge lost due to their departure after ten years of service. Others noted the importance of regular educational sessions and the close collaboration with stakeholders. One member believed these improved the overall knowledge of the Board, while others felt it sustained knowledge.
- Three members noted improvement in comprehensiveness and consistency. These members thought reviewing concepts improves consistency, obtaining broader participation ensures diversity of views, and presenting GASB and IPSASB updates enhances comprehension of issues facing other standard-setters.

Members continue to recognize the benefits of direct interaction with stakeholders, task force members, and other experts. Such interaction helps members gain insight regarding the unique nature of the federal government and leverages scarce staff resources. The Board plans to continue these efforts.

In addition to benefiting from direct feedback, the use of task forces allows the Board to make the best use of its resources. Members suggested continuing to recruit experts and to expand the membership of task forces. To further leverage resources, members suggested increased collaboration with GASB and IPSASB.

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

For the remaining two criteria (domain and authority, and financial resources), the survey solicits narrative responses for ideas for improvement. Some members noted that the staff size is small in relation to other standard setters. However, the use of task forces, detailees, and contractor support allow the Board to make progress on its priorities

## Budgetary Resources

Actual funding levels are dependent on final FY 2017 appropriations and will be determined after appropriations are provided to each of the Board's sponsors. Table 1, Budget 2014-2017, presents budget resources used from FY 2014 through FY 2016, as well as anticipated resources for FY 2017.

	2014	2015	2016	2017 <sup>1</sup>
Salaries and Benefits	\$1,482.5	\$1,646.0	\$1,673.8	\$1,655.6
Member Compensation	151.6	153.5	156.5	156.5
Travel	41.3	48.9	41.3	52.0
Education & Training	14.5	6.5	10.0	15.0
Consultants and other	173.5	92.6	74.5	85.6
<b>Total</b>	<b>\$1,863.4</b>	<b>\$1,947.4</b>	<b>\$1,956.0</b>	<b>\$1,964.7</b>
(Amounts may not total correctly due to rounding.)				

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

# Three-Year Plan for the Technical Agenda

The Board's three-year plan should help those who use, prepare, and audit financial reports to participate fully in the standard-setting process and plan for changes in GAAP.

In February 2017, the Board will discuss priorities and make needed adjustments to this plan. Your assistance in identifying areas needing attention would be very helpful in that discussion. FASAB would greatly appreciate receiving such input before January 30, 2017.

The Board prioritizes projects based on the following factors:

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

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

- a focus on citizens and citizen intermediaries as the primary users of the financial report of the U.S. government,
- attention to the needs of Congress and program managers,
- impacts on preparers and auditors due to declining real budgets,
- increasing risks due to fiscal uncertainty and operational complexity, and
- increased 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 its 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](mailto: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 2016 Actions	Plans		
		FY 2017	FY 2018	FY 2019
<p><b>Financial Reporting Model</b> Consider whether the existing model meets user needs and reporting objectives Segments may include consideration of improvements in:</p> <ul style="list-style-type: none"> <li>- Cost information</li> <li>- Performance reporting</li> <li>- Budget presentation</li> <li>- Other areas, such as the role of electronic reporting and the articulation of the financial statements</li> </ul>	Issue exposure draft concepts statement	<p>Finalize concepts statement</p> <p>Identify discrete projects needed to support the ideal model and determine vehicle(s) for guidance</p>		
<p><b>Leases</b> Evaluate existing standards to improve comparability and completeness of reporting</p>	<p>Consider issues and options to develop exposure draft</p> <p>Issue exposure draft</p>	Redeliberate	Finalize standards	
<p><b>Risk Assumed (RA)</b> Develop standards so that information is available about risks assumed by the federal government and their potential financial impacts</p>	Finalize insurance programs exposure draft	<p>Finalize insurance standards</p> <p>Prepare phase I implementation guidance as needed</p> <p>Research scope for phase II—Activity I and develop ED</p>	<p>Develop, finalize and release phase II—Activity I ED</p> <p>Phase II—Activity I public hearing as needed</p>	<p>Finalize and release phase II—Activity I Statement</p> <p>Begin research on next RA activity</p>
<p><b>Public-Private Partnerships</b> Consider how financial reporting objectives are met with regard to public private partnerships</p>	Finalize disclosure standards		Convene task force to review implementation issues	Phase II—recognition and measurement
<p><b>Department of Defense (DoD) Request for Guidance</b></p>	<p>Finalize SFFAS 48 and 50</p> <p>Continue liaising to the DoD workgroups—develop due process documents and seek input</p>	Continue liaising to the DoD workgroups—implementation guidance		
<p><b>Tax Expenditures</b></p>	<p>Form task force and develop recommendations</p> <p>Issue exposure draft</p>	Finalize standards		



Project and Objective	FY 2016 Actions	Plans		
		FY 2017	FY 2018	FY 2019
<b>Reconciling Budget and Accrual Information— Alignment between Agency and Government-wide Requirements</b> (This project is related to the reporting model project. The Board will consider incremental changes first, making decisions regarding next steps as the ideal model is developed.)	Research	Issue exposure draft and finalize standards		
<b>Land</b>	Research	Issue exposure draft	Finalize standards	
<b>Research Projects</b> The Board does not assign full-time staff to research projects, but research may occur as resources become available. Projects are listed in order of priority. Anticipated date for assignment to staff is indicated where possible.				
<b>Performance Reporting</b>	Research	Research		

## Current Projects

### *The Financial Reporting Model*

#### Purpose:

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

- Decision-makers are seeking information on the full cost of programs, and citizens are accessing detailed information on spending, such as who received federal funds through grants and contracts, and what was accomplished with those funds.<sup>2</sup>
- 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.<sup>3</sup>
- The public relies increasingly on electronic media (digital devices, complex networks, and interactivity) to obtain information on demand<sup>4</sup> 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 necessary to 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. As a result of this guidance, they should be able to understand the purpose, 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 making decisions, demonstrating accountability, and achieving the reporting objectives given findings that users
  - i. are seeking less aggregated cost information and are interested in what is being provided for the costs incurred.
  - ii. would like to know what has been budgeted and spent and how expenditures compare to full cost.

<sup>2</sup> Preparers Focus Group Discussion, February 10, 2009.

<sup>3</sup> FASAB, *User Needs Study: Citizens*, April 2010.

<sup>4</sup> FASAB Reporting Model Task Force, *Report to the FASAB*, December 22, 2010.

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

Assigned staff: Ross Simms

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

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

Timeline: **February 2017—June 2017 Meetings**

- Consider responses to the exposure draft and identify revisions
- Finalize the concepts statement and consider next steps

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## *Leases*

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

the Governmental Accounting Standards Board (GASB) is addressing lease standards. Staff has worked with GASB staff to develop options to address this issue.

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

**Objectives:** 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 definitions from SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*) arising under lease contracts are recognized in the statement of financial position and related costs are recognized in the statement of net cost
- b) Evaluate and revise, as needed, the current lease-related definitions and recognition guidance in SFFAS 5 and 6, including consideration of the advantages and disadvantages of applying the potential lease standards from FASB or IASB in the federal environment
- c) Ensure that the standards developed fully address the various lease transactions and activities currently within the federal community (for example, 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 staff members from both FASB and GASB assigned to their Board's respective lease accounting projects. Staff organized a task force of knowledgeable federal and non-federal participants who have relevant experience or interest in lease accounting within the federal government.

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

**Timeline:**

**January–June 2017**

- Consider responses to the exposure draft and identify needed revisions
- Develop final Statement

**August–December 2017**

- Finalize and issue Statement

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### *Risk Assumed (RA)*

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**Purpose:** The Board has undertaken this project 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); therefore, they may not result in full disclosure of the significant risk assumed by the federal government.

To meet the stewardship and operating performance objectives of federal financial reporting,<sup>5</sup> 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
  - d) Other potential effects on future outflows, such as:
    - i. regulatory actions
    - ii. government sponsored enterprises
- Phase III: commitments and other risk areas

**Assigned staff:** Robin Gilliam

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

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

**Timeline:** **October 2016–January 2017**

- Finalize and issue Statement for insurance programs

**October 2016–September 2017**

- Develop implementation guidance for insurance programs (phase I), if necessary
- Research and determine scope for phase II—Activity I
- Form phase II—Activity I task force
- Develop exposure draft on phase II—Activity I

**FY 2018**

- Develop, finalize, and release phase II—Activity I ED
- Hold public hearing as needed

**FY 2019**

- Finalize and release phase II—Activity I Statement
- Begin research on next RA activity

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

## *Public-Private Partnerships*

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

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 I – Risk Disclosures - include:

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

Objectives of Phase II – Recognition and Measurement – include:

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

**Assigned staff:** Domenic Savini

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

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

**Timeline:**

### **PHASE II:**

#### **April / May 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*

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- 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 that warrant FASAB’s action. The first area the Board addressed was use of reasonable baseline estimates of the cost of inventory and related property. FASAB expanded the project objectives in 2015 to include estimates for real property, military equipment, and internal use software. FASAB’s role as liaison may result in identifying additional areas in the future. The liaison role is an efficient and effective way to identify issues experienced by DoD for which GAAP guidance is needed.
- Applicability:** This project applies to the government-wide reporting entity and to component reporting entities that prepare and present general purpose federal financial reports in conformance with SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
- Objectives:** Provide practical guidance through the issuance of new standards and other vehicles to resolve long-standing issues
- Assigned staff:** Melissa Batchelor
- Other resources:** Staff enlisted contractor support for certain aspects of the project, as well as a task force. The Board recognizes that it needs active DoD participation to address these long-standing concerns.
- Timeline:** **Present–December 2017**
- Continue serving as liaison to the DoD workgroups
  - Develop due process documents and seek input on proposed standards and other guidance
  - Develop or assist with implementation guidance

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## *Tax Expenditures*

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- Purpose:** The purpose of this project is to determine what information regarding tax expenditures should be included in general purpose federal financial reports. According to Section 3(3) of Public Law 93-344, 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.” Both the Joint Committee on Taxation and Treasury’s Office of Tax Analysis (OTA) publish annual estimates of tax expenditures. OTA estimates are included in the annual President’s Budget.
- Applicability:** This project applies to the financial report of the U. S. Government.
- Objectives:** Given the existing availability of tax expenditure estimates, the primary objective of this project is to ensure readers have the information they need to understand tax expenditures in general purpose federal financial reports.

Assigned staff: Wendy Payne  
R. Alan Perry (detailed from the Government Accountability Office)

Other resources: A task force has supported this effort.

Timeline: **October – December 2016 Meetings**

- Consider responses to the exposure draft and identify revisions

**January 2017–June 2017**

- Finalize and issue the statement

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### *Budget to Accrual Reconciliation*

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Purpose: The Board undertook this project primarily because the Statement of Financing (SOF) note disclosure has been criticized as too complex and not useful. A financial statement reconciling the difference between consolidated net operating costs on an accrual basis to the unified budget deficit helps users of the consolidated financial report of the U.S. Government (CFR) understand how information on the use of budgetary resources relates to information on the costs of programs. At the component reporting entity level, there is no direct reconciliation from the audited accrual data to the budgetary deficit. Instead, component reporting entities reconcile the total of obligations and nonbudgetary resources to net cost. The obligation data used in the reconciliation does not link directly to the statement of budgetary resources. Also, the presentation of a reconciliation of obligation and cost data at the component reporting entity level but outlay data in the CFR may add unnecessary complexity for the user to understand the distinction between obligations and outlays.

In addition, there is a need to support the CFR reconciliation by restructuring the component reporting entity disclosures to support the government-wide financial statement.

Applicability: This project applies only to component reporting entities that present general purpose federal financial reports in conformance with Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. The project will not address government-wide reporting requirements.

Objectives: The primary objective of this project is to research the current SOF note and develop an alternative component reporting entity presentation to address concerns about the current note's utility. Another primary objective is to support the CFR budget deficit and net operating cost reconciliation.

Assigned staff: Grace Wu

Other resources: A task force has supported this effort.

Timeline: **September 2016–January 2017**

- Develop and issue an exposure draft



**February 2017–June 2017**

- Consider responses to the exposure draft and identify revisions
  - Finalize and issue Statement
- 

*Land*

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Purpose:

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

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

Implementation of the above requirements has resulted in significant differences in accounting treatment for land holdings. Because the land acquired during our Nation’s formation is sometimes used in connection with other general PP&E, it is not generally valued as would be GPP&E land acquired for similar purposes. That is, GPP&E only includes land and land rights with an identifiable cost that was specifically acquired for or in connection with construction of general PP&E. It is important to note that stewardship land is expensed when acquired and quantity information is provided in a note.

Further, debate exists over the most appropriate way to account for and report land. Issues include:

- Reporting on land is incomplete (as noted above, neither the total cost of land nor the total physical quantity of land is consistently reported).
- Whether some information that is currently reported is consistent with reporting objectives and qualitative characteristics.
- Given that cost information for capitalized land remains unchanged, the information may lose relevance over time due to general inflation as well as specific changes in the value of land. Some suggest that all land be valued periodically at re-measured amounts (such as, fair value). Others suggest that non-financial measures (such as acreage) be reported.
- Whether Stewardship Land and GPP&E land should follow a consistent accounting and reporting approach

Applicability:

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

Objectives:

Specific objectives include:

- a) Obtaining an understanding of how the predominant use or managerial intent influences the information needs of users and, potentially, the importance of the reporting objectives (for example, identifying the most appropriate reporting objective).
- b) Identifying the measurement attribute(s) and/or non-financial attributes most appropriate for meeting the reporting objectives.

- c) Assessing practical limitations of the selected measurement attributes or non-financial attributes; for examples factors to consider in establishing fair value such as determining the “highest and best use,” what is legally permissible, physically possible, and economically feasible.
- d) Obtaining agency feedback and best practices relevant to assessing the cost-benefit associated with options under consideration.
- e) Recommending recognition, measurement, and disclosure requirements.

Assigned staff: Domenic N. Savini

Other resources: After a brief initial research phase, staff plans to utilize one-on-one agency fact-finding meetings, and a multi-disciplinary task force, including sub-groups to address specific topics.

Timeline:

**May 2016 - December 2016**

- Conduct fact-finding meetings and consider task force recommendations
- Begin developing exposure draft

**January 2017 – May 2017**

- Finalize and issue exposure draft

**May 2017 – April 2018**

- Finalize guidance or standards

## Research Projects

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### *Performance Reporting*

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Based on input to last year's Three-Year Plan and the Board's user needs research, members identified performance reporting as a priority area. The overall objective of the Board's efforts in this area would be **to identify characteristics and elements of effective performance reports**. To accomplish this objective, the Board may seek to:

1. Identify the users of performance information, performance reporting objectives, financial information needed to meet these objectives, and the necessary qualitative characteristics of performance information
2. Define "program" and establish guidance on applying or implementing the definition
3. Identify factors that should be considered in determining how to aggregate or disaggregate performance and financial information
4. Define terms used in performance reporting such as efficiency, effectiveness, inputs, outputs, outcomes, performance indicators, and objectives
5. Provide a framework for integrating budget, costs, and service performance information

During the research portion of the performance reporting project, the Board will seek input from the larger performance reporting community by hosting educational sessions during its public meetings. Potential topics include:

1. Progress and plans for meeting existing federal requirements such as the Government Performance and Results Act Modernization Act and related reporting practices
2. Challenges and progress in defining the term program, including government-wide and agency perspectives
3. Lessons learned from GASB and IPSASB performance reporting guidance
4. Input on user needs

Input regarding user needs in this area would be helpful in planning this project. FASAB welcomes your input.

## Potential Projects

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

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

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## *Asset Retirement Obligations*

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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*

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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.

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## *Cost of Capital*

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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.

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## *Derivatives*

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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.<sup>6</sup> 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.

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<sup>6</sup> Presently, derivatives are reported in federal financial reports in conformance with private-sector standards.

## *Electromagnetic Spectrum*

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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 addressed by other accounting standards at this time.

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## *Electronic Reporting*

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Electronic reporting is increasingly viewed as a means to convey financial information about government. This is evidenced not only by sites such as [USA Spending.gov](http://USA Spending.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 (Government Performance and Results Act Modernization Act). 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.”<sup>7</sup>

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<sup>7</sup> Association of Government Accountants, *e-Reporting*, July 2012, pages 20-21.

More recently, the Securities and Exchange Commission proposed amendments to require registrants that file registration statements and periodic and current reports to include a hyperlink to each exhibit listed in the exhibit index of the filings. The amendments would also require that registrants submit all of these filings in HyperText Markup Language (HTML) format.

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.

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### *Evaluating Existing Standards*

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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)
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.

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### *Financial/Economic Condition*

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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?



## *Hierarchy of Generally Accepted Accounting Principles*

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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.

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## *Intangibles*

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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.

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## *Interim Financial Reporting*

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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 its length.

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## 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

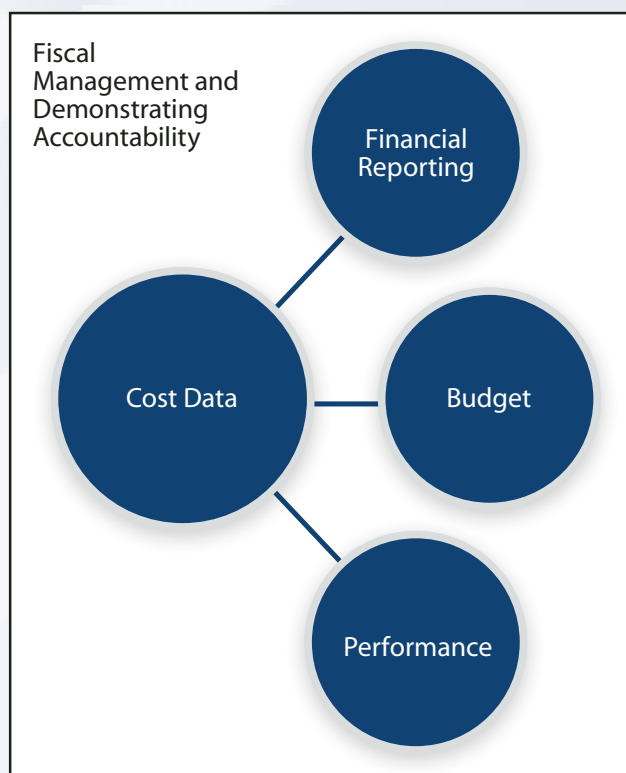
The CFO Act calls for the development of cost information and the integration of accounting, program, and budget systems and information. Also, subsequent legislation such as the Government Performance and Results Act (GPRA) and the GPRA Modernization Act established the expectation that cost measurement 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 GPRA, 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

**Figure 1: Role of Cost Data**



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 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 GAAP for external reporting--and its limited resources, the Board believes addressing managerial cost accounting is one component of a government-wide initiative.

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### *Natural Resources*

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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.

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### *Nonmonetary Transactions*

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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*

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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?
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## *Property with Reversionary Interest*

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The federal government sometimes retains an interest in PP&E acquired by 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.

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## *Public Sector Specific Financial Instruments*

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

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

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

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## *Research and Development*

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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.

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## *Reporting Cash Flows*

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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, SFFAS 24, *Selected Standard 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 standard-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 would determine fundamental government activities impacting the government's financial position and whether such activities are being reflected in the existing cash flow presentations.

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## *Revenue (Exchange and NonExchange)*

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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.

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### *Stewardship Investments*

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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.

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### *Summary or Popular Reporting*

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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.

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