



FASAB Newsletter Federal Accounting Standards Advisory Board

June/July 2016 TABLE OF CONTENTS

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Disclaimer

The staff of the Federal Accounting Standards Advisory Board publishes the FASAB newsletter 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 this is tentative until FASAB issues a Statement of Federal Financial Accounting Concepts (SFFAC) or Statement of Federal Financial Accounting Standards (SFFAS).

Please direct editorial questions to Leigha Kiger at 202-512-7358 or kigerl@fasab.gov.

Please direct technical questions about AAPC to Grace Wu at 202-512-7377 or wug@fasab.gov.

Please direct administrative questions about FASAB and AAPC to FASAB staff at 202-512-7350 or fasab@fasab.gov.

Current Board Projects

(For more information, click on the title of the project to be directed to the related active project page.)

The Financial Report

The Board and Ross Simms, assistant director, discussed enhancements to a draft exposure draft (ED) concepts statement on financial statements and required supplementary information (RSI). The draft ED proposes concepts regarding the role of financial statements and RSI and their relationship to other information presented to help achieve the reporting objectives. The proposed concepts will address current and evolving reporting needs and capabilities and will assist the Board in developing reporting models for the government-wide and component reporting entities.

The Board discussed whether the ED should define the term “financial condition” or include a reference to a discussion on financial condition presented in Statement of Federal Financial Accounting Concepts

(SFFAC) 1, *Objectives of Federal Financial Reporting*. The Board determined the ED should 1) include language that distinguishes financial condition from financial position; 2) reference the discussion of financial condition in SFFAC 1; and 3) discuss that sustainability is one indicator of financial condition.

The Board also agreed that the ED would present aspirations for the types of information that government-wide and component reporting entities should present, including performance information. The Board discussed the performance results section of the ED and determined the focus should be on addressing the operating performance objective and its relationship to the stewardship objective, rather than focusing solely on the stewardship objective. Focusing solely on the stewardship objective may suggest the need for information on broad outcomes for the nation. The Board also reviewed other sections of the ED and planned to review a pre-ballot draft ED during the August 2016 meeting.

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

Leases

At the June Board meeting, staff provided to the Board a draft ED on lease accounting and task force responses to several lease-related questions posed by staff. The objective of the session was to review responses to seven questions staff had posed to the lease task force related to issues in which the Board had requested additional information and review a draft Lease ED.

The Board made the following tentative decisions.

- The Board agreed with the staff recommendation to propose the use of FASAB's definition of probable (more likely than not - >50%) as the probability threshold in the Lease ED. The Board also directed staff to include probability threshold as a question in the ED.
- The Board agreed to propose that the leased asset be classified as property, plant, and equipment (PP&E) unless the underlying asset is not PP&E; in those cases the leased asset would be classified to align with the nature of the underlying asset.
- The Board agreed that the basis for conclusions should tell the story of how the Board arrived at its conclusions and the Board's collaboration with the Governmental Accounting Standards Board (GASB). The basis for conclusions should not specifically note when FASAB's proposed guidance diverges from GASB's guidance unless the Board deliberated on GASB's approach. In those instances when the Board considered GASB's approach, staff will include the highlights of the discussion and how the Board came to its conclusions.
- The Board agreed to add some verbiage to the basis for conclusions on rent increases, lease incentives, and lease concessions.

Next steps: Staff will make the revisions discussed at the meeting to the draft ED and provide a pre-ballot draft for the August meeting.

Point of Contact: Monica Valentine, 202-512-7362, valentinem@fasab.gov

Risk Assumed—Insurance Phase

The Board reviewed revisions based on responses to questions for respondents three through eight and paragraph ten—exclusions—from the Insurance Programs ED.

The Board approved updates to the following topics for consistency and clarity throughout the Statement: adverse events, insurance portfolios, claim adjustment expenses, and disclosures. The subject of disclosures comprised the introduction to disclosures, investing activities, insurance in-force, and uncertainty and shared risks.

The Board discussed and made decisions on the following aspects of the proposed Statement of Federal Financial Accounting Standards (SFFAS):

- The Board decided to provide only a reference to SFFAS 39, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statement on Auditing Standards* for **recognized and nonrecognized subsequent events** to avoid supplementing or adding to SFFAS 39. In addition, the basis for conclusions will only reference major events.
- The Board decided to add “reasonable estimates” to the guidance to clarify their intent regarding the **measurement of losses on remaining coverage**.
- The Board decided to use the term “**full cost**” as defined in SFFAS 4, *Managerial Cost Accounting Standards and Concepts* instead of “**gross cost**.” Gross cost might cause preparers not to be clear regarding the costs the Board intended to be reported.
- The Board decided to change the **effective date** to September 30, 2018, to allow agencies enough time for implementation.
- The Board decided to retain **entitlements as an exclusion** with a clear definition of entitlements in relation to insurance programs.

Point of Contact: Robin Gilliam, 202-512-7356, gilliamr@fasab.gov

Accounting and Reporting of Government Land

At the June Board meeting, staff presented at tab B an update on the progress of the Accounting and Reporting of Government Land project and also sought approval of the proposed next steps, including the most efficient and economical use of the task

force, identification of issues best suited for Board deliberations as opposed to task force deliberations, and a proposed timeline.

Although the Board was generally satisfied with the project plan's next steps, members asked staff for continued updates to ensure that options, along with associated benefits and drawbacks, be brought to the table for discussion.

In particular, the Board asked staff to

- consider user information needs;
- explore and identify what information agencies use to manage land;
- identify types of information, such as acreage, that would help demonstrate the government's stewardship and accountability over federal lands;
- address whether land held for disposal (for example, sale, public-private partnerships, donated to state and local governments) should be valued; and
- consider whether a uniform land accounting policy is a viable option given initial agency and task force feedback that current land classifications of stewardship land and general property, plant and equipment (G-PP&E) land be retained.

The Board discussed the remaining three items staff had proposed to exclude from additional agency fact finding within the project: land rights, land improvements, and land impairment. Members generally agreed with staff's recommendations not to pursue these matters with the task force at this time but reserved these items for future research and Board deliberations.

Point of Contact: Domenic Savini, 202-512-6841, savinid@fasab.gov

Budget and Accrual Reconciliation

At the June Board meeting, staff presented to the Board the budget and accrual reconciliation working group's research on the Statement of Financing note (SOF). The Board concurred with the working group that the current format is not very useful and overly complex. As such, the task force should research alternative presentation formats.

The Board directed staff to consider the following characteristics when judging the alternative format's effectiveness:

- User-friendliness
- Clarity

- Ease of preparation
- Ability to support the government-wide's net cost to budget deficit reconciliation

Members of the working group explained some of the challenges in preparing and auditing the reconciliations from the net cost amounts to the budget deficit, or the net obligation amounts. Some of the challenges include the complexity of the budget process and the differences in terminology. The working group will continue developing a meaningful format and crosswalk for the reconciliation.

Point of Contact: Grace Wu, 202-512-7377, wug@fasab.gov

Accounting and Auditing Policy Committee

There was no AAPC activity during the period.

Point of Contact: Grace Wu, 202-512-7377, wug@fasab.gov

FASAB Meeting Schedule

Schedule for 2016 Meetings

August 24 and 25
October 19 and 20
December 19 and 20

Unless otherwise noted, FASAB meetings begin at 9 a.m. and conclude before 5 p.m. Meetings are held at the Government Accountability Office (GAO) at 441 G Street, NW in room 7C13. Agendas and briefing materials are available at <http://www.fasab.gov/briefing-materials/> approximately one week before the meetings.

AAPC Meeting Schedule

Schedule for 2016 Meetings

August 18
November 17

Unless otherwise noted, AAPC meetings begin at 1 p.m. and conclude at 3 p.m. Meetings are held at GAO at 441 G Street, NW in room 7C13. Agendas are available at <http://www.fasab.gov/aapc-activities/> approximately one week before the meetings.

Security Notice

If you wish to attend a FASAB or an AAPC meeting, please pre-register on our website at <http://www.fasab.gov/pre-registration/> **no later than 8 a.m. the Tuesday before the meeting to be observed.** GAO, which provides space for our meetings, has increased its security procedures, and your name must be provided in advance to the GAO security force before you can enter the building. **When you arrive, please advise the security officer that you are attending either a FASAB or an AAPC meeting. Doing so will assist the officer in locating the correct security list.** Thank you.