



*FASAB News*  
*Federal Accounting Standards*  
*Advisory Board*

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**SEPTEMBER 2007/OCTOBER 2007**

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**FASAB REQUESTS VOLUNTEERS FOR THE**  
**FEDERAL ENTITY PROJECT**  
**TASK FORCE**

The Federal Accounting Standards Advisory Board (FASAB) initiated a project on the Federal Entity in conjunction with the Board's overall conceptual framework project. The Federal Entity project will focus on developing standards related to the boundaries of the reporting entity and specific criteria for each. The history for this project and issue papers to date can be found on our website at <http://www.fasab.gov/projectsfedentity.html>.

### 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](mailto:loughanm@fasab.gov).

Please direct AAPC technical questions to Monica Valentine, 202-512-7362, [valentinem@fasab.gov](mailto:valentinem@fasab.gov).

Please direct FASAB and AAPC administrative questions to Charles Jackson, 202-512-7352, [jacksoncw1@fasab.gov](mailto:jacksoncw1@fasab.gov).

The standards being developed as a result of this effort will affect virtually all federal agencies. In an effort to involve the federal financial community in this process, we are inviting you to volunteer for service on a task force to assist us in more efficiently and effectively developing new standards related to the federal entity and consolidation. We believe that members of this task force will provide valuable insights based on their experiences addressing complex issues.

FASAB addresses the entity concept in its SFFAC 2, *Entity and Display*. The Board issued SFFAC 2 in April 1995, and for the most part, the first half of SFFAC 2 (paragraphs 1 through 53) addresses the entity issue. While SFFAC 2 provides criteria for determining if an entity should be included as a federal entity, questions continue regarding whether certain activities should be included within an entity.

The Board anticipates a focus on questions relating to inclusion or exclusion of entities from the reporting entity. The task force would be very helpful when considering the consolidation of other unique relationships and activities. Of particular importance will be relationships such as joint ventures, special-purpose entities, federally funded research and development centers, lease arrangements, and other financing arrangements (partnerships).

We anticipate the first meeting of the task force will be held in early December. If you are interested in serving on the task force or need any additional information,

please contact Ms. Melissa Loughan at (202) 512-5976 or [loughanm@fasab.gov](mailto:loughanm@fasab.gov).

## Current Board Projects

### Reminder – Comments Sought Regarding Natural Resources

An exposure draft (ED) entitled *Accounting for Federal Oil and Gas Resources* was issued for public comment on May 21, 2007. Comments on the proposals presented in the ED were **requested by September 21, 2007**. However, because the Board received a request for the comment period to be extended and because few responses have been received, the Board has agreed to extend the comment period until January 11, 2008. 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](http://www.fasab.gov).

Point of Contact: Rick Wascak, 202 512-7363, [wascakr@fasab.gov](mailto:wascakr@fasab.gov)

## Concepts Project

### Elements Phase

The Board received a ballot draft of Statement of Federal Financial Accounting Concepts 5, Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements (SFFAC 5) at the September meeting. The Board agreed to certain changes to the ballot draft that are detailed in the September Board Meeting minutes at [www.fasab.gov/meeting.html](http://www.fasab.gov/meeting.html). The Board adopted SFFAC 5 by the affirmative votes of eight members. Mr. Werfel and Mr. Steinberg abstained. The Statement was forwarded to the Principals for their 90-day review period on September 26, 2007. Absent an objection from OMB or GAO, the document will be issued on December 26th.

Points of Contact: Melissa Loughan, 202 512-5976, [loughanm@fasab.gov](mailto:loughanm@fasab.gov)

### Entity Phase

Staff presented an issue paper at the September meeting that discussed general principles that will be relied upon in establishing the boundaries of the Federal Reporting Entity. Staff recommended the Federal Reporting Entity include entities, organizations, transactions, and activities for which:

- the federal government is financially accountable;
- the federal government exercises control over; and
- the nature and significance of their relationship with the federal government are such that the exclusion would cause the government's financial statements to be misleading or incomplete.

Staff also presented an outline of a proposed standard to assist with understanding how the general principles would be conveyed in a proposed standard. The general principles are consistent with the framework established in SFFAC 2 but will allow for an expansion of the detailed criteria that may go beyond what is in SFFAC 2 and resolve some of the outstanding issues.

The Board agreed with the general principles that will be relied upon in establishing the boundaries of the Federal Reporting Entity. Staff will move forward on developing detailed criteria for each. Staff will also form a task force to assist in developing the new standards related to the federal entity and consolidation. The task force will consist of representatives from the financial management community. The task force will be helpful when considering the consolidation of unique relationships and activities.

Point of Contact: Melissa Loughan, 202 512-5976, [loughanm@fasab.gov](mailto:loughanm@fasab.gov)

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

At the September 19, 2007 meeting, members discussed a proposed concepts statement that would provide guidance for choosing the appropriate level of assurance on information to be required by standards. This approach for the concepts statement was highlighted during the Board's July 2007 meeting, when members discussed the Management's Discussion and Analysis (MD&A). While members agreed that the MD&A was an important component of the financial report, they deliberated on whether the MD&A should be considered basic information subjected to audit or required supplemental information (RSI) which is not audited. The proposed concepts statement would provide criteria to assist the Board in choosing the appropriate assurance level in instances such as the MD&A.

Members discussed that the Board primarily focuses on determining what information should be reported and the means for reporting the required information. In determining the means for reporting required information, the Board considers various factors. One factor is assurance. The Board may discuss assurance and designate information as basic or RSI to help ensure that the information receives the intended level of audit scrutiny. Factors such as reliability and precision are also evaluated in determining the means for reporting required information. These and other factors were previously developed in the basis for conclusions of SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*. The discussion in SFFAS 25 focused on distinguishing between basic and RSI. In addition, members noted that, at times, the Board may encourage the reporting of information. Information that the Board encourages may be considered other accompanying information (OAI). These notions were incorporated into a framework that staff could use in developing the concepts statement. The concepts statement will include the various factors that the Board considers in determining the means for reporting required information and the notion of encouraging information using OAI.

**Point of Contact:** Ross Simms, 202-512-2512, [simmsr@fasab.gov](mailto:simmsr@fasab.gov),

## Fiscal Sustainability Reporting

At the September 2007 meeting, the Board discussed objectives for fiscal sustainability reporting and issues relating policy assumptions for revenue and spending projections. Fiscal Sustainability Task Force Technical Experts with experience making such projections were invited to the meeting to assist in answering members' questions:

**Jagadeesh Gokhale**, Senior Fellow, Cato Institute

**Thomas McCool**, Director, Center for Economics, Government Accountability Office

**Patrick Locke**, Chief, Budget Analysis Branch, Office of Management and Budget

**Robert B. Anderson**, Senior Economist, Office of Management and Budget

The objectives for fiscal sustainability reporting focus on FASAB's existing Objective 3,

Stewardship. Objective 3 says that:

Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future.<sup>1</sup>

In particular, sub-objective 3B states that:

Federal financial reporting should provide information that helps the reader to determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.<sup>2</sup>

The Board indicated general agreement with the objectives.

The Board also discussed potential guidance for policy and economic assumptions.

Policy assumptions address the level of services provided by the federal government as well as the framework for assessing taxes and fees. Economic assumptions address the economic factors that are not under the direct control of the Federal government (for example, population demographics, inflation and growth in Gross Domestic Product (GDP)). The Board indicated that staff should develop broad guidelines for assumptions rather than detailed rules.

For the December 2007 meeting, the briefing materials will contain numerous alternatives for fiscal sustainability reporting in addition to revised objectives and guidance on assumptions. The briefing materials will be presented in the format of a draft exposure draft (ED).

**Point of Contact:** Eileen Parlow, 202-512-7356, [parlowe@fasab.gov](mailto:parlowe@fasab.gov)

## Social Insurance

At its meeting on September 19-20, 2007 the Board members discussed the economic cost of social insurance programs, essential social insurance information to communicate, and display options.

Some members said the economic cost is the change in the statement of social insurance (SOSI) amounts during the reporting period. For example, if the net present value (NPV) of the social insurance commitments last year was \$44 trillion and this year it is \$45 trillion, then the economic cost would be \$1 trillion. Others defined it more narrowly as the change in the present value of future benefits attributed to work in covered employment already performed, exclusive of the present value of future benefits attributable to work in covered employment to be performed in the future. Others had a different view.

The Board discussed the challenge of understanding multiple financial statements and the desirability of a highlights document. Most members favored a highlights document with references to other sections of the report where more information would be available. For example, the highlights document would capture, in one or two lines, (1) the exchange

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<sup>1</sup> SFFAC 1, par. 134.

<sup>2</sup> SFFAC 1, par. 139.

transactions, (2) net operating cost, and (3) the social commitments – without saying one is more important than the other. Other statements could be developed that would link back to the highlights statements.

The Board also discussed possible essential information about social insurance programs. For example, the open group actuarial liability in each of the last five years resonated with the members because it showed the growth year after year. In addition, essential information included the cross-over point when benefit payments begin exceeding tax revenue, and projected cash flow over 75 years as a percent of GDP because economists can use these numbers. Other essential pieces of information included the cause and the amount of the changes in the closed group actuarial liability and “maximum transition cost” from year to year.

Some members felt it was very important to show these numbers for social insurance responsibilities juxtaposed against other traditional accounting concepts like net operating costs, assets, and net position of the government.

Some members argued that somewhere in the document the liability number needs to be provided to people who want to see what a liability number would be, although it need not be on the balance sheet. The Board may use the SOSI or craft new statements to disclose this and other information; for example, information program by program and/or group by group, and then summarize it separately in a cover sheet.

For the December meeting the staff will develop a list of essential information and possible display formats. However, the Board decided to focus its attention in the near term on the sustainability project to ensure that consistent reporting formats emerge from the related projects.

**Point of Contact:** Richard Fontenrose, 202-512-7358, [fontenroser@fasab.gov](mailto:fontenroser@fasab.gov)

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

The exposure draft *Reporting Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, is out for comment. The comment period ends November 30, 2007.

**Point of Contact:** Richard Fontenrose, 202-512-7358, [fontenroser@fasab.gov](mailto:fontenroser@fasab.gov)

## Appropriate Source of GAAP

At the September 20, 2007 meeting, staff updated the members regarding the progress on the project since it was last on the agenda in May 2007. At that meeting, members had asked staff to meet with FASAB’s sponsors to agree on the most pressing issue to be addressed related to the appropriate source of generally accepted accounting principles (GAAP) for federal entities. In July 2007, FASAB staff and

representatives from each of the three sponsors formed a workgroup and jointly developed a recommendation that would address the issues with the governmentwide consolidation. Staff noted that there was not widespread support for requiring full conversion to FASAB standards so the recommendation did not address primary reporting at the component entity level.

Staff noted that there are several potential options that the members have to address the issue. Staff referred to the three options contained in the paper:

- Option A – Take no action
- Option B – Implement workgroup recommendation
- Option C – Initiate FASAB project to address specific differences

Staff briefly summarized the workgroup's recommendation, which is to (1) permit entities currently following GAAP set by the Financial Accounting Standards Board (FASB) to continue to do so but require that they present in their individual financial statements an audited footnote reconciliation of the differences between FASB GAAP and FASAB GAAP that would support the numbers submitted to Treasury via the Governmentwide Financial Report System (GFRS) for the consolidated Financial Report of the U.S. Government (CFR); and (2) revoke the "grandfather authority" that allowed entities to comply with FASAB GAAP by continuing to directly follow the FASB hierarchy.

The majority of the Board requested that staff further develop Option B (implement workgroup recommendation) but include additional information about financial statement user requirements for entities that are preparing FASB-based statements. Some members also requested to see a draft survey requesting cost information about the proposed changes to component level reporting, an assessment of the indirect impact on the legislative and judicial branches, and more information on whether entities that begin preparing financial statements for the first time should be permitted to prepare FASB-based financial statements under certain conditions.

**Point of Contact:** Julia Ranagan, 202-512-7377, [ranaganj@fasab.gov](mailto: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	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	Ross Simms, 202-512-2512
The Federal Entity		Research	Research	Research	ED	Melissa Loughan, 202-512-5976
Fiscal Sustainability		Research	Research	Research	ED	Eileen Parlow, 202-512-7356
Social Insurance Liabilities	PV -- October 2006	DP with PH	DP	DP	DP	Richard Fontenrose, 202-512-7358
Reporting Gains & Losses from Changes in Assumptions		ED	DP	DP	UR	Richard Fontenrose, 202-512-7358
Appropriate Source of GAAP		Research	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 requested comments on two Exposure Drafts (ED) during mid-2007. The first ED was 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. The second ED was 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 and Frank Synowiec, Jr and Carrie Hug. Comments were due August 13, 2007.

Four comment letters and one FASAB Board member response were received for the HA/SL ED and fourteen comment letters and two FASAB Board member responses were received for the IEC ED. The ED's were briefly discussed by the FASAB at its September meeting to determine if any of the members had objections to the overall concepts provided in either guide. No objections were noted.

The ED's were also discussed in more detail at the September AAPC meeting. The task force chairs discussed the significant comments noted in the ED response letters with the Committee members. Both guides are expected to be revised by their respective task forces and sent back to the AAPC before the November meeting for review. It is expected that both guides will be discussed at the November 29 AAPC meeting. Neither guide has been issued as final guidance.

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](mailto:valentinem@fasab.gov)

# FASAB Meeting Schedule

## Schedule for 2007 Meetings:

Monday, December 4<sup>th</sup> and Tuesday, December 5<sup>th</sup>

## Schedule for 2008 Meetings:

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

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, November 29<sup>th</sup>, 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](mailto: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.