

Standards Watch

FASAB Business—Not So Usual

By: Tom L. Allen, CPA

The information contained in this article is the unofficial view of one FASAB board member. Official positions of the FASAB are determined only after extensive due process and deliberations.

The month of March brings the official start of spring, a time of new growth and opportunity. This year, as I begin my tenure as chairman of the Federal Accounting Standards Advisory Board (FASAB), spring seems the perfect time to reflect on the changes and challenges that lie ahead.

Over the last 14 months that I have been a member of FASAB, I have been impressed by the members' dedication and commitment to FASAB's mission as well as the quality of staff support and work that goes into the preparation for each meeting. I have also observed that the support of the board by its sponsors—the comptroller general of the United States, the secretary of the Treasury, and the director of the Office of Management and Budget—has been commendable, particularly in light of differing opinions on how best to achieve the objectives of improving federal financial reporting.¹ My observations thus far have strengthened my understanding of the complex issues facing the federal financial management community and my appreciation for the opportunity to serve on the board to work together to try to resolve them.

During its first 16 years of existence, FASAB has developed and maintained a strong set of accounting concepts and standards that have served as a solid

foundation for federal financial reporting. In its quest for a reporting model that reflects full accrual accounting, the board has been working on two very complex and somewhat controversial projects over several years—Accounting for Social Insurance and Accounting for Federal Oil and Gas Resources. Under the distinguished leadership of David Mosso, my predecessor as chairman, and Wendy Comes, CGFM, FASAB's executive director, as well as other board and staff members, substantial progress has been made on both of these projects in recent months, and I strongly encourage all users, preparers and auditors of federal financial statements to read and comment on these important proposals.

The board issued a Preliminary Views (PV) document, *Accounting for Social Insurance, Revised*, on October 23, 2006. This PV document contains a Primary View and an Alternative View. A key difference between these views is the point in time that a liability for social insurance benefits and related expense are recognized. Six members believe that an expense is incurred and a liability arises for social insurance programs when participants substantially meet eligibility requirements during their working lives in covered employment, and that some portion of the

benefits accumulated at the balance sheet date should be recognized as a liability. Consistent with current reporting requirements,² three members believe that an expense is incurred and a liability arises for social insurance programs when the participants have met all eligibility requirements and the benefit amount is "due and payable" (for example, under Social Security, this would be any payments for the month of September not actually paid until the month of October, which is in the next fiscal year).

A key component of the alternative plan to improve social insurance financial reporting is a separate statement of sustainability along with the statement of social insurance to reflect the long-term sustainability of these programs. The six members supporting the primary view support the longer-term view statements but also believe the balance sheet should reflect these obligations and the operating statement should reflect the changes in obligations.

While the board had initially voted to issue an exposure draft (ED), the board subsequently voted to issue a PV document prior to the ED because a PV document allows for both views to be thoroughly explained and provides a more open forum for respondents to provide additional ideas that may not have been considered previously. Furthermore, the additional request for comments prior to issuing an ED reflects the board's continuing commitment to due process in the development of standards.

In my view, this is the most significant issue in terms of dollar magnitude and potential fiscal impact ever addressed by a GAAP³ setting authority. Only periodically do accounting professionals and others have an opportunity to comment on proposed changes of such significance.

I sincerely hope that each of you will take the time to seriously consider this proposal and weigh in with your thoughts and comments.

Written comments are requested on the PV by April 16, 2007. A public hearing is tentatively scheduled for May 23, 2007. The document may be downloaded from the FASAB website at www.fasab.gov/exposure.html.

An Exposure Draft (ED), *Accounting for Federal Oil and Gas Resources*, is currently being finalized. This ED has also been in the making for many years while the board has been working out the difficulties inherent in the recognition and measurement of natural resources. If the proposals in this ED were adopted, it would result in the recognition of an asset on the balance sheet based on the royalty share of the federal oil and gas resources classified as "proved reserves." The asset's value would be the product of the estimated quantity of proved oil and lease condensate, natural gas plant liquids, and gas reserves multiplied by the average per unit price for each quantity and then multiplied by the effective regional average royalty rate for each quantity.

When oil and gas resources are extracted and royalties are earned, revenue and a depletion expense equal to the earned revenue would be recognized on the statement of net

cost. In addition, gains and losses due to changes in the estimated quantity of proved reserves, the effective regional average royalty rates, and the average per unit prices would also be recognized on the statement of net cost based on an annual valuation of the asset.

The board is currently wrapping up deliberations on a few final issues, including the recognition of a liability on the balance sheet for the amount of the royalty share that is designated for distribution to others. I also encourage each of you to respond to this ED when it is released as this is another major proposal that will significantly change the face of the federal government's financial statements. The conclusions reached would likely be applied to other federal resources such as coal, timber, etc.

I look forward to completing these and other important FASAB projects, such as the ongoing phases of the conceptual framework project—*Elements of Accrual-Basis Financial Statements, the Financial Report, and Federal Entity*—that will help meet the objectives of federal financial reporting.

End Notes

1. Statement of Federal Financial Accounting Concepts 1, Objectives of Federal Financial Reporting.
2. Statement of Federal Financial Accounting Standards 5, Accounting for Liabilities of the Federal Government.
3. GAAP: generally accepted accounting principles.



Tom L. Allen, CPA, is the chairman of the Federal Accounting Standards Advisory Board. Allen became a FASAB member in January 2006 and took over as chairman upon the

retirement of David Mosso on December 31, 2006. Allen also serves on the accounting department faculty at Weber State University. Prior to joining FASAB, Allen served as chairman of the Governmental Accounting Standards Board (GASB) for nine years and as a part-time member of GASB for one year. Allen was the Utah state auditor from 1984 until he resigned to chair the GASB. Allen has served as chairman of the American Institute of Certified Public Accountant's (AICPA) Members in Government Committee and on the AICPA Ethics Executive Committee, Government Accounting and Auditing Committee and Auditing Standards Board.