



# *FASAB news*

*Federal Accounting Standards  
Advisory Board*

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Issue 85 April /May 2004

## TABLE OF CONTENTS

|   |    |
|---|----|
| The AICPA Council Renews FASAB's Designation as a "Rule 203" Body ..... | 1  |
| FASAB at the AGA PDC 2004 .....   | 2  |
| Current Board Projects.....   | 3  |
| Natural Resources.....  | 3  |
| Heritage Assets and Stewardship Land .....                              | 4  |
| Earmarked Funds.....  | 6  |
| Fiduciary Activity .....  | 7  |
| Concepts Project.....   | 10 |
| Social Insurance Liabilities .....                                      | 11 |
| Research into the Application of the Liability Definition .....         | 13 |
| Inter-entity Project .....  | 13 |
| Stewardship Investments .....   | 15 |
| Leases Project.....   | 15 |
| Other FASAB Information .....   | 17 |
| Recent Documents Issued .....   | 17 |
| Accounting and Auditing Policy Committee .....                          | 17 |
| FASAB Meeting Schedule.....   | 18 |
| Security Notice .....   | 18 |

## The AICPA Council Renews FASAB's Designation as a "Rule 203" Body

On May 23rd, the American Institute of Certified Public Accountants' (AICPA) Council unanimously voted to continue for a second five-year period designation of the Federal Accounting Standards Advisory Board (FASAB) as the accounting standards-setting body for Federal government entities under Rule 203 of the AICPA's Code of Professional Conduct. Rule 203 provides, in part, that an AICPA member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles (GAAP) or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with GAAP, if such statements or data contain any departure from an accounting principle

promulgated by bodies designated by Council to establish such principles, that has a material effect on the statements or data taken as a whole.

The AICPA Council's action followed a five-year review called for in the October 1999 resolution originally designating FASAB as the Rule 203 body for federal reporting entities. The five-year review was conducted by a panel appointed by the AICPA Board of Directors to evaluate FASAB's operations against AICPA Council approved criteria for designating accounting standards-setting bodies under Rule 203. They are: Independence; Due Process and Standards; Domain and Authority; Human and Financial Resources; and Comprehensiveness and Consistency. The Review Panel was chaired by Professor Gary Previts of Case Western Reserve University. Panel members were Judy O'Dell of O'Dell Valuation Consulting; Marilyn Pendergast of Urbach, Kahn and Werlin, PC; Sharon Russell of the Alabama Department of Examiners of Public Accounts; and Pete Smith of the Private Sector Council.

## FASAB at the AGA PDC 2004

The Board will hold a special meeting in conjunction with the Association of Government Accountants Professional Development Conference (PDC) in Washington, DC. The PDC is scheduled to begin on June 27th and conclude on June 30th at the Marriott Wardman Park Hotel (2660 Woodley Road, N.W.). On Wednesday, June 30th from 2:45 to 5:15 PM, the Board will host a roundtable discussion on Accrual Accounting for Old Age, Survivors, and Disability Insurance. The meeting will be held in Washington Room 3 and is open to the public.

In addition to the Roundtable, Chairman David Mosso will lead a review of FASAB's current projects on Tuesday from 3:30 to 4:45 PM. Joining him on the panel are fellow members Joseph Anania, Claire Cohen, John Farrell and Alan Schumacher. This session is part of AGA's educational program and will not be open to the public. For information on the PDC, please visit [www.agacgfm.org](http://www.agacgfm.org).

The Board also plans to hold a meeting on July 1st at 441 G Street NW, Room 7C13. The agenda for the July 1st meeting will be made available on FASAB's website approximately one week before the meeting.

# 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

#### **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](mailto:loughanm@fasab.gov).

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Please direct FASAB and AAPC administrative questions to Charles Jackson, 202-512-7352, [jacksoncw1@fasab.gov](mailto:jacksoncw1@fasab.gov).

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 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. At the October and December 2002 meetings, the Board was provided background information on the project and considered the project plan. The Board also decided to proceed with developing standards for oil and gas due to the extensive literature available in other domains. In 2003 meetings, staff presented the Board a draft skeletal exposure draft (ED) on the proposed oil and gas standards for discussion, responded to several questions and issues posed by the Board, and developed proposed disclosure requirements. Specifically, during the December 2003 meeting, staff presented information pertaining to the “expected present value” concept in FASB Concepts Statement 7 and the SEC’s “full cost” method of accounting used in the extractive industries. Based on discussions at the meeting, staff was asked to: 1) research options for capitalization of the anticipated production stage revenue stream; 2) develop a sample schedule presenting a comparison of the revenue streams for all natural resources; and 3) revise the proposed disclosures.

## Recent Actions and Plans:

During its recent research, staff learned that the Energy Information Administration (EIA), Department of Energy, has been tasked with the requirement to breakout and distinguish between the quantity of the proved reserves from lands under Federal jurisdiction and the quantity of proved reserves from other lands. Therefore, at the March 2004, staff proposed that an estimated value for proved oil and gas reserves from lands under Federal jurisdiction be capitalized in place of pursuing the capitalization of the anticipated production stage revenue stream. The Board basically agreed with staff's notion. Based on discussions during the meeting, at the June meeting staff will provide: 1) proposed methods for pricing and valuing estimates of proved oil and gas reserves; 2) proposed disclosures of other oil and gas resources; and, 3) an accounting methodology for asset and revenue recognition.

## 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:

At the February 2003 meeting, staff solicited Board input on the project objective, project scope, and initial project issues. The Board reviewed the history of the project and discussed some of the issues identified in the past. At the June 2003 meeting, staff presented an overview of the Exposure Draft *Heritage Assets and Stewardship Land: Reclassification from Required Supplementary Stewardship Information* to the Board. The ED proposes that heritage assets and stewardship

land information be reported as basic information, except for condition reporting, which would be reported as Required Supplementary Information.

The ED provides for a line item to be shown on the balance sheet for significant heritage assets and stewardship land, but no financial amount should be shown. Instead, the line item would reference a note disclosure that would provide minimum reporting requirements. The ED introduces minor changes to the current disclosure requirements for heritage assets and stewardship land by requiring additional reporting disclosures about entity stewardship policies and an explanation of how heritage assets and stewardship land are pertinent to the entity's mission. The ED includes disclosure requirements for the U.S. Government-wide Financial Statement that would provide for a general discussion and direct users to the applicable entities' financial statements for more detailed information on heritage assets and stewardship land. The ED also incorporates the revised multi-use heritage asset standards of SFFAS 16 and the deferred maintenance reporting requirements related to heritage assets and stewardship land from SFFAS 14. Accordingly, the ED proposes rescissions to those standards. As a result, the ED will provide all current standards for heritage assets and stewardship land.

*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](http://www.fasab.gov/exposure.htm) for a copy of the ED.

The Board discussed the comments received on the ED at the December 10-11, 2003 FASAB meeting. 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](http://www.fasab.gov) under Meetings.

### Recent Actions and Plans:

Staff will research issues presented further, review alternatives for an incremental or staggered transition toward implementation of the proposed standard and develop options for consideration by the Board. Additionally, the next actions on this ED will depend upon and follow the Board's decisions regarding the "Systems and Control" and "Stewardship" Objectives (see Concepts project).

### Point of Contact:

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## Earmarked Funds

### 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.

### Project History:

The project research began in August 2001. In December 2001 and February 2002, the Board reviewed information on (1) reporting under current accounting standards (SFFAS 7, par. 83-87), (2) the universe of special and trust funds in the federal government and existing definitions, (3) the nature of the surpluses generated in some funds (e.g., the Social Security Trust Fund) and public confusion regarding the investments acquired with the surpluses, (4) fiduciary activities addressed in SFFAS 7, par. 83-87, (5) whether the fund balances are also liabilities to the potential beneficiaries of the funds, and (6) characteristics of these funds. The Board decided to address "fiduciary activity" through another project.

In April, June, August, and December 2002, the Board reviewed issues papers, illustrations and draft definitions. The Board tentatively concluded that the surpluses or cumulative results of operations for these types of funds are distinguishable from cumulative results of operations from operations financed through the general fund. The Board requested that staff develop an exposure draft.

During the April 2003 Board meeting the Board discussed the Exposure Draft presented by staff and suggested several changes. They also requested that



staff develop several alternatives for presenting the flows of earmarked funds, including showing the flows on the face of the financial statements. The Board continued to work toward an exposure draft that would (1) define the types of activities that result in a dedicated or earmarked fund, (2) segregate the net positions – cumulative results of operations – resulting from these activities from general fund activities, and (3) require disclosure of changes in net assets supporting future activities.

At the August 2003 Board meeting, members made further revisions to the Exposure Draft. They decided not to prescribe exact wording for a footnote to accompany earmarked funds' investment in Treasury securities, but rather to require that certain concepts be included in a note and to provide an example. They also asked staff to add a paragraph specifically addressing accounting and reporting treatment at the government-wide level. Board members will review on-going revisions with the intent of voting on a ballot draft at the October Board meeting.

An Exposure Draft, *Identifying and Reporting Earmarked Funds*, was approved by all Board members and issued on October 16, 2003. It is available on the FASAB website [www.fasab.gov](http://www.fasab.gov) under Exposure Drafts.

The Board held a public hearing on the ED and comments in conjunction with the March 2004 Board meeting. The Department of Interior, the Department of the Treasury, 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](http://www.fasab.gov) under Meetings.

### Recent Actions and Plans:

At the April 2004 Board meeting, staff presented proposed revisions related to the term “significant,” certain funds excluded from Earmarked Funds reporting requirements, and other issues raised at the hearing and in the comment letters that were received. Details of the changes are available in the April 2004 minutes on the FASAB website [www.fasab.gov](http://www.fasab.gov) under Meetings.

### 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 possibility 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 approved certain staff recommendations including the following:

- ▶ Cash held outside the Treasury in the name of a non-federal party that can only be withdrawn by a federal entity is in substance a fiduciary asset held in the name of the federal entity. Language will be added to the standard emphasizing the need to consider the substance of the activity.
- ▶ Assets seized by a federal entity for which it is the executive agent and responsible for all financial management, internal controls, and accounting and reporting are to be accounted for under the provisions of SFFAS 3, *Accounting for Inventory and Related Property*, "Seized and Forfeited Property," pars. 57-78.
- ▶ The required note disclosure is not excessive and will be retained as the minimum necessary to understand the fiduciary activity.
- ▶ The governmentwide consolidated financial statements should not "double count" assets and liabilities.
- ▶ The prohibition against characterizing assets of non-fiduciary "trust funds" and associated activity as "fiduciary" or "trust" activity in general purpose financial reports should be retained. A primary issue with respect to the fiduciary activities and earmarked funds projects has been the confusion over the usage of the term "trust fund" in the Government. The proposal requires that the preparer not characterize non-fiduciary activity as "trust fund". There would be flexibility for the preparer to craft explanatory language.

The Board continued to discussion 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](http://www.fasab.gov) under Meetings.

### Recent Actions and Plans:

The next actions on this ED will depend upon and follow the Board's decisions regarding the definition and recognition of an asset (see Concepts project).

### Point of Contact:

Eileen Parlow, 202-512-7356, [parlowe@fasab.gov](mailto:parlowe@fasab.gov)

# 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, the Board received background information about finance-related laws and about the evolution of reporting on internal control. Members also 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. The Board also agreed in general terms on the “essential characteristics” of an asset.

### Recent Actions and Plans:

Pursuant to the Board’s discussion in March, the staff memo for April 2004 presented three alternatives for amending paragraph 150 of SFFAC 1, with several hypothetical rationales for the third alternative. Staff was asked to draft more language for the Board’s consideration. The Board continued its discussion with Ms. Wardlow regarding essential characteristics of an asset, and began discussing how to define an asset. At a future meeting the Board will further consider asset definition and will begin discussing the characteristics of a liability.

### 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.

At the August meeting, the Board discussed the staff's preliminary plan for the project. The Board decided to begin with general concepts and definitions for liabilities and assets. The Board also decided to include all five social insurance programs within the scope of the project. The Board directed the staff to first develop liability and asset concepts and definitions and then consider how each social insurance program would be treated under these working concepts.

At the October meeting, the Board decided that the development of asset and liability definitions would proceed on parallel and equal tracks, and neither element would be declared more fundamental than the other. With respect to assets, the Board agreed that the FASAB "working definition" from the FASAB Consolidated Glossary would not be afforded status in the project that would have to be overcome. However, this decision would not preclude the use of a word or words from the working definition.

With respect to liabilities, the Board directed the staff to develop more background on some of the terms used in the existing FASAB liability definition in SFFAS 5 (par. 19), in FASB, and elsewhere. The Board wants to give further consideration to adding the phrase "present obligation" to the current FASAB definition. The elements project described elsewhere in this newsletter is charged with developing asset and liability definitions. The scope of the social insurance project does not include the liability definition.

At the March meeting the Board approved the staff recommendation that the SI liability project proceed under the presumption that the current liability definition in SFFAS 5, par. 19, is workable either as currently worded or with minor modification. The Board directed the staff to proceed with its analysis of the Social Security program, especially with respect to the alternative liability and expense recognition points.

### Recent Actions and Plans:

At the meeting on April 29<sup>th</sup> 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.

For the July 1 Board meeting the staff will relate the four criteria to the three essential liability characteristics, especially “past transactions or events,” and otherwise further develop recognition concepts for the Social Security program.

#### 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.

#### Recent Actions and Plans:

At the April 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 this 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.

#### 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. Staff plans to provide a revised exposure draft to the Board for the August meeting.

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.

### Recent Actions and Plans:

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. Specific questions for respondents are included in the exposure draft and other comments are



welcome. Responses are requested by July 31, 2004. An electronic version of the exposure draft is available on the World Wide Web at [www.fasab.gov/exposure.htm](http://www.fasab.gov/exposure.htm).

#### 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 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.

#### Point of Contact:

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## Leases Project

## Objective:

The Objective of this project are (a) to develop a summary paper covering lease accounting under FASAB, FASB, GASB and the international public sector accounting standards and identifying global issues related to lease accounting and (b) to aid in determining if new uses of leases by federal entities create different and/or more urgent needs for guidance.

## Project History:

Research began in May 2003 in response to issues on accounting for leases and leasehold improvements raised by the Department of Justice, Office of Inspector General, at the October 2002 Board meeting. Also, in the past, FASAB staff had received a number of questions on lease accounting. In September, research was completed, and the results were compiled and provided to the Board at the October meeting.

A summary paper on the treatment of lease accounting by various standard-setting bodies and issues relating to lease accounting was presented at the October Board meeting. The Board decided to add two key issues to the technical agenda of items to be considered for future projects. One issue related to the applicability to the Federal sector, of a “new approach” for accounting for leases. This approach would eliminate the criteria for determining whether a lease is a capital lease or operating lease, and all non-cancelable leases of more than one year would be recognized at their present value. The second issue would be to evaluate whether a special-purpose entity that is essentially established and controlled by a Federal agency, as in some public/private partnerships, should be consolidated into an agency’s financial statements. The Board also decided to provide interim guidance on accounting and reporting on leases, to address Justice’s concerns and to accommodate the use of various leasing arrangements by Federal agencies. Existing FASB guidance will be used to the extent the guidance is applicable. Staff will provide Board members with copies of documents that discuss the new approach so that they will be familiar with implementation issues and will have a better idea of its applicability to the Federal sector.

## Recent Actions and Plans:

The *Research Report on Capital and Operating Leases* was released on April 19, 2004 and is being made available for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its Staff. The research report will serve as a reference tool for future Board discussions on the varying lease transactions throughout the Federal government. An electronic version of the research report is available on the World Wide

The Board does not have an active project on leases but expects to take the issue up soon after one or more active projects are completed.

## Point of Contact:

Monica Valentine, 202-512-7362, [valentinem@fasab.gov](mailto:valentinem@fasab.gov)

# Other FASAB Information

## Recent Documents Issued

The following FASAB documents were issued during April-May 2004:

► Exposure draft entitled *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts* was issued on April 26, 2004. Specific questions for respondents are included in the exposure draft and other comments are welcome. Responses are requested by July 31, 2004. An electronic version of the exposure draft is available on the World Wide Web at [www.fasab.gov/exposure.htm](http://www.fasab.gov/exposure.htm).

► *Research Report on Capital and Operating Leases* was released on April 19, 2004 and is being made available for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its Staff. The research report will serve as a reference tool for future Board discussions on the varying lease transactions throughout the Federal government. An electronic version of the research report is available on the World Wide Web at [www.fasab.gov/reports.html](http://www.fasab.gov/reports.html).

# Accounting and Auditing Policy Committee

## Recent Actions and Plans:

Staff is currently working on an AAPC technical release for the “Appropriated Debt” issue. This issue was initially proposed by OMB on behalf of the Departments of Energy and Interior. The issue deals with the timing and recognition of a liability. Energy’s Western Area Power Administration (WAPA) receives appropriations from the Interior’s Reclamation Fund and the funds are to be paid back by WAPA to the Reclamation Fund as WAPA collects fees from its customers. The issue was first discussed at the AAPC January 29, 2004 meeting and again at the March 10, 2004 meeting. At the March meeting the Committee deliberated the issue there was an overall agreement that Energy should be recognizing a liability and Interior should be recognizing a receivable for the amounts advanced to the WAPA. It was agreed that a Technical Release

exposure draft would be prepared by Staff and sent to the Committee for review before it is release for exposure.

### Plans for Future Meetings:

The next AAPC meeting will be scheduled for July 29, 2004. 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](mailto:valentinem@fasab.gov)

## FASAB Meeting Schedule

### Schedule for 2004 Meetings:

Friday, June 25<sup>th</sup> (1 PM to 4 PM)  
Wednesday, June 30<sup>th</sup> (2:45 PM to 5:15 PM meeting session held at the Association of Government Accountants Professional Development Conference, Marriot Wardman Park Hotel, Washington D.C.),  
Thursday, July 1<sup>st</sup>  
Wednesday, August 25<sup>th</sup> and Thursday, August 26<sup>th</sup>  
Wednesday, October 20<sup>th</sup> and Thursday, October 21<sup>st</sup>  
Wednesday, December 15<sup>th</sup> and Thursday, December 16<sup>th</sup>

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](mailto:nicholsonm@fasab.gov) **at least two days before the meeting**. The General Accounting 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.