



FASAB News
Federal Accounting
Standards Advisory Board

March 2007/April 2007

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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

A ballot draft exposure draft (ED) is currently being voted on by members. Staff believes the ED in mid to late-May. The Board expects to endorse field testing of the proposal (including the alternative methodology proposed by one member).

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

Concepts Project

Elements Phase

The Board considered the following issues:

1. whether the asset definition should be modified to clarify that the ability of the federal government to assert control over resources in the future does not constitute an asset presently
2. whether the revenue and expense definitions should be modified in response to concerns raised by a few respondents relating to changes in assets or liabilities arising from borrowing, and
3. improving the discussion of uncertainty.

The Board will discuss a revised draft Statement at its May meeting.

Points of Contact: Melissa Loughan, 202 512-5976,

loughanm@fasab.gov

Entity Phase

The March 2007 briefing paper discussed the issue area—Definition of entity / reporting entity. In assessing how entity / reporting entity should be defined for federal financial reporting purposes, staff considered the following questions:

- Does FASAB already define entity / reporting entity?
- Should there be a distinction between Entity and Reporting Entity?
- Is there a relationship between the reporting entity concept and the objectives of federal financial reporting? If so, should this be articulated?
- How do U.S. standard-setters and National and International standard-setters define Entity /Reporting Entity?

- Would a definition be best articulated in Concepts or Standards?

The issue paper is a first in a series of papers to consider several different aspects of the federal entity concept. Staff plans to devote the next several Board meetings to issue papers that will address the following:

- Characteristics of a Reporting Entity
- Boundaries of a Reporting Entity
- Kinds of “things” that could be included in an entity—the types of transactions, events and entities that may be encompassed within a reporting entity, e.g., other entities, activities, guarantees, functions, etc.
- Overall scope of the Federal Government Reporting Entity

The intent of assessing the definition of entity / reporting entity at the beginning of the project was to finalize terms and definitions to avoid future misunderstandings and misconceptions. Current FASAB standards and concepts utilize several different terms—such as entity, reporting entity, federal reporting entity, component entity, component reporting entity, Federal Government entity when referring to entity.

Currently, there has been a diverse approach to defining the term entity and reporting entity among other standard setters. For example, FASB and IASB do not define the terms, whereas GASB defines different levels for entity depending on the context, such as reporting unit, governmental unit, reporting entity and Financial Reporting entity.

Staff did not believe it was feasible to make a recommendation regarding a proposed definition for entity and reporting entity at this point because staff believed it would be helpful to assess the scope of the federal government as well as the characteristics of entities. Staff believes there is the potential of overlap between the definition of entity and the characteristics of an entity.

Staff will move forward addressing the other issue areas identified in the project plan.

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

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

During the March 2007 FASAB meeting, the Board discussed whether performance information was an integral part of financial reporting and general purpose federal financial reports (GPFFR). In reviewing the scope of the existing GPFFR, staff noted that the report includes non-financial performance information such as performance goals and levels of achievement. However, some standards-setters focus on financial information and do not necessarily consider non-financial performance as integral to financial reporting and constituents have raised concerns regarding the voluminous size and understandability of agency Performance and

Accountability Reports (PAR). In earlier statements, such as Statement of Federal Financial Accounting Concepts 3, *Management's Discussion and Analysis*, the Board stated that performance information was an integral part of the GPFFR, and staff asked whether the Board believed that performance information is an integral part of financial reporting and of GPFFRs, currently. In addition, because the area of performance reporting is still evolving and more time may be needed to allow on-going programs to accomplish their intended goals, staff suggested that the Board continue to monitor the progress in performance reporting rather than exploring the topic at this time.

While Board members agreed that the term “integral” does not indicate the audit status or the scope of audit work that should be conducted regarding performance information, members discussed agencies’ concerns about audits of performance information. The Board agreed that performance information was integral to financial reporting and the GPFFR, but this does not preclude pursuing alternative formats. In addition, the Board members determined that staff should participate in work groups engaged in reviewing PAR formats and developing strategic directions for a financial reporting model. This will permit the Board to continue monitoring the progress in performance reporting rather than exploring the topic at this time.

Staff also noted that the existing GPFFR includes financial statements, disclosures, management’s discussion and analysis, required supplementary information, and other accompanying information. FASAB literature discusses these components and the financial reporting community is familiar with them. Staff suggested that the Board limit the GPFFR components to the existing ones, rather than exploring other possibilities. Board members acknowledged that the components indicate audit status categories and agreed to limit the GPFFR components to those currently discussed in FASAB literature.

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

Fiscal Sustainability Reporting

On April 5, 2007, the “technical experts” group of the Fiscal Sustainability Reporting Task Force met with Executive Director Wendy Comes and Assistant Director Eileen Parlow to address technical issues. The participants were:

Mr. Robert B. Anderson, Office of Management and Budget
Dr. Joseph Antos, American Enterprise Institute
Mr. James Duggan, Department of Treasury
Mr. Richard Foster, Centers for Medicare & Medicaid Services
Dr. Jagadeesh Gokhale, Cato Institute
Mr. Stephen C. Goss, Social Security Administration
Mr. Thomas McCool, Government Accountability Office
Mr. Benjamin Page, Congressional Budget Office
Dr. C. Eugene Steuerle, Urban Institute

Minutes of the April 5th meeting will be provided to the Board at the May 2007 Board Meeting.

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

Social Insurance Liabilities

As of April 11, 2007, 19 responses have been received. The closing date for comments is April 18, but comments are welcomed after that date. A hearing is scheduled for May 23, 2007.

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

Reporting the Effects of Changes in Assumptions and Other Requirements for Accounting for Post-Employment Benefits

At the March 2007 FASAB meeting the staff discussed comments received from agencies, its recommendations based on comments received, and other activity resulting from the January FASAB meeting. A key activity since the January meeting had been to vet the standards with the affected agencies, especially actuaries, although there were several other issues to develop as well. The staff explained that agency commentors did not object to any aspects of the display and valuation date standards, except for HHS representatives as noted below. Many comments focused on the discount rate standard. The objective of this session was to review the agencies comments and staff recommendations, make changes as the members might direct, and decide whether to proceed to a pre-ballot draft of the proposed standard.

The Board approved the display standard. However, the requirement will continue to be that gains and losses from changes in assumptions are to be displayed as a separate line item and will not be combined with gains and losses from differences between assumptions and experience. In addition, there will be more explanation in the basis of conclusions regarding why the market rate benchmark is important information; for example, it allows the reader to distinguish between the program's assumptions versus the market. A question for respondents will ask whether the market rate benchmark has value from a financial reporting transparency standpoint and reference the appropriate basis for conclusions paragraphs. Finally, the staff will revisit the market rate disclosure standard regarding whether it should require the disclosure of a single rate or multiple rates.

The members will respond to the staff questions in the March staff briefing memorandum (other than the first question on display which was addressed at the March meeting) and/or make any other recommendations in writing over the next several weeks.

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

Application of the Liability Definition

Staff is continuing development of a framework for identification of obligating events at the sub-class level (e.g., grants, insurance, benefit programs, etc.) rather than at the class level. The project will see further developments as the Elements project progresses through due process.

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

Department of Defense Request Regarding Inventory Issues - Items Held for Remanufacture

Interpretation 7, Items Held for Remanufacture, was issued on March 16, 2007. The Interpretation is available on the FASAB website at <http://www.fasab.gov/codifica.html>.

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

Appropriate Source of GAAP

Staff presented a proposed project plan and background information on the appropriate source(s) of generally accepted accounting principles (GAAP) for federal government corporations and other federal entities that currently follow accounting standards from a source of GAAP other than that recommended by FASAB (i.e., Financial Accounting Standards Board (FASB) GAAP).

Staff noted that this project was initiated in January 2006 after the topic was considered a priority as a result of (1) the Board's October 2004 agenda-setting session, and (2) subsequent consideration of comments on the July 2005 invitation to comment on the four projects selected by the Board for consideration.

The background information included entity profiles and excerpts from financial statements for the following ten federal entities that have historically followed FASB GAAP: Community Development Financial Institution, Corporation for National and Community Service, Federal Deposit Insurance Corporation, Federal Prison Industries (Unicor), Government National Mortgage Association (Ginnie Mae),

Millennium Challenge Corporation, Office of Thrift Supervision, Pension Benefit Guaranty Corporation, Tennessee Valley Authority, and U.S. Mint (the Mint switched to FASAB GAAP beginning with its fiscal year 2005 financial statements).

Staff presented a number of possible outcomes of the project and the pros and cons of each option. Staff provided a draft timeline and requested Board input on the next step in the project – “Analyze and document similarities and differences that might prove helpful in developing guidance on which source of GAAP is most appropriate.”

The Board has approved additional research on the project at this time. Staff will analyze and document similarities and differences among the ten selected entities and present FASAB staff observations and recommendations to the Board, as deemed appropriate.

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

FASAB Current Technical Agenda & Status of Projects

Project	Previous Key Milestones	Quarter 1 2007	Quarter 2 2007	Quarter 3 2007	Quarter 4 2007	Staff Contact
Natural Resources			Oil & Gas ED	Field Test	Oil & Gas DP	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	DP	UR	Final	Penny Wardlow, 202-512-7350
Financial Reporting		Research	Research	Research	Research	Eileen Parlow, 202-512-7356 Ross Simms, 202-512-2512
The Federal Entity		Research	Research	Research	Research	Melissa Loughan, 202-512-5976
Social Insurance Liabilities	PV -- October 2006	DP	DP with PH	DP	ED	Richard Fontenrose, 202-512-7358
Reporting Gains & Losses from Changes in Assumptions		Research	Research	ED	DP	Richard Fontenrose, 202-512-7358
Application of the Liability Definition		Research	Research	Research	Research	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

Over the last several months the AAPC has had three task forces in place, all chaired by various AAPC members. The Heritage Assets/Stewardship Land (HA/SL) task force is chaired by Cindy George and Frank Synowiec, Jr. The HA/SL task force has been tasked with assisting the AAPC in developing implementation guidance for SFFAS 29 *Heritage Assets and Stewardship Land*. At the March 28, 2007 meeting the task force chairs presented a draft exposure draft technical release to the Committee for review and discussion. The next steps for the HA/SL task force is to make some minor revisions to the guide and include respondent questions before the document is released as an exposure draft. The task force chairs expect to bring the guide back to the Committee in May to get approval to release as an exposure draft.

The Inter-Entity Cost (IEC) task force is chaired by Michael McFadden and Dorrice Roth, designee for D. James Sturgill. The IEC task force is developing implementation guidance for SFFAS 30 *Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*. Also at the March meeting, the IEC task force chairs presented a draft exposure draft technical release to the Committee for review and discussion. The next steps for the IEC task force are to make minor revisions to the guide and to add a few additional respondent questions before the document is released for exposure. The task force chairs expect to bring the document back to the Committee in May to get approval to release as an exposure draft.

The NASA Space Exploration Equipment task force was chaired by Pat Healy and has completed its work with an exposure draft (ED) technical release (TR) that was approved by the AAPC. The issue deals with the treatment of NASA's exploration vehicles and whether to treat those vehicles as capitalizable assets or as research & development costs. The AAPC released the exposure draft entitled *Clarification of Standards Relating to the National Aeronautics and Space Administration's Space Exploration Equipment* on February 1, 2007. The comment period for the ED ended on March 2, 2007. Only one comment letter was received and it expressed agreement with the proposed guidance.

At its March 28, 2007 meeting the AAPC approved the release of the technical release to the FASAB for its 45-day review period. If the FASAB does not object to the TR during the review period it will be issued as final technical release guidance by early June 2007.

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, May 23rd and Thursday, May 24th
Wednesday, July 25th and Thursday, July 26th
Wednesday, September 19th and Thursday, September 20th
Monday, December 4th and Tuesday, December 5th

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, May 31st, 2007 (7C13)
Thursday, July 12th, 2007 (7C13)
Thursday, September 27th, 2007 (7C13)
Thursday, November 29th, 2007 (7C13)

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.