



FASAB news *Federal Accounting* *Standards Advisory Board*

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TABLE OF CONTENTS

DANNY WERFEL SELECTED AS OMB REPRESENTATIVE.....	1
Current Board Projects	2
Natural Resources.....	2
Fiduciary Activity	3
Concepts Project.....	3
Objectives Phase.....	3
Elements Phase.....	4
The Financial Report: MD&A, Statements, Notes, RSI and OAI.....	5
Social Insurance Liabilities	5
Application of the Liability Definition	6
Department of Defense Request Regarding SFFAS 3	7
Other FASAB Information.....	7
Recent Documents Issued	7
FASAB Current Technical Agenda & Status of Projects.....	9
Accounting and Auditing Policy Committee	10
FASAB Meeting Schedule	10
AAPC Meeting Schedule	10
Security Notice	11

DANNY WERFEL SELECTED AS OMB REPRESENTATIVE



The Chairman of the Federal Accounting Standards Advisory Board (FASAB), David Mosso, announced today that the Office of Management and Budget (OMB) has selected Danny Werfel as the new OMB representative for FASAB. Mr. Werfel replaces outgoing OMB member David Zavada who left OMB in February for a new position with the Department of Homeland Security. Mr. Werfel began serving at the May 24 – 25 board meeting.

Mr. Werfel is the Deputy Controller of Office of Federal Financial Management (OFFM) within OMB. He is responsible for coordinating OMB's efforts to initiate government-wide

improvements in all areas of financial management. Mr. Werfel plays a leadership role in coordinating OMB review of agency efforts under the Financial Performance, Real Property, and Improper Payments initiatives of the President's Management Agenda. Mr. Werfel is also responsible for coordinating the development of government-wide policy on financial accounting standards, grants management, and financial systems.

Prior to his current position, Mr. Werfel served as the Chief of the Financial Integrity and Analysis Branch within OMB, as a budget examiner in OMB's Education Branch, and as a policy analyst in OMB's Office of Information and Regulatory Affairs. Mr. Werfel also served as a Trial Attorney in the Department of Justice's Civil Rights Division.

Mr. Werfel is a recipient of both local and national awards from the Association of Government Accountants for his contributions to federal financial management.

Mr. Werfel holds a Masters Degree in Public Policy from Duke University, a Juris Doctor from the University of North Carolina at Chapel Hill, and a Bachelors Degree in Industrial and Labor Relations from Cornell University.

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

The Board discussed an issue paper on royalty free production of oil and gas, a revised draft exposure draft (ED), entitled *Accounting for Federal Oil and Gas Resources*, and a suggestion by FASAB staff to study coal in the next phase of the natural resources project.

Certain Federal oil and gas leases authorize oil and gas operators to produce oil and gas during the year without having to pay royalty up to a certain production quantity or market price threshold. During discussions on the royalty free production issue paper, Board members agreed that a requirement would be added in the ED to report the annual estimated value for royalty relief as required supplementary information. In addition, they agreed that a question should be added to the Request for Comments section of the ED pertaining to this requirement.

In regard to discussions on the revised draft ED, Board members suggested additional minor changes and agreed that a pre-ballot could be circulated by staff. Therefore, a pre-ballot will be circulated before the July Board meeting and, if feasible based on member comments, a ballot on the ED will be provided in material for the July meeting.

Although, FASAB staff had suggested studying coal in the next phase of the natural resources project, it was suggested by one Board member that, instead of focusing strictly on coal, staff look at a group of mining minerals. The objective would be to see if it is possible to come up with a standard which has similar principles for a group of

mining minerals. Board members agreed with this suggestion and staff will begin the next phase of the natural resources project studying a group of mining minerals.

Point of Contact: Rick Wascak, 202 512-7363, wascakr@fasab.gov

Fiduciary Activity

90-Day Review Period

The document is currently under a 90-day review by the Comptroller General, the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB) and the Director of the Congressional Budget Office. Absent an objection from either the Comptroller General or the Director of the OMB, "Accounting for Fiduciary Activities" will be issued as SFFAS 31 on July 25, 2006.

Point of Contact: Eileen Parlow, 202-512-7356, parlowe@fasab.gov

Concepts Project

Objectives Phase

Staff presented the Board with an updated White Paper on Objectives and analysis of GASB and FASB strategic plans at the May meeting. Staff discussed that the most significant change to the white paper was the addition of a section that discusses an assessment of FASAB's role in relation to the broad objectives of financial reporting. Staff believed that each of the objectives were equally important and did not attempt to rank the objectives. Instead, staff presented an assessment that included two levels of focus for FASAB in the near-term as follows:

Primary Focus Objectives—Primary Focus Objectives are those objectives where there is the greatest opportunity for FASAB to play a direct role in developing standards to achieve the stated objectives, based on its comparative advantage and other factors. Therefore, the Operating Performance and Stewardship objectives would be considered the primary focus objectives.

Secondary Focus Objectives—Secondary Focus Objectives are those objectives where there is not the greatest opportunity for FASAB to play a direct role in developing standards to achieve the stated objectives, based on its comparative advantage and other factors noted above. In contrast to primary focus objectives, FASAB believes that it will play an indirect role in developing standards that would meet these objectives in the near-term. The Budgetary Integrity and Systems and Control objectives would be considered the secondary focus objectives.

Board members discussed the staff's proposed assessment of FASAB's role. While they agreed with the overall assessment, some members believed that labels other

than “primary” and “secondary” could be used for the focus categories. However, staff noted that the two categories (primary and secondary) were established because, throughout the project, the Board has expressed a need to address the fact that there are objectives that FASAB has not dealt with as much as others. The need will still exist if the categories are eliminated.

Members acknowledged that FASAB appears to have more of a comparative advantage in achieving the primary objectives (Operating Performance and Stewardship) and a supporting role in the secondary objectives (Budgetary Integrity and Systems and Control). Staff will revisit the terminology used to categorize FASAB’s role in relation to the objectives.

The Board discussed that strategic planning has merits and that a strategic plan could be used to narrow-down where the Board will focus over the next 3-5 years. However, as noted by the staff analysis of other standard-setter’s strategic planning efforts, the strategic planning process requires significant amounts of Board and staff time. These factors could overwhelm the Board’s resources as it seeks to accomplish a challenging technical agenda.

Given that the White Paper already addresses key aspects of strategic planning and the limited amount of FASAB resources, the Board agreed to publish the White Paper as the document that communicates its strategic directions and staff will revise the White Paper for public issuance. The Board may later consider enhancements to the White Paper if it finds that the document does not serve well in this capacity. The Board discussed due process options for the document. Considering resource and time constraints, the Board agreed to subject the white paper to a review by a team of constituents familiar with FASAB’s work and federal financial reporting efforts. The review team would consist of some of the roundtable participants and Board members.

Points of Contact: Melissa Loughan, 202 512-5976, loughanm@fasab.gov
Ross Simms, 202-512-2512, simmsr@fasab.gov

Elements Phase

The exposure draft entitled *Definition and Recognition of Elements of Accrual-Basis Financial Statements* was issued on June 7, 2006. The exposure draft requests comments by August 5th. The exposure draft in PDF format and the specific questions raised in Word format are available at the FASAB website (<http://www.fasab.gov/exposure.htm>). The Board plans to hold a public hearing on the exposure draft at its September 2006 meeting.

Points of Contact: Melissa Loughan, 202 512-5976, loughanm@fasab.gov
Ross Simms, 202-512-2512, simmsr@fasab.gov

The Financial Report: MD&A, Statements, Notes, RSI and OAI

This phase of the conceptual framework project will utilize a team approach, with individual staff members assigned to address specific financial statements, with one lead staff member who would also be responsible for financial statements not otherwise assigned and integration.

This project will address concerns expressed by some Board members regarding the ability to assess long-term sustainability, and research whether additional statements or reporting components may be needed. Staff recommended that a task force be formed with the relevant experience to address sustainability reporting. Such a task force would be charged with:

- a. Identifying a universe of potential information needed for financial sustainability reporting,
- b. Considering barriers to and limitations on financial sustainability reporting,
- c. Expressing preferences for presentation of information using techniques to make the information meaningful to users, and
- d. Outlining a proposal regarding the Board's role in establishing standards for sustainability reporting.

The Board discussed and agreed with the above approach. Staff will proceed to develop recommendations for task force membership and a package with background information for task force members.

Point of Contact: Eileen Parlow, 202-512-7356, parlowe@fasab.gov

Social Insurance Liabilities

The Board reviewed the latest draft of the social insurance exposure draft (ED) using the questions for respondents that had been added since the March 2006 meeting.

The Board discussed the structure of the executive summary. Some members felt it was too one-sided while others found it appropriate.

The Board had received a letter from the Office of Management and Budget and from the JFMIP principals objecting to the social insurance exposure draft. The Board discussed balancing the current executive summary with counterarguments. Chairman Mosso had been considering including in the ED the points made in the executive summary. Although doing so would be unusual, he felt it was justified in this case due to the uniqueness of the subject matter. Traditionally an executive summary does not contain counterarguments; counterarguments are presented in an "alternative view." SFFAS 17, *Accounting for Social Insurance*, presented alternative views. Some members felt that such argumentation was appropriate for

the basis for conclusions but he said he did not think that that was the role of the executive summary.

The staff will further develop the questions and a balanced basis for conclusions, and therefore would be presenting new material at the July FASAB meeting rather than a pre-ballot draft ED.

Staff stated that questions 5-11 dealt with aspects of the standards and asked respondents to comment thereon. Question 8 focused on the treatment of Medicare and raised the issue of whether the Board agreed with the staff that future premiums for Medicare Parts B and D should be subtracted from the liability measure whereas payroll taxes for Medicare Part A should not. The staff reasoned that, first, the premiums are necessary only if the participants enroll in Parts B and D. Part A payroll taxes are paid well before the coverage is in effect but not afterwards and the payment of payroll taxes beyond 40 quarters has no relationship to future benefits. Once fully insured, participants receive Part A coverage whether additional payroll tax is paid or not. The premiums are also more or less a voluntary, exchange-like transaction while payroll tax is compulsory. Lastly, the budget approach for tax revenue versus revenue “earned” by the program is similar: taxes are displayed apart from expenditures whereas revenue “earned” by the program is off-set against expenditures at the program or agency level.

The Chairman polled the members regarding whether they were willing to proceed with the ED as it is but including more articulation of the opposing view and the additional to the questions discussed this morning. The Board expressed a 6 to 4 preference for proceeding with the ED.

Point of Contact: Richard Fontenrose, 202-512-7358, fontenroser@fasab.gov

Application of the Liability Definition

At the May 24 board meeting, staff presented a status report on the project, explaining that the liability classification task force had held two meetings – the first on April 12 and the second on May 11 – and briefly summarizing the results of the two meetings.

Staff recommended to the board that it take the input from the task force, update the class definitions and the subclasses, and then create a survey of five or six questions for wider distribution to the federal community for comment.

As there were no objections by the members to staff’s recommendation, staff will circulate a survey to the federal community to solicit feedback on the enhancements to the class definitions drafted by staff and the completeness of the liability subclasses based on the feedback from the task force.

Point of Contact: Julia Ranagan, 202-512-7377, ranaganj@fasab.gov

Department of Defense Request Regarding SFFAS 3

On March 16, 2006, the Department of Defense (DoD) Deputy Chief Financial Officer sent a letter requesting the Board's assistance in accounting for inventory held for repair/remanufacture. A large proportion of the DoD's annual procurement spending is for repair/remanufacture. Guidance was requested regarding definition and valuation of items held for repair.

The Board agreed that staff should draft guidance to accommodate the DoD's request and should strive to use the most efficient means available, such as an Interpretation, to provide the guidance requested.

Point of Contact: Eileen Parlow, 202-512-7356, parlowe@fasab.gov

Other FASAB Information

Recent Documents Issued

❖ **Exposure Draft of a Proposed Concepts Statement, *Definition and Recognition of Elements of Accrual-Basis Financial Statements* –**

FASAB is seeking input on concepts defining the five elements of accrual-basis financial statements. Elements of financial statements are the “building blocks” of financial statements--the broad classes of items from which the statements are constructed. The elements for which definitions are proposed are assets, liabilities, net position, revenue and expense.

The exposure draft poses questions for respondents on issues such as the essential characteristics of assets and liabilities, deriving the definitions of revenue and expense from the definitions of assets and liabilities, the government's ability to change laws in the future, uncertainty related to existence and measurement, and recognition criteria. In addition, some members are offering alternative views on the proposed concepts and request input on these views as well. Resolution of these and other conceptual issues will guide federal accounting standard setting in the future.

Respondents are encouraged to provide the reasons for their positions. The exposure draft requests comments by August 5th. The exposure draft in PDF format and the specific questions raised in Word format are available at the

FASAB website (<http://www.fasab.gov/exposure.htm>). In addition, the Board plans to hold a public hearing on the exposure draft at its September 2006 meeting.

❖ **Exposure Draft of a Proposed Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs* –**

This proposed technical bulletin is intended to clarify the required reporting of liabilities and related expenses arising from friable and nonfriable asbestos-related cleanup costs. If adopted, the effect of this technical bulletin would be to clarify that:

- a. Federal entities should (1) estimate both friable and nonfriable asbestos-related cleanup costs and (2) recognize a liability and related expense for those costs that are both probable and reasonably estimable, consistent with the current guidance in Statement of Federal Financial Accounting Standards (SFFAS) 5, Accounting for Liabilities of the Federal Government; SFFAS 6, Accounting for Property, Plant, and Equipment, Chapter 4: Cleanup Costs; and Technical Release 2, Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government.
- b. Federal entities should disclose information related to friable and nonfriable asbestos-related cleanup costs that are probable but not reasonably estimable in a note to the financial statements, consistent with SFFAS 5 and SFFAS 6.

The exposure draft requests comments by June 30, 2006. If adopted, the proposed technical bulletin would be effective for periods beginning after September 30, 2008. Copies of the exposure draft are available at the FASAB website at <http://www.fasab.gov/exposure.htm>.

FASAB Current Technical Agenda & Status of Projects

Project	Previous Key Milestones	Quarter 2 2006	Quarter 3 2006	Quarter 4 2006	Quarter 1 2007	Staff Contact
Natural Resources		Research	Oil & Gas ED	Oil & Gas UR	Final	Rick Wascak, 202 512-7363
Fiduciary Activity	ED-2003 PH-2003 Revised ED-6/2004 PH- 8/2004	DP	UR and Final			Eileen Parlow 202-512-7356
Concepts Project: Objectives		Research	White paper Complete			Melissa Loughan, 202-512-5976 Ross Simms, 202-512-2512
Concepts Project: Elements		Elements - ED	DP	DP	UR	Penny Wardlow 202 512-7350
Concepts Project: Financial Reporting			Research	Research	Research	Eileen Parlow 202-512-7356
Social Insurance Liabilities		Research	ED	DP	DP	Richard Fontenrose, 202-512-7358
Application of the Liability Definition		Research	Research	Research	Research	Julia Ranagan, 202-512-7377
The Federal Entity	Project Added to the Agenda 10/2005	Research	Research	Research	Research	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, 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

The AAPC has established the task force Heritage Assets and Stewardship Land (HA/SL) and the Inter-Entity Cost (IEC) task force to assist the Committee in developing implementation guidance for both SFFAS 29 *Heritage Assets and Stewardship Land* and SFFAS 30 *Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*.

If you are interested in joining either of the task force groups please contact Monica Valentine.

AAPC Meeting information can be found on the AAPC webpage at <http://fasab.gov/aapc.html>.

Point of Contact: Monica Valentine, 202-512-7362, valentinem@fasab.gov

FASAB Meeting Schedule

Schedule for 2006 Meetings:

Wednesday, July 26th and Thursday, July 27th
Wednesday, September 27th and Thursday, September 28th
Wednesday, November 15th and Thursday, November 16th

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.

AAPC Meeting Schedule

Schedule for 2006 Meetings:

Tuesday, July 18th
Tuesday, September 12th
Tuesday, October 31st

Unless otherwise noted, meetings begin at 1 PM and conclude at 3 PM. Meetings are held at 441 G Street NW in room 6N30. Agendas are available at <http://fasab.gov/aapc/meeting.html> 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 staff at 202-512-7350 or fasab@fasab.gov **at least two days before the meeting**. The Government 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.