FASAB news
Federal Accounting Standards Advisory Board

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Public Hearing Announced

The Federal Accounting Standards Advisory Board (FASAB) will hold a public hearing on the recently published exposure draft (ED) *Inter-Entity Cost Implementation--Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts,* in conjunction with its December 2004 Board Meeting. Specifically, the public hearing will be held **December 16, 2004 from 9:00 AM to noon**. The public hearing will permit the Board to ask questions about information and points of view submitted by respondents. The ED is available on the FASAB website www.fasab.gov under Exposure Drafts for your reference.

Additional information about the public hearing and detail regarding planned guidance in various issues related to the full implementation of inter-entity costing can be found in the News Release at www.fasab.gov. The News Release contains the *Draft Guidance Plan on Full Implementation of Inter-Entity Costing.*

Although the Board is interested in all testimony regarding the ED, the Board is particularly interested in hearing additional testimony about:

- Specific comments on the *Draft Guidance Plan on Full Implementation of Inter-Entity Costing*, including whether additional topic areas should be addressed; and
- Specific examples of potential costs and related implementation problems.

Any individual or organization may request to be heard at the public hearing. Submission of written comments or an outline of proposed oral presentation is encouraged and will be distributed to the members of the Board. Individuals or organizations wishing to be heard at the public hearing, should notify FASAB of their intent by December 1, 2004 by contacting Melissa Loughan at 202-512-5976, email loughanm@fasab.gov.

Disclaimer

The staff of the Federal Accounting Standards Advisory Board publishes FASAB News following Board meetings to provide highlights of recent Board actions and issues. When an article refers to a Board decision, it should be understood that Board decisions are tentative until FASAB issues a Statement of Federal Financial Accounting Concepts (SFFAC) or Statement of Federal Financial Accounting Standards (SFFAS).

Please direct newsletter editorial questions to Melissa Loughan, 202-512-5976, loughanm@fasab.gov.

Please direct AAPC technical questions to Monica Valentine, 202-512-7362, valentinem@fasab.gov.

Please direct FASAB and AAPC administrative questions to Charles Jackson, 202-512-7352, jacksoncw1@fasab.gov.

Current Board Projects

Natural Resources

Objective:

To develop an accounting standard for the oil & gas natural resources owned by or under the stewardship of the Federal Government. Specifically, to determine under what conditions a value and a quantity should be measured and reported for oil & gas, how revenue and the related costs should be recognized and measured, and what disclosures or supplemental information are essential to meeting the reporting objectives. The accounting standards for oil & gas shall be developed to meet the federal financial reporting objectives (SFFAC 1), subject to the pervasive constraint that benefits exceed cost.

Project History:

The project initially began with the formation of a task force to conduct research. The task force produced a research report in June 2000 entitled *Accounting for the Natural Resources of the Federal Government*. (See http://www.fasab.gov/reports.htm to access the report.) In 2002, the Board resumed active consideration of the issues raised by the task force after a deferral to address other issues.

The Board decided to proceed with developing standards for oil and gas first due to the extensive literature available in other domains. The oil and gas project framework would be used in subsequent phases for the remaining types of natural resources (e.g., coal, timber, hard rock minerals).

During 2003 and in recent 2004 meetings, the concept of capitalizing the "production stage" anticipated revenue stream flowing to the Federal government (from royalty collections) was pursued, along with the development of various disclosures. However, the Board learned that the Energy Information Administration (EIA), Department of Energy, is to begin distinguishing between the quantity of the proved reserves from lands under Federal jurisdiction and the quantity of proved reserves from other lands in its reports. The EIA defines proved reserves as those volumes of oil and gas resources that geological and engineering data demonstrate with reasonable certainty to be recoverable (extracted and produced) in future years from known reservoirs under existing economic and operating conditions. As a result, the Board is researching the concept of capitalizing the estimated cash inflow from royalties based on the estimated quantity of proved oil and gas reserves from lands under Federal jurisdiction with various supporting disclosures.

Recent Actions and Plans:

At the August Board meeting, a draft exposure draft proposing to capitalize the estimated cash inflow from royalties based on the estimated quantity of proved oil and gas reserves from lands under Federal jurisdiction was reviewed. Staff received a considerable number of comments from the Board. Staff will continue developing the ED based on the comments received from Board members.

Points of Contact:

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Heritage Assets and Stewardship Land

Objective:

SFFAS 8 requires reporting of stewardship PP&E, which includes heritage assets and stewardship land (HA & SL.). As described in SFFAS 8, required supplementary stewardship information (RSSI) is a category created by FASAB and its audit status was not designated. RSSI was intended to provide information that the Board believed was necessary for the 'fair presentation' of financial statements. In practice, preparers and users have not understood that RSSI is integral to fair presentation and people often assume that the information reported in RSSI is supplementary or of a secondary nature. This is contrary to the Board's intention. Consequently, the Board is reviewing and re-categorizing the stewardship elements in the Federal financial model. (If this effort leads to reclassification of all items in the RSSI category, the Board will ultimately eliminate the category.) The Board solicited comments on its efforts to eliminate

the RSSI category through a Preliminary Views document in December 2000 (the preliminary views document can be found at http://www.fasab.gov/pdf/rssi.pdf) This particular project addresses appropriate categorization of two of the stewardship elements: heritage assets and stewardship land.

Project History:

The ED *Heritage Assets and Stewardship Land: Reclassification from Required Supplementary Stewardship Information* was issued on August 20, 2003 with comments requested by November 10, 2003. See FASAB Web site www.fasab.gov/exposure.htm for a copy of the ED.

Based on the comment letters received, staff determined the following summary of responses:

- A majority of the respondents do not agree with the Board's proposal for heritage assets and stewardship land to be reported as basic information.
- Most respondents agree with the Board's new disclosure requirements and do not foresee any problems with the new disclosure requirements about entity stewardship policies and an explanation of how heritage assets and stewardship land are pertinent to the entity's mission.
- Most respondents do not agree with the proposed effective date for periods beginning after September 30, 2004.
- Most respondents agree that the preparer should be allowed to exercise professional judgment in determining if the heritage assets and stewardship land are significant.

The Board held a public hearing on the ED and comments in conjunction with the March 2004 Board meeting. Individuals from the Library of Congress, U.S. Department of Agriculture, Department of Interior (including representatives from the CFO, OIG and IPA currently performing the DOI audit), and a representative from the Institute for Truth in Accounting provided testimony to the Board. Details are available in the March 2004 minutes on the FASAB website www.fasab.gov under Meetings.

Recent Actions and Plans:

Staff presented an Issues Paper that detailed key areas for discussion as the Board proceeds on the project--Accountability and Stewardship Considerations, Categorization and Unitization, Materiality, Audit Costs, and Possible Phased Implementation Methods. The issue paper can be found at www.fasab.gov under Meetings, Briefing Materials Tab H.

After discussing each of the issue areas, the Board decided to move forward with finalizing the proposed standard for issuance. Staff will revise the proposed standard based on the recommendations approved by the Board and for other changes discussed at the meeting and detailed in the minutes which can also be found on the website under Meetings. Key revisions will include a phased-in

implementation based on required reporting disclosures, additional language regarding categorization and unitization, additional language regarding supporting documentation and language regarding guidance to be developed by the AAPC. Staff will provide the Board with a pre-ballot Draft for the December meeting Board.

Point of Contact:
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Earmarked Funds - Completed in October 2004

Objective:
The objective is to ensure that financial reporting clearly distinguishes between the various types of funds used or managed by the federal government. With respect to earmarked funds, the objective is to ensure that federal financial reporting at both the entity and the consolidated level differentiates between earmarked funds and fiduciary activity.

The Earmarked Funds standard, SFFAS 27, was submitted to the Board's sponsors for a 90-day review in October 2004. Absent an objection from the Director of the Office of Management and Budget or the Comptroller General the standard will be issued in January 2005.

Point of Contact:
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Fiduciary Activity

Objective:
The objective of the fiduciary activity project is to (1) define and characterize fiduciary activity by the Federal Government and (2) develop accounting and reporting standards for such activity. Federal fiduciary activity is the same as what is commonly understood to be trust fund activity in the private sector. The project will distinguish Federal fiduciary activity from other Federal activity referred to as "earmarked funds" activity that is often referred to as "trust fund" activity but that is in fact Federal program activity.

Project History:
The Board voted in April 2003 to publish the exposure draft of a proposed standard entitled *Accounting for Fiduciary Activities*. The proposed standard shows how to distinguish Federal fiduciary activity from Federal program activity that in many cases is called "trust fund" activity but in fact represents taxes or other Federal resources dedicated to specific Federal programs. The proposed standard provides guidance about how to account for and report fiduciary activity.

The standard requires that the term “fiduciary” be used in general purpose Federal financial reports for fiduciary activity as defined in the proposed standard. Activity involving assets held in a form that is designated in law as a “trust fund” but dedicated to Federal programs will no longer be characterized as “fiduciary” or “trust” activity in general purpose financial reports of Federal entities.

At the August 2003 meeting, the Board reviewed the responses to the exposure draft (ED) *Accounting for Fiduciary Activities* received as of August 11, 2003. The comment period for the ED ended July 31, 2003. The Board decided that a public hearing should be held on this exposure draft in conjunction with its October meeting.

The proposed standard defines fiduciary activities and provides accounting procedures for instances (1) where the Federal entity is managing the non-Federal assets and the assets are “held in the name of” the Federal entity and (2) where the Federal entity is merely providing a supervisory or administrative service and the assets are “held in the name of” the non-Federal entity. The respondents generally agreed with the definition of fiduciary activities. However, several respondents questioned the proposed accounting treatment. One respondent said that the distinction for accounting purposes between assets held “in the name of” the Federal entity and assets held “in the name of” the non-Federal owner was not clear. Another respondent objected to reporting non-Federal assets on a Federal entity’s balance sheet. Several objected to the proposal that the entity minimize the use of the term “trust fund” in its general purpose external financial statements where the Federal “trust fund’s” activity does not meet the proposed definition of fiduciary activity.

Several responses involved the Board’s working definition of asset, which the Board plans to develop further in the near future. The Board discussed the possibly of emphasizing the concept of control over the asset to help differentiate the instances where the Federal entity would recognize assets and offsetting liabilities on its balance sheet.

The Board conducted a public hearing on fiduciary activities on October 8, 2003. The Interior Department, the Library of Congress, the Defense Department, and the Treasury Department testified. The testimony reiterated the issues raised in the respondents’ comment letters and/or sought guidance on specific issues of concern to the agencies. The Board is considering whether non-federal assets should be reported on federal balance sheets and, if so, what types, e.g., escrow balances, seized assets, federally managed assets, privately managed assets in federal custody; and how to distinguish between federal assets, federally-managed non-federal assets, and privately-managed assets in federal custody.

At the December 2003 meeting, the Board continued discuss clarification of "control" as it relates to "held in the name of the federal entity.' The Board members requested detailed information on two fiduciary activities for the next meeting.

At the March 2004 meeting, the Office of the Special Trustee for American Indians, Department of the Interior, provided detailed information regarding assets held for Indian tribes and individual Indians. Details are available in the March 2004 minutes at the FASAB website www.fasab.gov under Meetings.

Recent Actions and Plans:

At its October 2004 meeting the Board considered options for resolving the issues raised by respondents. The Board considered whether fiduciary assets should be reported on the Federal component's balance sheet, or whether the assets should be reported in a footnote or separate principal financial statement. The Board discussed the fact that the Department of Interior used the modified cash basis of accounting for the Indian Trust Funds, and requested information about the rationale for this basis of accounting.

The Board requested that staff develop pros and cons for three alternatives:

1. Some fiduciary assets reported on the component agency's balance sheet and all fiduciary flows and assets/liabilities reported in a footnote
2. Fiduciary flows and assets/liabilities reported in a footnote
3. Fiduciary flows and assets/liabilities reported on a separate principal financial statement (staff recommendation)

The Board also requested that staff provide some background information at the next meeting about a variety of activities of the U.S. Government that might meet the criteria of fiduciary activity.

Point of Contact:

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Concepts Project

Objective:

To ensure that federal financial accounting standards are based on a sound framework of objectives and concepts regarding the nature of accounting, financial statements, and other communications methods. The framework should:

- provide structure by describing the nature and limits of federal financial reporting,
- identify objectives that give direction to standard setters,

- define the elements critical to meeting financial reporting objectives and describe the statements used to present elements,
- identify means of communicating information necessary to meeting objectives and describe when a particular means should be used, and
- enable those affected by or interested in standards to understand better the purposes, content, and characteristics of information provided in federal financial reports.

Project History:

The Board reviewed a draft project plan in February 2003. In April, Ms. Justine Rodriguez of the Office of Management and Budget provided background on the development of SFFAC 1 *Objectives of Federal Financial Reporting* and discussed the stewardship chapter of the *Analytical Perspectives* volume of the President's Budget. In June FASAB decided not to pursue a new users' needs study. The Board discussed implications of: (1) the dual "internal/external" focus asserted in SFFAC 1, (2) the "budgetary integrity" objective, and (3) the idea expressed in SFFAC 1 that multiple information sources and systems, including many outside FASAB's purview, contribute to achieving the objectives described in SFFAC 1.

In August 2003, the Board received background information about finance-related laws and about the evolution of reporting on internal control. Members received a copy of the recent SEC *Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System*. Also, Ms. Penelope Wardlow discussed with FASAB the work that the Governmental Accounting Standards Board (GASB) has done on elements of financial reporting for states and local governments.

At the October 2003 meeting discussion focused on the "budgetary integrity" and "operating performance" objectives. The Board discussed its comparative advantage, and the implications for its agenda. The Board expressed general satisfaction with the operating performance objective. At the December 2003 meeting, the Board began deliberation on "elements of financial reporting," which is phase II of the concepts project. Penny Wardlow presented information on FASB's approach to defining elements of financial reporting and led a discussion about the essential characteristics of assets. In March 2004, the Board discussed whether to revise or eliminate the "Systems and Control" objective but did not reach a conclusion. The Board agreed in general terms on the "essential characteristics" of an asset.

In April 2004 the Board considered three alternatives for amending paragraph 150 of SFFAC 1, which deals with systems and control, with several hypothetical rationales for the third alternative, but did not reach a conclusion. The Board continued its discussion with Ms. Wardlow regarding essential characteristics of an asset, and began discussing how to define an asset. In July the Board

discussed options about how to proceed in its consideration of "objectives." Ms. Wardlow led further discussion of the definition and essential characteristics of "assets." In August the Board's discussion on objectives focused on methods to "narrow down" the Board's focus from the broad objectives described in SFFAC 1. Some Board members have suggested that such a narrowing would be desirable. In connection with this, the Board considered the extent to which it should rely on "decision usefulness" or "users' information needs" versus "accountability" as a foundational concept to shape its work. The Board also refined its working definition of "asset" and began to consider the essential characteristics of a "liability" in the federal context.

Recent Actions and Plans:

In October the Board decided not to assert the conceptual primacy of "accountability" over "decision usefulness" in the context of objectives for federal financial reporting. Staff will begin drafting an outline of a working paper that will address FASAB's mission and strategic plan as well as the objectives of federal financial reporting. The Board continued its discussion of essential characteristics of a liability and began to discuss the distinction between exchange and nonexchange transactions, and whether no liability arises in nonexchange transactions until settlement is due and payable. Staff will present further analysis of the concepts of exchange, nonexchange, and exchange-like transactions, including the reasons for the GASB's distinctions. Also, the Board expects to consider some criteria that might be used to recognize "constructive" liabilities, but that also would limit the scope of that concept.

Point of Contact:

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Social Insurance Liabilities

Objective:

The object of this project is, first, to reconsider the FASAB liability definition and specifically its application to social insurance programs. At the same time the Board will consider developing an asset definition to replace the current working asset definition in the *Consolidated Glossary*. Subsequently the Board will consider recognition, measurement and display of social insurance obligations.

The project will:

(1) Describe the current FASAB liability definition and its application in SFFAS 17;
(2) Describe liability and asset definitions established by other standard-setters;

(3) Develop possible alternative concepts, definitions, recognition points, etc., for liabilities and asset;
(4) Develop alternative potential social insurance liability measures;
(5) Develop alternative displays for the balance sheet, statement of net cost, and/or other statements, and
(6) Explore and analyze issues.

Project History:

Board members and others continue to question the Board's decision in SFFAS 17, *Accounting for Social Insurance,* to limit liability recognition for social insurance programs to the "due and payable" amount at the end of each period. Moreover, in SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment***,** the Board increased the prominence of the Statement of Social Insurance (SOSI) and raised questions about the SOSI's relationship to the other basic financial statements.

Late 2003 and early 2004 meetings focused on definitions of assets and liabilities as well as characteristics of social insurance programs.

At the meeting on April 29, 2004, the staff presented a paper briefly summarizing the Social Security program characteristics, and presenting for discussion four possible criteria that would have to be met for expense and liability recognition for Social Security, and six alternative recognition points. Staff noted that the four criteria were adapted from the IFAC Public Sector Committee's Invitation to Comment (ITC) *Social Policies*, and/or the Canadian Institute of Chartered Accountants' exposure draft *Liabilities, Contingent Liabilities and Contractual Obligations*, and were not verbatim from them. The Board discussed the notion of constructive obligations. The Board is developing a conceptual basis for recognizing liabilities that are constructive in nature rather than strictly legal liabilities. The notion that a liability for accounting purposes does not necessary have to be a legal liability is generally accepted throughout the world.

At the July 1, 2004 Board meeting, the staff presented a paper relating the four criteria (for identifying constructive and equitable obligations and potential liabilities that was discussed at the April FASAB meeting) to the three draft "essential liability characteristics," and otherwise developing the criteria further. The three characteristics are:

(1) A present obligation.
(2) An expectation that the present obligation will be settled by a future outflow of resources.
(3) The transaction or event that creates the obligation has occurred.

At the August 25 meeting the staff presented a paper to the Board discussing 6 issues related to Social Security. The six issues presented were:

(1) Distinction between Present vs. Future obligations
(2) Constructive vs. Equitable obligations
(3) Discussion on current law
(4) Essential characteristics of Social Security and other Federal programs
(5) Consideration of a liability for Social Security beyond the due and payable amount
(6) Does "Fair Presentation" of Social Security require a liability beyond due and payable?

The board discussed the importance of emphasizing the existence of a present obligation for Social Security. Present obligation is one of the draft "essential liability characteristics" being developed by the Board concurrently. In regards to the second issue the Board decided that it was not necessary to develop further the concept of constructive obligations for this project. The Board also agreed that legal enforceability of liabilities is not required for recognition. The discussion on current law generated a consensus among Board members that current law is important to this project and can possibly assist in identifying an obligating event and when a present obligation exists. The comparison of other Federal programs (i.e. Medicare, TANF, Food Stamps, SSI, and Medicaid) in issue #4 helped the Board differentiate Social Security from these other programs. However, there was no consensus as to whether any of these differences were critical in determining if these programs gave rise to a liability beyond due and payable.

In regards to the last two issues, the Board voted in favor of exploring other possible presentations of the Social Security liability beyond due and payable on the face of the balance sheet as well as alternative presentations. The Board also asked the staff to collect all relevant issues regarding this project that they will likely encounter prior to issuing an exposure draft.

Recent Actions and Plans:

For the October meeting staff proposed three alternative obligating events for Social Security that would result in liability recognition earlier than the current "due and payable" recognition point. The Board had voted in August to consider alternatives to the "due and payable" liability for the Social Security program. The Board discussed the alternative obligating events but did not conclude on a selection of one from among them.

Regarding Social Security characteristics that may lead to the conclusion that "a present obligation exists that the government has little or no discretion to avoid" prior to the point when benefit payments are due and payable,

- ✓ Several members said that the establishment of permanent eligibility is a critical characteristic.

- ✓ Several members stated that participants' paying into the systems is important for establishing that the government has "little or no discretion to avoid settling the obligation."
- ✓ Several members said that the exchange or exchange-like elements of the Social Security program help create a present obligation.
- ✓ Several members noted that specificity is an important characteristic. The benefit obligation would have to be specific enough to measure its present value. Staff note: The identity of the specific individuals in the population of potential beneficiaries might be important in this regard.
- ✓ Several members said that the government's communication with the participant about his or her accruing benefits is very important for a present obligation.

For the December meeting, staff will sharpen the distinction between Social Security characteristics and other programs' characteristics. Staff will compare and contrast Social Security characteristics with other programs that the Board has discussed in this and the related "application of the liability definition" project.

The staff will focus on the obligating event alternatives discussed in August: (1) "full eligibility," e.g., 62; (2) "threshold eligibility" at 40 quarters of work in covered employment; and (3) beginning of work in covered employment. The staff will cite exchange and/or exchange-like concepts as an important characteristic.

Point of Contact:

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Research into the Application of the Liability Definition

Objective:

The primary objective of this project is to reconsider the recognition, measurement and display of liability and expense, potential new elements/statements, and all related disclosures for commitments of the federal government that could potentially result in a net outflow of resources. This project is considered a companion research project to the liability element and social insurance projects to help determine the government-wide impact of proposals currently under review by the Board.

Project History:

This project was formally introduced at the April meeting. It has naturally evolved from the social insurance project (see above) due to the need to concurrently review other commitments undertaken by the Federal Government that may be more accurately portrayed with additional liability recognition, disclosure, and/or display requirements beyond due and payable.

At the April 29, 2004 meeting, the Board discussed the staff's preliminary plan for the project under the title "Long-Term Commitments." The Board expressed a preference to characterize the project primarily as research at that point and directed staff to prepare a list of the major programs to be reviewed (i.e., Medicaid, Food Stamps, etc) before approving a formal project plan.

At the July 1, 2004 meeting, the Board requested relevant background information on other Federal programs in order to compare and contrast how the liability recognition criteria being studied as part of the social insurance project may be applied to other government programs. It was agreed that this information would be provided at the August meeting.

At the August 25, 2004 meeting, fact sheets prepared for Medicaid, Food Stamps, Temporary Assistance for Needy Families, and Supplemental Security Income were provided for the Board's information in conjunction with the social insurance presentation (see previous project for more information). Additional information will be gathered on various government programs in order to assist the Board in making a determination of proper liability recognition for various government events.

Recent Actions and Plans:

An updated project plan was provided to the Board members at the October 20, 2004 meeting. Board members discussed the usefulness of concurrent research on potential liabilities, disclosures, and new elements related to other government programs and agreed that staff should pick two or three programs to review. Staff will come back to the Board in March with alternative obligating events and display options for the selected programs.

Point of Contact:

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Inter-entity Project

Objective:

Statement of Federal Financial Accounting Standard (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts,* issued in July 1995 and effective in fiscal year 1998, provides the following requirement for inter-entity cost:

> Each entity's full cost should incorporate the full cost of goods and services that it receives from other entities. The entity providing the goods or services has the responsibility to provide the receiving entity with information on the full cost of such goods or services either through billing or other advice.

> Recognition of inter-entity costs that are not fully reimbursed is limited to material items that (1) are significant to the receiving entity, (2) form an integral or necessary part of the receiving entity's output, and (3) can be identified or matched to the receiving entity with reasonable precision. Broad and general support services provided by an entity to all or most other entities should not be recognized unless such services form a vital and integral part of the operations or output of the receiving entity. (Text preceding paragraph 105 of SFFAS 4)

SFFAS 4 provided for gradual implementation of this requirement.

Project History:

A government-wide group has been working to provide guidance on implementing this requirement. The government-wide group recently recommended that guidance be deferred due to higher priority demands on resources. Staff initiated a proposal to establish a date certain for implementation. The proposed date is FY 2008.

At the June Board, staff proposed that the Board issue an exposure draft that (1) presented the government-wide group's findings and (2) requested comments on the FY 2008 date certain implementation. Since this is a staff initiated effort, staff hopes to accomplish it without delaying other Board work. Two members opposed the issuance of the proposal. Members supporting the proposal requested that more information be included in the exposure draft and that respondents be asked specific questions about the impact of the change.

At the October Board meeting, the Board reviewed a revised exposure draft. The revised draft included a stronger rationale for the action in the document and more extensive questions for respondents. After further Board discussion, it was agreed that staff would work with the task force (following the November reporting deadlines) on several issues and present an updated version to the Board.

An exposure draft entitled *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts* was issued on April 26, 2004. The proposal in the exposure draft would require full implementation of the full cost standards in FY 2008 by amending Managerial Cost Accounting Standards to require inter-entity cost implementation.

At the August 2004 Board Meeting, staff presented an analysis of the comment letters received on the ED. A total of 21 letters were received and staff presented the following high-level summary of responses to questions posed in the ED:

- 12 of 21 **agree** with the Board's proposal that the inter-entity cost provisions of SFFAS 4 be fully implemented for reporting periods beginning after September 30, 1997. In other words, 9 of 21 **disagree** with the Board's proposal.

- 13 of 21 **agree** with the alternative view proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis. Staff explained that there was an overlap of 4 respondents agreeing with both the ED proposal and the alternative view.
- 11 of 21 **believe** that there are now non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria in SFFAS4.
- 14 of 21 **believe** that federal entities will seek additional reimbursable agreements or modify existing agreements (e.g., by increasing fees) because non-reimbursed or under-reimbursed inter-entity costs may be recognized.
- 10 of 21 **believe** that additional guidance is needed to apply the factors in determining whether an inter-entity cost is material to the receiving entity.
- 9 of 21 **believe** that additional guidance is needed to apply the broad and general support exception.

Based on the comments received, staff recommended that there should be additional guidance provided on certain areas and that it could be accomplished through staff implementation guidance or a technical release (versus within the proposed standard.) Staff also recommended that the implementation date be delayed an additional year to allow for the development of the guidance. The Board tentatively agreed with staff recommendations and requested that staff develop a draft plan of guidance that would include the partnerships, timelines, and types of guidance that would be envisioned from the different sources—AAPC, staff, etc. In addition, the Board agreed that a public hearing should be held on the ED and it was set for December 16, 2004.

Recent Actions and Plans:

At the October 2004 Board meeting, staff presented a *Draft Guidance Plan on Full Implementation of Inter-Entity Costing* that detailed the forthcoming guidance related to the implementation of full inter-entity costing. The draft guidance plan details the intent to request the AAPC Inter-Entity Task Force to continue its work in this area by developing a Technical Release that will address various areas raised by respondents. The draft plan also suggested certain operational guidance to be issued by the OMB. It should be noted that the guidance does offer a venue for agencies to direct agency-specific questions.

Based on staff recommendation, the Board determined that the effective date for implementation should be delayed; implementation would be for periods beginning after September 30, 2008. This delay in the effective date would allow time for the issuance of the forthcoming Technical Release.

The Board reaffirmed its decision to hold a public hearing on December 16, 2004. The Board agreed that the *Draft Guidance Plan on Full Implementation of Inter-Entity Costing* should accompany the News Release for the public hearing for consideration by participants. See Public Hearing Notice above.

Point of Contact:

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Stewardship Investments

Objective:

SFFAS 8 requires the reporting of Stewardship Investments, which includes Nonfederal physical property, Human capital, and Research and Development. This project relates to the reclassification of Stewardship Investment information that is now currently classified as RSSI. This project evolved as part of the Board's overall project of reviewing and re-categorizing the stewardship elements to fit the categories identified in the traditional auditing model. The Stewardship Investments category covers the remaining RSSI elements.

Project History:

Staff provided the Board an introduction to the project at the December 2003 Board meeting. Staff provided the Board with background information, which included a Summary Chart of RSSI Elements & Status, Summary of Remaining RSSI Elements & Requirements, Pertinent Excerpts from SFFAS 8 *Supplementary Stewardship Reporting* Related to Stewardship Investments, and Sample Stewardship Report Excerpts for Stewardship Investments.

The Board did agree with the preliminary staff recommendation which would be to classify the information as RSI, but the Board would like staff to research the area further to determine if the information is still necessary, especially in relation to the Board's reconsideration of the Stewardship Objective.

Recent Actions and Plans:

Staff will continue to research and develop alternatives for classification of Stewardship Investment information, which may include eliminating the reporting requirements, reclassifying as RSI, reclassifying as basic, or a combination of these alternatives. Staff research will also include determining if the information currently required for Stewardship Investments is being reported by other means.

Additionally, the next actions on this ED will depend upon and follow the Board's decisions regarding the "Stewardship" Objective (see Concepts project).

Point of Contact:

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Other FASAB Information

Recent Documents Issued

▶ **FASAB Publishes SFFAS 26, *Presentation of Significant Assumptions for the Statement of Social Insurance*--** The Chairman of the Federal Accounting Standards Advisory Board (FASAB), David Mosso, announced the publication of Statement of Federal Accounting Standards 26, entitled *Presentation of Significant Assumptions for the Statement of Social Insurance: Amending SFFAS 25*. The statement requires disclosure of significant assumptions underlying the Statement of Social Insurance.

FASAB Current Technical Agenda & Status of Projects

Project	Previous Key Milestones	Quarter 4 2004	Quarter 1 2005	Quarter 2 2005	Quarter 3 2005	Staff Contact
Natural Resources		Oil & Gas Research	Oil & Gas Research	Oil & Gas ED	Oil & Gas DP	Rick Wascak, 202 512-7363
Heritage Assets and Stewardship Land	ED-2003 PH-2004	DP	DP	UR	Final	Melissa Loughan, 202-512-5976
Earmarked Funds	ED-2003 PH-2004	UR & Final				Eileen Parlow 202-512-7356
Fiduciary Activity	ED-2003 PH-2003	DP	DP	UR	Final	Eileen Parlow 202-512-7356
Concepts Project		Research	Research	Research	Research	Robert Bramlett, 202 512-7355
Social Insurance Liabilities		Research	Research	Research	Research	Richard Fontenrose, 202-512-7358
Research into the Application of the Liability Definition		Research	Research	Research	Research	Julia Ranagan, 202-512-7377
Inter-entity Project	ED-2004	DP/PH	DP	UR	Final	Melissa Loughan, 202-512-5976
Stewardship Investments		Research	Research	Research	ED	Melissa Loughan, 202-512-5976

Key Activities or Status
Note that all estimates of progress assume that exposure drafts are finalized as statements without re-exposure due to significant changes.
Research—Staff Research Phase of Project & Board Deliberations
ED—Exposure Draft Issued
DP—Board Due Process, including review of comment letters, public hearings, etc.
PH—Public Hearing
UR—Under Review, document approved by FASAB and sent to sponsors for 90-day review
Final—Final Standard, Concept, Interpretation, etc. issued final.

Accounting and Auditing Policy Committee

Recent Actions and Plans:

An exposure draft of Federal Financial Accounting and Auditing Technical Releases (TR) entitled *Recognition of the Transfer of Funds Between Interior's Reclamation Fund and Energy's Western Area Power Administration: In Accordance with SFFAS 1 Accounting for Selected Assets and Liabilities and SFFAS 5 Accounting for Liabilities of the Federal Government* was issued on August 20, 2004. Written comments were requested by September 20, 2004. An electronic version of the exposure draft is available on the World Wide Web at www.fasab.gov/exposure.htm. Printed copies can be obtained from FASAB by calling 202-512-7350.

The Committee discussed the exposure draft comment letters and the draft TR at its November 19th meeting. Meeting materials are available on the web at http://www.fasab.gov/aapc/meetmaterials.html. One member indicated he planned to oppose issuance of the final TR. Two members abstained from the voice poll. Since editorial changes have been requested, final voting will be held in the coming weeks.

Plans for Future Meetings:

No meeting has been schedule at this time.

All meetings are open to observers (see "security notice" below) and an agenda will be provided via the FASAB electronic mailing list and posted to the website shortly before the meeting. To access the agenda, visit http://www.fasab.gov/aapc/meeting.htm.

Point of Contact:

Monica Valentine, 202-512-7362, valentinem@fasab.gov

FASAB Meeting Schedule

Schedule for 2004 Meetings:
Wednesday, December 15th and Thursday, December 16th

Schedule for 2005 Meetings:
Wednesday, March 2nd and Thursday, March 3rd
Wednesday, May 4th and Thursday, May 5th
Wednesday, June 22nd and Thursday, June 23rd
Wednesday, August 17th and Thursday, August 18th
Wednesday, October 5th and Thursday, October 6th
Wednesday, December 7th and Thursday, December 8th

Unless otherwise noted, meetings begin at 9 AM and conclude at 4 PM. Meetings are held at 441 G Street NW in room 7C13. Agendas are available at http://www.fasab.gov/briefingmats.htm approximately one week before the meetings.

Security Notice

If you wish to attend a FASAB or an AAPC meeting, please provide your name, organization, and phone number to Marian Nicholson, at 202-512-7350 or nicholsonm@fasab.gov **at least two days before the meeting**. The General Accountability Office, which provides space for our meetings, has increased its security procedures and your name must be provided to the security force before you can enter the building. Thank you.