



FASAB News
Federal Accounting
Standards Advisory Board

JULY 2007/AUGUST 2007

TABLE OF CONTENTS

FASAB Bids Farewell to Donald Marron and Welcomes Robert Murphy of CBO	1
New Contact Information for FASAB's Executive Director and Directions for Submitting Comments.....	2
Current Board Projects	3
Reminder – Comments Sought Regarding Natural Resources	3
Concepts Project.....	3
Elements Phase.....	3
Entity Phase.....	3
The Financial Report Phase: MD&A, Statements, Notes, RSI and OAI.....	5
Fiscal Sustainability Reporting	5
Social Insurance.....	6
Reporting the Gains and Losses from Changes in Assumptions and Other Requirements for Accounting for Post-Employment Benefits	8
Appropriate Source of GAAP.....	8
FASAB Current Technical Agenda & Status of Projects	9
Accounting and Auditing Policy Committee.....	10
FASAB Meeting Schedule.....	11
AAPC Meeting Schedule	11
Security Notice.....	11

FASAB Bids Farewell to Donald Marron and Welcomes Robert Murphy of CBO

Donald Marron, formerly Deputy Director of the Congressional Budget Office (CBO) and CBO's representative on the Board, was nominated to become a member of the Council of Economic Advisers and has joined the council as a consultant while his nomination is pending in the Senate. He served as a member of FASAB during his tenure at CBO and made significant contributions to the Board's work.

The Director of CBO, Peter Orszag, has appointed Robert Murphy, CBO General Counsel, as his representative on the Board. Mr. Murphy performs CBO's legal

work, interpreting applicable statutes, analyzing proposed legislation, and reviewing procurement actions. He joined CBO in 2000 from the General Accounting Office (GAO), where he was General Counsel for seven years. Previously, he had been GAO's Senior Associate General Counsel for Procurement Law, responsible for the agency's bid protest functions, and Associate General Counsel for Legal Services, providing legal support for the agency's operations. Before joining GAO in 1984, he was a partner in a Washington, D.C., law firm, counseling and representing foreign and domestic corporations in litigation and various regulatory issues.

New Contact Information for FASAB's Executive Director and Directions for Submitting Comments

The Board's executive director, Wendy M. Comes, has changed her name to Wendy M. Payne. Her new e-mail address is paynew@fasab.gov. All other contact information remains the same.

Exposure drafts routinely request that comments be submitted to the Executive Director through her e-mail account. The published e-mail account will remain active for several months to ensure that comments directed to it are received. Future exposure drafts will request that comments be submitted to fasab@fasab.gov to ensure continuity of access to comments in the future.

The Board and the AAPC are currently requesting comments on four exposure drafts.

Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates – Comments requested by November 30th.

Implementation Guide for SFFAS 29: Heritage Assets and Stewardship Land – Comments requested by August 13th but late comments will be accepted.

Clarification of Standards Related to Inter-Entity Cost – Comments requested by August 6th but late comments will be accepted.

Accounting for Federal Oil and Gas Resources – Comments requested by September 21st.

Please direct your responses to fasab@fasab.gov if possible.

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

Reminder – Comments Sought Regarding Natural Resources

An exposure draft entitled *Accounting for Federal Oil and Gas Resources* ED was issued for public comment on May 21, 2007. Comments on the proposals presented in the ED are **requested by September 21, 2007**. The ED in PDF format and a separate Word file presenting the specific questions raised in the ED may be retrieved by accessing the **Exposure Drafts and Documents for Comment** link at www.fasab.gov.

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

Concepts Project

Elements Phase

At the July meeting, the Board received a revised draft final Concepts Statement on Elements showing changes made since the May draft, and a cover memo explaining the changes. A second staff memo discussed the history of paragraph 44 of the draft Statement, which states that Congress's ability to change the law does not affect the existence or recognition of a liability. The Board first discussed the proposed changes (detail can be found in the July Board Meeting Minutes at <http://www.fasab.gov/meeting.html>).

Staff will prepare a preballot draft of the Elements concepts statement, including the changes agreed to by the Board. The preballot draft will be circulated for Board members' review in August.

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

Entity Phase

The Federal Entity project plan anticipated the project would result in both a proposed Concepts Statement and a Standards Statement and it would be important to delineate between what would be included in a Concepts versus Standards as we move forward. Staff prepared outline papers for each —a Proposed Concepts

Statement on the Reporting Entity and a Proposed Standards Statement on the Reporting Entity and Consolidation which were included in the July briefing materials.

Originally, staff anticipated obtaining feedback on the outline paper for the proposed concepts paper at the July meeting. However, there was mixed feedback from Board members regarding the approach moving forward on the project. Specifically, some members were in favor of developing a proposed concept statement, while others believe the approach should be to go directly to developing a standard to address shortcomings in the entity area. Therefore, the July Board meeting was used to get the consensus of the Board on the direction for moving forward on the project.

Staff presented three options to the Board and explained the options differ in how much conceptual work would be addressed in the project as follows:

OPTION 1

- *No Concepts Statement
- Focus on Developing Proposed Standards relating to Boundaries of the Federal Reporting Entity

* NO FOCUS ON REVISING SFFAC 2--SFFAC 2 would remain unless it is determined the proposed standards are not consistent with the concepts developed over 10 years ago. If so, portions of SFFAC 2 relating to entity would be amended accordingly.

OPTION 2

- *Brief Proposed Concepts Statement Communicating the Federal Reporting Entity is Broader than the U.S. Government Legal Entity (No discussion of organizational structure, defining levels, etc.)
- Focus on Developing Proposed Standards relating to Boundaries of the Federal Reporting Entity

* SOME FOCUS ON REVISING SFFAC 2. Focus on potential revisions to SFFAC 2 would be concurrent with developing proposed standards.

OPTION 3

- *Proposed Concepts Statement Communicating the Federal Reporting Entity is Broader than the U.S. Government Legal Entity and Communicating Organizational Structure of the U.S. Government, Definitions of Terms and Relationships, etc. (as presented in Outline Paper in July Board Materials)
- Develop Proposed Standards relating to Boundaries of the Federal Reporting Entity

* SFFAC 2 entity portion (par. 1-53) would be rescinded and replaced with the new Proposed Concepts on the Federal Reporting Entity.

Based on input from the Board, staff summarized that the best approach for moving forward on the Entity Project would be option 2 while including certain aspects of option 3. Specifically, staff will focus on developing proposed standards relating to the boundaries of the reporting entity and specific criteria for each. In addition, staff will concurrently work on amendments to SFFAC 2. Staff will also determine ways to include a discussion of key terms, organizational structure, etc. in the proposed amendments to SFFAC 2 and proposed standards. Staff will also form a task force to assist with efforts in the project.

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

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

At the July 26, 2007, FASAB meeting, staff provided the Board with an overview of the project and stated that staff planned to develop concepts that would:

1. Establish criteria for determining when financial statements, disclosures, management's discussion and analysis (MD&A), required supplementary information (RSI) other than MD&A, and other accompanying information (OAI) should be used in meeting the reporting objectives (communication methods); and
2. Describe the financial statements used to present the elements critical to meeting financial reporting objectives and explain what constitutes a full set of financial statements (overview of basic financial statements).

Regarding the first objective, communication methods, staff prepared a proposed concepts statement for the Board's review. Staff prepared the proposed concepts statement using the outline presented to the Board during the November 2006 meeting. The proposal described each communication method and established a hierarchy for choosing among them. Concerning the second objective, overview of basic financial statements, staff recommended that: (1) SFFAC 2 be amended as needed rather than being superseded and (2) amendments related to ongoing standards projects be accomplished as those standards are developed.

The Board agreed with the staff's plans and provided comments on the proposed communications methods concepts statement. Some expressed concern about the added value of the proposed concepts and how the document should depict the unique role of the MD&A in federal financial reporting. The MD&A is an important communication method and, in some cases, the only method that users will read. However, currently, the MD&A is not audited. Instead, it is treated as RSI for audit purposes. Staff will revise the proposed concepts statement based on the Board's comments.

Point of Contact: Ross Simms, 202-512-2512, simmsr@fasab.gov,

Fiscal Sustainability Reporting

The Board discussed the distinction between budget policy, including targets and budget rules, and financial reporting, and agreed that FASAB's role is to set the standards for what information needs to be reported so that readers of the Financial Report of the U.S. Government (FR) can assess long-term fiscal sustainability, as described in the Board's objectives for financial reporting- specifically, "whether future budgetary resources will likely be sufficient to sustain public services and to meet

obligations as they come due.”¹. This is distinct from a definition of fiscal sustainability, which might involve or imply setting budget policy or rules. The Board did not rule out the possibility that a definition might emerge during the course of the project, but agreed with staff that at this point in the project, objectives for fiscal sustainability reporting would be the optimal foundation for the development of reporting requirements.

It was noted that, based upon research and discussions with a representative from the International Public Sector Accounting Standards Board (IPSASB), the FASAB is on the leading edge among developed nations in exploring the potential for including reporting on fiscal sustainability in the national government’s general purpose financial reports. The IPSASB is planning a project on this issue and expects that this project will be on its agenda for the first time in November, 2007.

For the September Board meeting, staff will draft recommended objectives for fiscal sustainability reporting, which will be based upon existing objectives for “Stewardship” in Statement of Federal Financial Accounting Concepts 1.

The Board discussed a recommendation from the Communications members of the Fiscal Sustainability Reporting Task Force that emphasized the importance of obtaining feedback from representatives of different audience segments in order to evaluate whether the proposed reporting is understandable and useful. It was agreed that FASAB staff will contact several academics in the field of communications who have expressed an interest in this project, to explore whether perhaps their students might be available to comment on proposed reporting as it is being developed. Staff will also explore any other potential avenues that might arise for obtaining feedback from members of the public, including discussions with IPSASB representatives.

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

Social Insurance

The Board discussed the future direction for the social insurance project at the July 2007 FASAB meeting. The staff presented a summary of comment letters and testimony and discussed a framework for moving forward.

There is a consensus among FASAB members on certain components of a draft social insurance standard. First, there is a consensus that the future exposure draft on social insurance accounting should require the current Statement of Social Insurance (SOSI) as well as a statement of changes in SOSI amounts. The exact format for the statement of changes is to be determined. There is also a consensus that sustainability reporting is necessary. There is a separate project on that subject. Finally, members agreed that the supplementary information required in SFFAS 17 should be continued.

¹ Statement of Federal Financial Accounting Concepts (SFFAC) 1, paragraph 139.

Regarding a plan to move forward on the basic areas where the members' views differ, the staff suggested the following alternative approaches for the Board's consideration. They are based on ideas presented in the *Preliminary Views* document and/or expressed by respondents or Board members. The staff could develop any of these as the Board wishes:

1. Primary or Alternative View – Adopt either the PV or AV as presented in the *Preliminary Views* document.
2. Modify the Primary or Alternative View – Another approach would be to adopt a modified version of either the PV or the AV. One option associated with the PV is to conclude that, although the liability definition (in *Elements* concept statement) is satisfied when participants substantially meet the eligibility requirements for fully insured status (e.g., 40QC), the second recognition requirement (in the *Elements* statement) regarding measurability leads to a “threshold liability” for the balance sheet.
3. Expansion of the Current Reporting Model – The current reporting model can be expanded, either by adding a new section to the existing balance sheet or develop a new statement. Developing additional levels for the federal balance sheet and/of statement of net cost may be appropriate for the SI project at this time. Additional levels may be useful in communicating the nature of federal liabilities. For example, liabilities arising from what have been referred to as “social contracts” by some might be distinguished from those arising from exchange-related contracts.
4. New Element for the Existing Reporting Model – A new element could be considered that would be part of net position but not a “liability,” e.g., “obligations,” “commitments,” “responsibilities.”

The members discussed both developing meaningful sustainability reporting and financial statements display. The Board discussed expanding the traditional balance sheet and operating statements to include information about government commitments. Currently there is no differentiation in the statements regarding the changes in the amounts reported, for example, between how much of the change is due to past work in covered employment and how much to future work in covered employment. Some argue stratification would be valuable analytical information. Table 1 in the Financial Report of the United States Government has been well received.

The FASAB's recent task force on sustainability recommended having a single focus, a “bottom line,” for better communication. People are starting to talk about the budget deficit and the “GAAP deficit.” The dilemma for many is that the GAAP deficit does not include the increase resulting from increased commitments for social insurance. That becomes incredibly confusing.

Some argue that the Board should decide whether social insurance is a liability or not before addressing sustainability. The statement of net position now

purports to present the assets and liabilities of the federal government, and there are definitions of assets and liabilities.

Others doubt that the best way to portray the federal obligations, responsibilities, or liabilities is a traditional balance sheet. They do not want the Board's thinking to be limited to a traditional balance sheet for programs that represent "social contracts."

The most important thing for many members is to portray government's long-term commitments in a creative way.

Some members thought it was clear from the deliberations, comments letters, and testimony that whatever is presented should be in the right context so as not to be misleading. The complexity and interrelationships of these programs must be understood.

The Board voted to move ahead with both the social insurance and fiscal sustainability projects concurrently.

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

Reporting the Gains and Losses from Changes in Assumptions and Other Requirements for Accounting for Post-Employment Benefits

At the July 25, 2007, FASAB meeting the members reviewed the ballot draft of the exposure draft entitled, *Reporting Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*. Some minor changes were agreed upon. At the conclusion of the session, the Board voted to release the exposure draft for comment. The comment period will run from August through November 2007.

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

Appropriate Source of GAAP

As directed by the Board members at the May meeting, FASAB staff met with representatives from GAO, OMB, and Treasury to discuss potential solutions to the issue of the different sources of GAAP currently being applied by federal entities. Staff plans to present the Board with a recommendation at the September board meeting.

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

FASAB Current Technical Agenda & Status of Projects

Project	Previous Key Milestones	Quarter 3 2007	Quarter 4 2007	Quarter 1 2008	Quarter 2 2008	Staff Contact
Natural Resources		Field Test	Oil & Gas DP	Oil & Gas DP	Final	Rick Wascak, 202-512-7363
Fiduciary Activity	SFFAS 31 Issued – October 2006	Implementation Guidance Developed	Implementation Guidance Finalized			Eileen Parlow, 202-512-7356
Concepts Project:						
Elements	ED – 6/2006 PH-9/2006	DP	UR	Final		Penny Wardlow, 202-512-7350
Financial Reporting		Research	Research	Research	ED	Eileen Parlow, 202-512-7356 Ross Simms, 202-512-2512
The Federal Entity		Research	Research	Research	ED	Melissa Loughan, 202-512-5976
Social Insurance Liabilities	PV -- October 2006	DP with PH	DP	DP	ED	Richard Fontenrose, 202-512-7358
Reporting Gains & Losses from Changes in Assumptions		Research	ED	ED	DP	Richard Fontenrose, 202-512-7358
Appropriate Source of GAAP		Research	Research	ED or Other Product		Julia Ranagan, 202-512-7377

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

PV—Preliminary Views Issued

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 currently has two Exposure Drafts (ED) available for comment. The first ED is implementation guidance for SFFAS 30 *Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts* and was developed by the Inter-Entity Cost (IEC) task force, chaired by Michael McFadden and Dorrice Roth, designee for D. James Sturgill. Comments were due August 6, 2007, but can still be submitted. The second ED is implementation guidance for SFFAS 29 *Heritage Assets and Stewardship Land* and was developed by the Heritage Assets/Stewardship Land (HA/SL) task force is chaired by Cindy George and Frank Synowiec, Jr. Comments were due August 13, 2007, but can still be submitted. Both exposure drafts are available on the FASAB website at <http://fasab.gov/exposure.html>.

The AAPC's Agenda Committee brought an issue to the Committee during its May meeting concerning methodologies for calculating grant accruals. The Committee did not vote to formally accept the issue as an agenda item at the May meeting, but the members suggested several approaches to pursue as possible resolutions to the issue. At the July AAPC meeting representatives from the Department of Justice's Office of Justice Programs (DOJ – OJP) gave a brief presentation to the Committee on their experiences with developing methodologies for grant accruals. The DOJ – OJP presentation can be found on the FASAB website at <http://fasab.gov/aapc/meetmaterials.html>. Based on the presentation and the two meeting discussions, it was decided not to accept the grant accrual issue as an agenda item.

Updates on all AAPC projects can be found on the AAPC website. The minutes for all meetings can be found on the FASAB/AAPC website at <http://fasab.gov/aapc/meeting.html>.

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

FASAB Meeting Schedule

Schedule for 2007 Meetings:

Wednesday, September 19th and Thursday, September 20th
Monday, December 4th and Tuesday, December 5th

Schedule for 2008 Meetings:

Wednesday, February 13th and Thursday, February 14th
Wednesday, April 16th and Thursday, April 17th
Wednesday, June 18th and Thursday, June 19th
Wednesday, August 20th and Thursday, August 21st
Wednesday, October 22nd and Thursday, October 23rd
Wednesday, December 17th and Thursday, December 18th

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/meeting.html> approximately one week before the meetings.

AAPC Meeting Schedule

Schedule for 2007 Meetings:

Thursday, September 27th, 2007
Thursday, November 29th, 2007

Unless otherwise noted, meetings begin at 1 PM and conclude at 3 PM. Meetings are held at 441 G Street NW in room 7C13. 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.