



FASAB news
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TABLE OF CONTENTS

FASAB Welcomes New Administrative Assistant Terri Pinkney 1

FASAB Bids Farewell to long-time Administrative Assistant Marian H. Nicholson 2

Current Board Projects 2

 Natural Resources 2

 Fiduciary Activity 3

 Concepts Project 4

 Social Insurance Liabilities 5

 Application of the Liability Definition 7

Other FASAB Information 8

 FASAB Current Technical Agenda & Status of Projects 8

Accounting and Auditing Policy Committee 9

FASAB Meeting Schedule 10

AAPC Meeting Schedule 10

Security Notice 10

FASAB Welcomes New Administrative Assistant Terri Pinkney

FASAB is pleased to announce that Terri Pinkney has joined FASAB as an Administrative Assistant. Ms. Pinkney has over 15 years of experience contracting with the federal government. Prior to joining FASAB, Ms. Pinkney was a Program Assistant at the Department of the Interior and had also served at the Bureau of Labor Statistics.

Ms. Pinkney will be the point of contact for FASAB administrative issues, including security procedures and meeting information. Ms. Pinkney can be reached at 202-512-7678 or by email at pinkneyt@gao.gov. Please join us in welcoming her to FASAB.

FASAB Bids Farewell to long-time Administrative Assistant Marian H. Nicholson

Marian H. Nicholson, FASAB's long-time Administrative Assistant from 1991 to 2006, retired on February 3, 2006. Ms. Nicholson, one of the first members of the FASAB staff, retired with over 34 years of Federal service. Ms. Nicholson came to FASAB at the Board's inception from the Government Accountability Office (GAO). Prior to her work at GAO, Marian held positions at other Federal agencies, including the Federal Trade Commission, the Agency for National Development, and the Civil Service Commission.

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.

During her 16 years at FASAB, Marian provided support to the FASAB Executive Director, Board Members, and other FASAB Staff members enabling them to establish accounting standards for the Federal government. FASAB thanks Ms. Nicholson for her service, time and dedication. The Board and staff wish Ms. Nicholson continuing good fortune in her future endeavors, and happiness throughout her retirement.

Current Board Projects

Natural Resources

The Board discussed a revised draft exposure draft (ED), entitled *Accounting for Federal Oil and Gas Resources*. In the ED transmittal letter to the Board, staff had indicated that during the Board meeting it would like to get members' thoughts on royalty free production of oil and gas in the Gulf of Mexico. The proposed accounting standards for oil and gas resources would not result in separate recognition or disclosure of this royalty free production. Therefore, before discussions on the ED began, staff explained that, while it had not yet thoroughly researched and considered the issue of royalty relief, there were various options for addressing the issue. Staff provided a summary of the different options. After a brief discussion, the Board members agreed that more factual information on the royalty relief program is needed for discussion and asked staff to research the issue.

During discussions on the draft ED, Board members agreed that for the next meeting staff should do the following:

- a. Review the definitions presented in the text of the proposed standards for possible relocation to the glossary.
- b. Prepare questions for respondents for incorporation in the ED that address:
 1. the level of information requested to be disclosed in the footnotes or displayed as RSI;
 2. the challenges posed by the use of the present (or discounted cash) value measurement attribute for measuring the value of the Federal government's estimated petroleum royalties; and,
 3. the use of reserves classified as proved, probable, and possible to calculate the value of the Federal government's estimated petroleum royalties for capitalization on the balance sheet, instead of using only the proved reserves as proposed in the ED.
- c. Revise the paragraphs in the ED that address the "Rights to Future Royalty Stream Identified for Sale" to clarify how they should be accounted for and reported.

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

Fiduciary Activity

Ballot Draft Finalized and Approved

At the Fiduciary Activities session on Thursday, March 30, 2006, the Board discussed and approved editorial changes to the Basis for Conclusions recommended by Chairman Mosso. The Board also recommended several minor edits, and requested ballots in order to vote on the proposed new SFFAS prior to the next Board meeting. A majority of the Board voted to approve the standard, with four members dissenting.

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 summaries and analysis of the four roundtable meetings on each of the objectives of federal financial reporting. In summary, participants agreed that the federal financial reporting objectives were broad, but remain valid. Also, the participants did not feel that FASAB should limit itself by eliminating any of the objectives, and there were no suggestions that additional financial reporting objectives are needed. The Board members discussed whether federal financial reporting objectives should remain broad and the Board noted that FASAB does appear to have a comparative advantage in stating the objectives of federal financial reporting. The Board acknowledged the original Board did a lot of good thinking when developing the objectives and forums such as the roundtables are good ways to determine whether the objectives are still valid after gaining experience. After discussing concerns regarding the Systems and Control objective, the Board agreed to retain the current broad objectives of federal financial reporting.

Given that the Board decided to retain the broad objectives of federal financial reporting, the Board discussed how to best articulate FASAB's role in relation to such objectives. The Board considered the staff recommendation to amend SFFAC 1 and develop a strategic plan. The Board discussed that amending SFFAC 1 could take up considerable resources. Additionally, Board members believed that it would be best to define the scope of the strategic planning project. Accordingly, the different options for articulating FASAB's role in relation to those objectives required further Board assessment. Staff will continue to develop the white paper on federal financial reporting objectives and prepare an analysis of strategic plans from other standards-setters to assist the Board in its evaluation.

Elements Phase

Staff provided clean and marked-up copies of a pre-ballot draft of a proposed concepts statement, together with a transmittal memo that listed the changes made since the January 2006 draft. New items in the clean copy included an executive summary, questions for respondents, and a glossary. The Board discussed how and where the issues of probability and uncertainty are discussed in the pre-ballot draft. The Board agreed on certain changes to the pre-ballot during the meeting.

A ballot draft will be provided to the Board before the May meeting. The draft will incorporate the changes made at the March meeting and will include any alternative views or additional questions for recipients that members provide.

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

Social Insurance Liabilities

At the March 2006 FASAB meeting the Board continued to discuss the remaining questions as well as the draft exposure draft (ED) in general. Three questions dealt with Medicare as follows:

Question #19 – Does the Board agree that Medicare Hospital Insurance, Part A, (HI) should be recognized at 40 quarters of work in covered employment (40 QC); or, should HI costs be spread evenly over the participant’s working years in covered employment?

Question #20 – Does the Board agree that the accounting treatment for HI and Medicare Supplemental Medicare Insurance, Parts B and D, (SMI) should be the same?

Question #21 – Does the Board agree that SMI should follow accounting standards for short-duration or long-duration insurance contracts?

With respect to question #19, the staff noted that the Board had decided at a previous meeting that an obligating event for HI occurs at 40 QC, but a question remained about cost recognition. For HI the benefit does not grow after 40 QC other than from interest on the present value obligation. A member had advocated allocating the HI cost over participants’ working years instead of, as the ED proposed, recognizing the full present value of future benefits at 40 QC.

The ED proposes characterizing social insurance programs as social benefit programs where benefits are not earned but rather conditions are met at 40 QC that constitute a liability. The Board’s rationale for the 40 QC obligating event includes the notion that “staying alive” is not an obligating condition. The liability is measured differently for Social Security than for HI because the benefits accumulate in the former program but not in the latter. Some members noted that the conditions for eligibility are the same for HI as for Social Security. Some members viewed 65 years of age as an interesting alternative obligating event for accruing these liabilities. The majority of the members voted to recognizing the full present value of the future cost of HI at 40 QC.

With respect to the question of whether to account for SMI the same as HI, some members preferred the insurance model because amounts recognized when claims are incurred would be much less uncertain than those at 40 QC. Some members would like to get away from any insurance analogy, feeling that the four Parts – A, B, C, and D – represent a single program that should be accounted for the same way. For one thing it would be simpler. The Board voted to treat HI and SMI the same, i.e., everything at 40 QC. [Question #21 becomes moot since all Parts of Medicare will be accounting under the Part A approach in the ED.]

The Board next discussed **Question #22**, “Does the Board agree that sensitivity analysis should include the liability and expense amounts as well as the SOSI present values and exclude the cashflow projections?” The sensitivity analysis in

the draft ED for March 2006 had been revised to reflect comments from the Medicare actuarial staff and the Treasury Department suggesting essentially a “principle-based” approach whereby the standard would require sensitivity analysis but not any specific methodology. The Board agreed with the approach in the ED.

The Board next discussed **Question #23**, “Does the Board agree that expected value should be mentioned in the basis for conclusions?” After discussing the paragraphs the members decided to delete the paragraphs since they were not essential.

The Board next discussed **Question #24**, “Does the Board agree that the basis for conclusions ought to include a discussion of objectives? If so, are the draft paragraphs satisfactory?” The Board discussed the paragraphs and the notion of sustainability reporting. A majority of the Board voted in favor of proceeding with the current ED as amended during the March session. There was a consensus in favor of considering other words than “liability” for the social insurance programs. The ED would continue to focus on the line item on the balance sheet and that the rationale for recognizing an obligating event at 40 QC would be retained. Also, the full cost would continue to be reported on the operating statement.

There had been a request that the staff consider using the new social insurance standard or other vehicle for a governmentwide standard for display of actuarial gains and losses. The goal is to have changes in assumptions treated differently than operation costs in order for users of financial statements to be able to see the basic programmatic cost trends separate and distinct from changes in assumptions. Most of the additional cost from accrual accounting comes from actuarial projections.

The Board discussed the logistics for such a standard. A separate exposure draft would facilitate respondents’ comments, for some will focus so heavily on social insurance that display of changes in assumptions would be a minor point. A separate track would also facilitate issuing a standard because it would not be encumbered by the social insurance project. There were no objections from members to a separate standard.

The Board concluded the session with a discussion of the next step in the project, which is to be a revised draft for the meeting on May 24th with an expectation of a pre-ballot draft shortly thereafter.

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

Application of the Liability Definition

Staff presented the board members with a copy of the packet that was sent to individuals in the federal financial management community, inviting them to participate in a task force on liability classification. The task force was approved by the Board as part of the revised project plan presented at the January 2006 board meeting. The task force invitation packet was sent to members of the Federal Financial Management Council and Financial Statement Audit Network, as well as several independent public accounting firms (IPA). Staff received a fairly good response rate, with representation from numerous agencies and three IPAs. The first meeting of the task force was held on Wednesday, April 12, 2006; the second meeting will be held on Thursday, May 11, 2006.

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

Other FASAB Information

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	Final		Eileen Parlow 202-512-7356
Concepts Project Objectives Elements		Research	Objectives-White paper Elements - ED	DP		Melissa Loughan, 202-512-5976 Ross Simms, 202-512-2512
Social Insurance Liabilities		Research	ED	DP	UR	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	

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

New AAPC Members

The Chairperson of the AAPC, Wendy M. Comes, is pleased to welcome Ms. Patricia Healy and Mr. Luther Bragg as the newest AAPC Members. Ms. Healy will function as one of the three CFOC members on the Committee. Mr. Bragg will function as one of the three PCIE members.

Ms. Healy was appointed to the AAPC by the Chair of the CFO Council. Ms. Healy has served as the Deputy Chief Financial Officer (CFO) for the U.S. Department of Agriculture (USDA) since October 1999. Prior to her move to USDA, Ms. Healy served as the National Director for the Systems and Accounting Standards Division (SASD) at the Internal Revenue Service (IRS), reporting to the Chief Financial Officer. From 1990 - 1992, Ms. Healy was a key member of the team that successfully implemented a new comprehensive financial management system for the IRS using the same COTS package being used for FFIS. Prior to joining IRS, Ms. Healy worked with the computer systems of the National Library of Medicine at the National Institutes of Health where she instructed national and international health care and information professionals in the use of MEDLINE and other medical and scientific databases. Ms. Healy has an M.B.A. from the University of Maryland, a Master's degree in Library Science from the University of Michigan and a B.A. from the Ohio State University.

Mr. Bragg was appointed to the AAPC by the Vice Chair of the President's Council on Integrity and Efficiency (PCIE). Mr. Bragg has served as the Assistant Auditor General for Financial Management and Comptroller Audits (FM&C) since January 2002. The FM&C directorate covers a wide variety of financial management subject areas to include financial reporting, feeder systems, financial improvement plans, management controls, and various types of transaction reviews. He previously worked in audit positions of increasing responsibility for the Army Audit Agency and DOD Inspector General as well as the Naval Audit Service. Mr. Bragg's career as a professional accountant and auditor spans over 30 years. Mr. Bragg has a Bachelor of Science Degree in Business Administration (Accounting) from Concord College. He is a licensed Certified Public Accountant and a Certified Government Financial Manager

Project Update

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*.

The next meeting of the HA/SL task force is scheduled for May 9, 2006 and the next meeting of the IEC task force is May 4, 2006. The task force groups currently include participants from various Federal agencies that represent agency's CFO and IG offices. 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, May 24th and Thursday, May 25th
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.