



**FEDERAL
ACCOUNTING STANDARDS
ADVISORY BOARD**

Annual Report

Fiscal Year Ended September 30, 2010



FASAB Board Members



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Norwood J. Jackson, Jr.



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ORGANIZATION, MISSION, AND PROCESS

The Federal Accounting Standards Advisory Board (“the board”) was established in October, 1990, by three federal officials responsible for federal financial reporting—the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States.

These three officials possess legal authority under various laws to establish accounting and financial reporting standards for the federal government. Together, they entered into and have periodically modified a memorandum of understanding creating the board as a federal advisory committee.

Membership comprises individuals from each of the three federal agencies sponsoring the board and six non-federal individuals. The Appointments Panel identifies and recommends non-federal candidates for appointment to the board. The Appointments Panel comprises the board chairperson, the federal members of the board, a representative of the Financial Accounting Foundation, and two representatives of the American Institute of CPAs (AICPA). Appointments to the board are made jointly by the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General of the United States. Members are appointed to five-year terms and may be reappointed for a second term.

The Standard Setting Process

Our process provides board members the information they need to make informed judgments. All steps in the process involve public deliberation, outreach to constituents, and careful development of options for consideration.

- Technical Agenda decisions are made by the full board following consultation with knowledgeable individuals.
- The board deliberates at public meetings the various issues identified and analyzed by the staff (often with the assistance of a task force).

Mission

The mission of the FASAB is to develop accounting standards after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and the needs of other users of federal financial information.

Accounting and financial reporting standards are essential for public accountability and for an efficient and effective functioning of our democratic system of government. Thus federal accounting standards and financial reporting play a major role in fulfilling the government’s duty to be publicly accountable and can be used to (1) assess the government’s accountability and its efficiency and effectiveness, and (2) contribute to the understanding of the economic, political, and social consequences of the allocation and various uses of Federal resources.

Accounting standards should:

- Result in the federal government and its agencies providing users of financial reports with understandable, relevant, and reliable information about the financial position, activities, and results of operations of the United States Government and its component units; and
- Foster the improvement of accounting systems and effective internal controls that will help provide reasonable assurance that governmental activities are conducted economically, efficiently, and effectively, and in compliance with applicable laws and regulations.

GAAP Standard Setting Body

In 1999, the board was recognized by the AICPA as the source for generally accepted accounting principles (GAAP) for the federal government. Prior to this recognition, the federal government was the only entity in the United States that did not have AICPA recognized GAAP. The AICPA has conducted three reviews of the Board’s operations to assess its conformance with five criteria essential for a GAAP standard-setting body—*independence, due process, domain and authority, human and financial resources, and comprehensiveness and consistency.* The most recent review, completed in May 2010, recommended that the board ensure greater visibility regarding its governance and operations. This annual report is one part of an effort to ensure that the public is able to adequately monitor the board’s efforts.

- An exposure draft or a preliminary request for comment is issued to obtain public input.
- A public hearing may be held if members consider it appropriate.
- The staff analyzes comment letters, public hearing input, results of any field tests, and any other information received during the comment period.
- The board re-deliberates proposed pronouncements at public meetings.
- The board approves a final Statement and submits it to Treasury, OMB, and the Government Accountability Office (GAO) for review. If an objection from OMB or GAO is received during the review period, the Statement is returned to the board for further consideration. If no objection is received, the final Statement is issued.

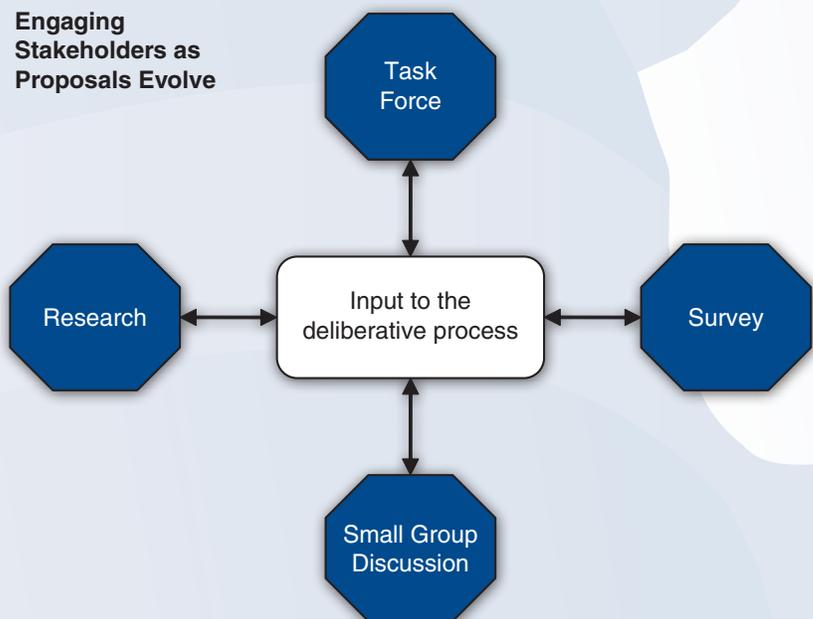
Resources Supporting the Standard Setting Process

The board’s operating budget of \$2 million, for the fiscal year ending September 30, 2011, covers the costs of its full-time staff and non-federal board members. In addition to the full-time staff, the board benefits greatly by leveraging input from stakeholders in the federal financial management community, the inspectors general community, the private sector, and citizenry. By actively engaging stakeholders, the board and its staff quickly develop an understanding of issues and options for resolving them. The board and staff engage stakeholders in a variety of ways before proposals are issued for formal comment.

The most intensive approach to stakeholder engagement is through task forces. During FY2010, the board received advice from task forces comprising experts in the areas of earmarked funds, deferred maintenance, the federal entity, and the federal reporting model. Collectively, these four task forces engaged over one hundred and thirty experienced professionals from inside and outside the federal government throughout the life cycle of these major projects. In addition, the Accounting and Auditing Policy Committee (AAPC)—a permanent committee which develops implementation guidance—relies on task forces to develop technical releases offering implementation guidance. Three task forces (with over one hundred members in total) operated in 2010 to support projects on grant accruals, property, plant and equipment (PP&E) implementation guidance, and Management’s Discussion and Analysis best practices.

Task force members often identify issues encountered in practice, ways to improve the value of information to users, and the effects of various options being considered. They also help improve the clarity of draft guidance. Task force contributions enable the board and AAPC to zero in on the most substantive issues while finding workable solutions that balance user needs and costs.

For certain issues, the board has engaged stakeholders broadly through surveys. During FY2010, the board conducted surveys to learn more about citizens’ information needs, reporting practices and experiences in



Source: FASAB.

other countries, and the successes and challenges experienced by agencies implementing cost accounting systems. Such surveys engage more stakeholders quickly; providing a wide range of views. The results of these surveys enabled the board to make decisions that are well informed.

Small group discussions, such as focus groups and roundtables, allow the board to solicit timely input on targeted topics. For example, focus group discussions contributed to decisions about how best to conduct reporting model research. Small group discussions were also held on accounting for internal use software that will aid the board in deciding whether to add this project to its technical agenda in the future.

In addition to direct stakeholder engagement and its own research, the board supports and benefits from research conducted by others. For example, the members and staff frequently serve on task forces of the International Public Sector Accounting Standards Board, on advisory panels for the Association of Government Accountants, and as volunteers for programs such as the Certificate of Excellence in Accountability Reporting. In addition, the board meets annually with the Governmental Accounting Standards Board to discuss topics of mutual interest.

Public Due Process

The board is committed to providing ample opportunity for all stakeholders to provide input. Throughout its extensive deliberations—including the stakeholder engagement described above—the board ensures that the entire process is transparent. Meetings of the board are publicly announced and open to observers. Following its extensive stakeholder outreach and public deliberations, the board formally solicits public comment on each proposal. No final pronouncement is issued until adequately exposed for public comment.

CHAIRPERSON'S REPORT

2010 brought unprecedented attention to the U. S. Government's financial condition. The board's mission requires it to strive for greater transparency and accountability to citizens, taxpayers, and other interested parties regarding the financial results of the government's operations as well as its financial condition. We are also charged with supporting the information needs of decision makers such as executives and elected officials. The current focus on government finances highlights the need for GAAP that are comprehensive and consistent with a sound conceptual framework for national government reporting. I believe the board made significant progress toward greater accountability during its twentieth year.

The most notable evidence of the board's accomplishments was the publication of comprehensive long-term fiscal projections based on GAAP (collectively referred to as fiscal sustainability information) in this year's Consolidated Financial Report of the U.S. Government. The standards governing these projections were produced at the urging of the Secretary of the Treasury, OMB Acting Director, U.S. Comptroller General, and Office of Personnel Management Administrator. In a joint statement to the board in 2006, these appointed public officials noted that "Equally critical is the need to convey transparently, through financial reporting, information to assist the American public, the Congress and other users of the financial statements, in understanding and evaluating the current status and longer-term sustainability of social insurance and other federal programs, including the implications of program financing on overall intergenerational equity and individuals' retirement planning." The inclusion of such information this year is a landmark achievement for the board and the officials responsible for communicating this critical information in a transparent manner. While this information expands

on similar information in prior reports, this is the first time the financial report of the government has been required to provide a comprehensive focus on future events. I am hopeful that the information will be used to make important decisions about the government's future financial course. The board is very interested in public reaction to the display of this information and solicits comments concerning content as well as appropriateness in the context of GAAP basis financial reports.

Documents Issued During Fiscal Year (FY) 2010

- SFFAS 35: Estimating the Historical Cost of General, Property, Plant, and Equipment
- SFFAS 37: Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements
- SFFAS 38: Accounting for Federal Oil and Gas Resources
- SFFAS 39: Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards
- Technical Release 10: Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment
- Technical Release 11: Implementation Guidance on Cleanup Costs Associated with Equipment
- Technical Release 12: Accrual Estimates for Grant Programs
- Exposure Draft: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards
- Exposure Draft: Accrual Estimates for Grant Programs
- Exposure Draft: Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment.
- Exposure Draft: Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording
- Pronouncements as Amended through June 30, 2010

Board Pronouncements

The board finalized four new accounting standards during the year—natural resources, social insurance, use of estimates for general property, plant, and equipment, and subsequent events. The following results are expected:

- Management’s discussion and analysis will include financial highlights that help the reader assimilate information from different perspectives and time horizons to answer a variety of questions on the government’s financial condition and operations.
- A statement explaining why projections of social insurance net outflows changed from the previous year so that readers understand the financial consequences of legislative decisions and economic changes affecting social insurance programs.
- Reasonable estimates of the cost of property, plant, and equipment will be acceptable so that taxpayer resources are not devoted to development of precise valuations for assets acquired in the past.
- Comprehensive financial information regarding the nation’s oil and gas resources will be required for the first time so that readers are able to assess the government’s stewardship of these resources.
- Information regarding events occurring after the end of the reporting period will be presented in a consistent manner to alert readers to significant changes in a timely manner.

The board made substantial progress in two other areas—deferred maintenance on capital assets and concepts for measurement of elements—as evidenced by the release of proposals for public comment. Each of these pronouncements is expected to be completed during 2011.

Implementation Guidance

The AAPC comprises representatives from the Chief Financial Officers Council, the Council of Inspectors General on Integrity and Efficiency, Treasury, OMB, and GAO and provides implementation guidance relating to federal financial accounting standards. The FASAB executive director serves as chairperson of the committee. While staff support is provided, the committee accomplishes its mission largely through the efforts of volunteers serving on task forces. Volunteers come from federal agencies, independent public accounting firms, and nonprofits. The committee is undertaking an effort to resolve long-standing issues related to accounting for PP&E and related cleanup costs. During the year, the committee completed guidance regarding asbestos cleanup costs, cleanup costs associated with property, plant, and equipment, and accrual estimates for grant programs. Exposure drafts on two other PP&E topics are expected early in fiscal year (FY) 2011. This guidance is expected to reduce costs for producing data and provide a more consistent interpretation of requirements.

*F*inal Documents Issued During FY 2009

(becoming effective in FY 2010 or later)

- SFFAS 36: Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government
- SFFAS 34: GAAP Hierarchy for Federal Entities
- SFFAS 33: Pensions, Other Retirement Benefits, and Other Post-Employment Benefits: Reporting Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates
- SFFAC 6: Distinguishing Basic Information, RSI and OAI
- Technical Bulletin 2009-1: Deferral of the Effective Date of TB 2006-1

Collaboration

During the year, the board worked closely with other standard setters. The Governmental Accounting Standards Board, which establishes standards for state and local governments, is also developing its conceptual framework. The boards met jointly to consider measurement issues and are seeking to align definitions of measurement attributes for use in U.S. government reporting at all levels. The International Public Sector Accounting Standards Board is addressing both its conceptual framework and fiscal sustainability reporting. FASAB's executive director serves on advisory groups for each of these projects and ensures that the board is aware of developments internationally that may influence its work.

Presentations and Other Assistance

The board and its staff presented over 30 hours of educational material through their participation in international, national, regional and local conferences. Four hours of continuing professional education were provided free of charge to over 150 individuals who attended a cost accounting forum hosted by the board. In addition, staff members routinely provide assistance to accounting textbook authors and respond to questions regarding federal accounting.

Conclusion

The board accomplished a great deal this year. Its contributions to transparency and accountability continue and a major bright spot is the availability of fiscal sustainability information based on GAAP this year. I look forward to another successful year in 2011.



TOM ALLEN

GOVERNANCE AND OPERATIONS

The AICPA conducted a review of board governance and operations during calendar year 2010. This was the third review to assess the board's conformance with the AICPA's five criteria for a GAAP standard-setting body—*independence, due process, domain and authority, human and financial resources, and comprehensiveness and consistency*. As a result, the AICPA Council approved the board's recognition on a continuing basis provided that the board acts to ensure greater visibility regarding its governance and operations. This annual report is one step to enhance visibility. This section reports on the changes to the board's governance processes as well as the Appointments Panel's and the Steering Committee's governance processes and activities.

Following the AICPA's actions, the board updated and expanded its rules of procedure. The following significant changes to the rules were completed in October 2010:

- The AICPA criteria for a GAAP standard-setting body were included along with processes to support continued conformance with the criteria.
- Requirements for this annual report, including minimum content and an annual performance survey of FASAB members, were established.
- Annual confirmation of member independence and adherence to the ethics policy was required.
- Processes for members to report undue influence and for the AICPA to be alerted to reportable events were established.
- The chairperson's duties were expanded to include a liaison role with the AICPA.
- The Steering Committee (comprising the chairperson and the federal board members) mission and responsibilities were formalized and expanded to respond to the AICPA's recommendations.

The AICPA also requested that the Appointments Panel review and expand its policies and procedures. The Appointments Panel, established in 1999, assists the board's sponsors (Treasury, OMB, and GAO) in recruiting and selecting non-federal members. In 2010, the panel expanded its responsibilities to include greater awareness of the AICPA criteria and provision of suggestions for improvement to the board. In addition, the panel will review each annual report and annual performance survey so that any concerns may be conveyed to the AICPA in a timely manner. Beyond improvements to its policies and procedures, the panel (1) recommended re-appointment of the board's chairperson, Tom Allen, and (2) set its 2011 recruitment schedule.

The Steering Committee participated in ongoing Appointments Panel activities. In addition, the committee reviewed and tentatively approved the board's operating budget for FY 2011 and FY 2012. Final approval is dependent on appropriations established through the legislative process. The committee also conducted the executive director's annual performance appraisal and set expectations.

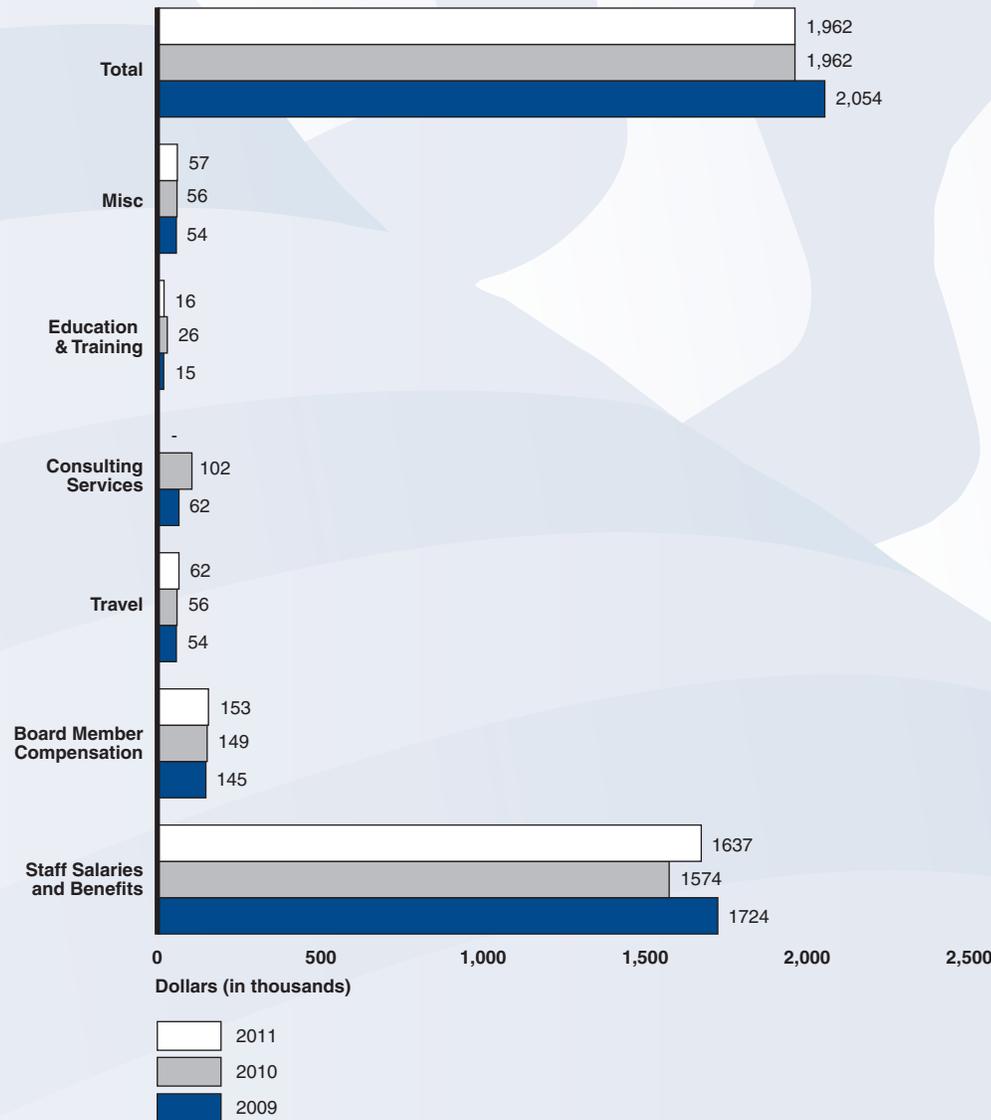
RESOURCES

The board is projecting a 13.4% reduction in funding from baseline levels for FY 2011. The reduction is not expected to impair FASAB's ability to meet its mission because other options for additional resources exist should needs arise. This reduction in funding is due to the Congressional Budget Office (CBO) ceasing its participation in and funding for board activities due to competing demands for its limited resources. CBO previously provided 22.5% of FASAB's operating funds and made

substantial contributions to the board’s work due to its unique perspective. The board has adjusted to this reduction in resources by reducing its full-time professional staff by one and eliminating funding for contract support. This represents a 25% reduction in individuals dedicated to managing technical projects. Actual funding levels are dependent on final FY 2011 appropriations and will be determined after appropriations are provided to each of the remaining sponsors. Chart 1, *Budget 2009-2011*, illustrates budget resources used during FY 2009 and FY 2010 as well as anticipated resources in FY 2011.

Chart 1

Budget 2009-2011 (dollars in thousands)



Source: FASAB.

THE ANNUAL CONFIRMATION AND PERFORMANCE SURVEY

As noted above, the board developed and administered for the first time an annual confirmation of member independence and adherence to its ethics policy as well as an annual performance survey. These provide an annual self-assessment of conformance to the five criteria essential for a GAAP

standard-setting body. Each member reports his or her continued independence and ethical conduct. In addition, the annual performance survey allows each member to identify any changes—whether positive or negative—in the board’s performance relative to the five criteria. Members are encouraged to offer an explanation for their views as well as their suggestions for future improvements.

The Appointments Panel monitors this process and receives all completed forms. This annual report presents the results in summary form so that the public is made aware of individual member views on a timely basis. In addition to these annual processes, members have agreed that the AICPA will be notified of any reportable events as they occur. Together, these efforts serve to alert the AICPA to significant changes relevant to the board’s continued conformance with the established criteria and its ongoing recognition as the GAAP standard-setting body for federal government entities.

This year all members confirmed that they conformed to the requirements regarding independence, ethics, and undue influence. Further, the survey results show no significant change during the year but some concern regarding future resources. Chart 2 reports the number of members who believed the board improved, stayed the same, or declined when considering three criteria: (1) due process, (2) knowledge of staff and members, and (3) comprehensiveness and consistency.

For the remaining two criteria (domain and authority, and human and financial resources), several comments and suggestions for improving board operations were provided by individual members. The board is beginning the process of analyzing input from the members, and will develop plans, as appropriate, to address them. In brief, the input from individual members was to address the following matters as opportunities and needs arise:

Rule 203 Criteria

Independence: The body should be independent from the undue influence of its constituency.

Due Process and Standards: The body should follow a due process that is documented and open to all relevant aspects or alternatives. The body’s aim should be to produce standards that are timely and that provide for full, fair, and comparable disclosure.

Domain and Authority: The body should have a unique constituency not served by another existing Rule 203 standard-setting body. Its standards should be generally accepted by its constituencies.

Human and Financial Resources: The body should have sufficient funds to support its work. Its members and staff should be highly knowledgeable in all relevant areas.

Comprehensiveness and Consistency: The body should approach its processes comprehensively and follow concepts consistent with those of existing Rule 203 standard-setting bodies for analogous circumstances.

ANNUAL CONFIRMATION PROVIDED BY MEMBERS

Independence: I acknowledge that I have neither personal nor external impairments that will keep me from objectively reaching independent conclusions on matters under consideration by FASAB, nor did I during the preceding fiscal year. I will promptly notify the Chairperson if my independence is or may be impaired.

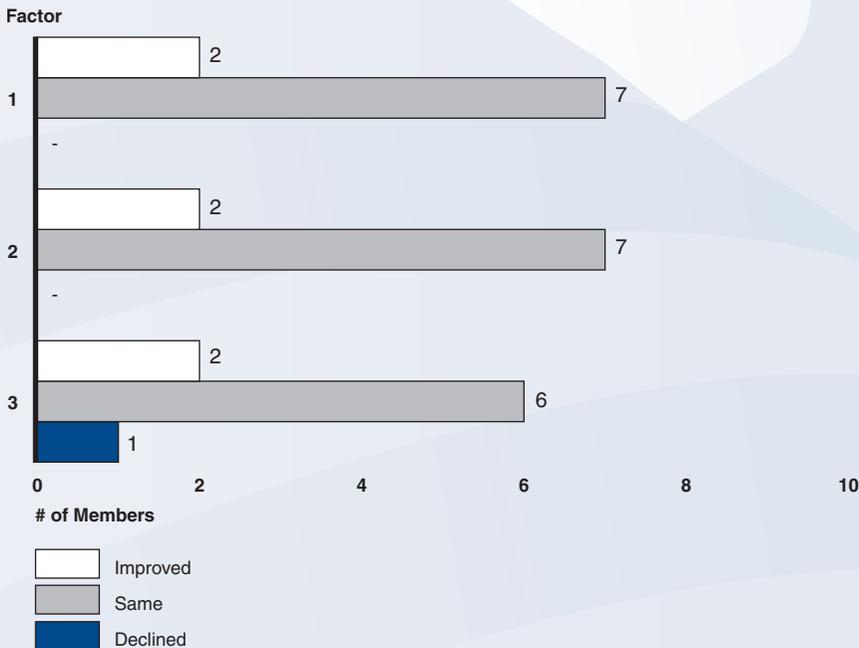
Ethics: I have reviewed the FASAB ethics policy and confirm that I satisfied all requirements and limitations established under the policy during the preceding fiscal year.

Undue Influence: I have notified the Chairperson of any and all matters that I judge to be undue influence. “Undue influence” is defined as external influences or pressures that impact a member’s ability to objectively reach and/or communicate independent conclusions.

- Seek increased collaboration with the federal financial management community and seek ways to encourage proactive participation
- Assess the possible impacts of potential, but as yet unknown, future budget constraints in light of the budget pressures and uncertainties facing all federal agencies; which may require the board to:
 - focus on the greatest needs of the financial management community
 - continue to improve the efficiency of its own operations
 - seek employees detailed from other agencies in times of great need
- Enhance outreach to users of financial information by identifying key information needs, educating users about the information, and working through due process to ensure financial reports deliver information in an understandable manner

The board will conduct one of its periodic planning sessions at its February meeting to identify medium to long-term goals as well as begin prioritizing current and potential projects. As part of developing goals, the board will consider its resource needs, available agency staff resources, and stakeholder views.

Chart 2



Source: FASAB.

TECHNICAL AGENDA

The board is currently pursuing several major projects and has identified projects to be addressed in the near future. In addition, the AAPC is pursuing two major projects—MD&A best practices and implementation guidance for PP&E. Table 1, Technical Agenda, identifies each active project as well as potential future projects.

Table 1: Technical Agenda.

Project	Quarter 4 CY2010	Quarter 1 CY2011	Quarter 2 CY2011	Quarter 3 CY2011	Staff Contact
ACTIVE PROJECTS					
Standards Projects					
Natural Resources	Draft Technical Bulletin	ED	Technical Bulletin UR	Final Technical Bulletin	Julia Ranagan
The Federal Entity	Research	Research	Research	ED	Melissa Loughan
FASB Reporting by Federal Entities	Research	Research	Research	Research	Julia Ranagan
Deferred Maintenance & Asset Impairment	Research DP - Definition	Research	Research	ED on measurement and reporting	Domenic N. Savini
Earmarked Funds	Research	Research	ED	DP	Eileen Parlow
AAPC MD&A Best Practices		Final Best Practices Guide			Rich Fontenrose thru 9/30/10 Monica Valentine
AAPC PP&E – Acquisition	ED	DP	Final		Monica Valentine
AAPC PP&E – Disposal	ED	DP	Final		Monica Valentine
AAPC PP&E – Cost (Direct and Indirect)	Research	Research	ED		Monica Valentine
Conceptual Framework Project					
Measurement Attributes	ED	DP	DP	UR	Penny Wardlow, thru 2011
Financial Reporting Model	Research	Research	Research	Research	Ross Simms
Future Priority Projects:					
Standards Derived from Reporting Model Project including emerging CFO Council issues					Ross Simms
Deployed assets	Research	Research	ED		Eileen Parlow
Internal Use Software	Research	Research	Research	ED	Wendy Payne
Evaluating existing disclosures		Research	Research	Research	Ross Simms
PP&E – Evaluating Valuation Options			Research		Monica Valentine
Risk Assumed					Wendy Payne
Leases					Monica Valentine

Source: FASAB.

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

We want to hear from you.

Do you like this report? Do you believe it should include any other information?
Please let us know by contacting the Chairman at FASAB@FASAB.GOV or 202.512.7530.

