



FASAB news

*Federal Accounting Standards
Advisory Board*

Issue 80 June/July 2003

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FASAB Welcomes New Member: Dr. Douglas Holtz-Eakin, Director of the Congressional Budget Office

The Chairman of the Federal Accounting Standards Advisory Board (FASAB), David Mosso, is pleased to announce that the Board's sponsors, the Department of the Treasury (Treasury), the Office of Management and Budget (OMB) and the General Accounting Office (GAO), entered into a new Memorandum of Understanding (MOU) governing the Board. Mr. Mosso stated that the new MOU provides for additional input from the legislative branch by adding a member from the Congressional Budget Office (CBO).

Dr. Douglas Holtz-Eakin, CBO Director, has agreed to join the Board as its tenth member. His participation will offer the Board additional insight regarding

Congressional information needs. In addition, his expertise in economics and public policy will enhance the mix of professional skills represented on the Board now.



Dr. Holtz-Eakin is the sixth Director of the Congressional Budget Office, where he was appointed for a four-year term beginning February 3, 2003. He previously served for 18 months as Chief Economist for the President's Council of Economic Advisers.

Dr. Holtz-Eakin is on leave from Syracuse University where he holds the post of Trustee Professor of Economics at the Maxwell School. In the past, he has held academic appointments at Columbia University and Princeton University.

Dr. Holtz-Eakin has a long-standing and broad interest in the economics of public policy. He has studied the role of federal taxes in home ownership, the contribution of inventories to the business cycle, and a wide variety of topics in state and local government finance.

The new MOU and bios for current members are available on the World Wide Web at <http://www.fasab.gov/fasabinfo.htm>

Current Board Projects

Natural Resources

Objective:

To develop an accounting standard for the oil & gas natural resources owned by or under the stewardship of the Federal Government. Specifically, to determine under what conditions a value and a quantity should be measured and reported for oil & gas, how revenue and the related costs should be recognized and measured, and what disclosures or supplemental information are essential to meeting the reporting objectives. The accounting standards for oil & gas shall be developed to meet the federal financial reporting objectives (SFFAC 1), subject to the pervasive constraint that benefits exceed cost.

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.

Project History:

The project began with the formation of a task force to conduct research. The task force produced a research report in June 2000 entitled *Accounting for the Natural Resources of the Federal Government*. (See <http://www.fasab.gov/reports.htm> to access the report.) The Board is resuming active consideration of the issues raised by the task force after a deferral to address other issues. At the October and December 2002 meetings, the Board was provided background information on the project and considered the project plan. The Board decided to proceed with developing standards for oil and gas due to the extensive literature available in other domains. In February 2003, the Board received information on selected practices as well as an update on staff research. During the April 2003 Board meeting, staff presented a draft skeletal exposure draft (ED) on the proposed oil and gas standards for discussion by the Board.

Recent Actions and Plans:

During the June 2003 Board meeting, staff discussed several questions and issues posed by the Board during the April meeting and further discussed how to proceed with the draft ED on the *Accounting for Oil and Gas Resources*. Staff will continue their research on current reporting practices for oil and gas information, specifically addressing the possibility of capitalizing the costs associated with preparing the government's Oil & Gas Assessment. Staff will also bring back to the Board pro forma disclosures that could be included in entity financial reports. The Board would also like to know how the proposed recognition of oil and gas resource collections and disbursements would affect an entity's Statement of Custodial Activities.

Points of Contact:

Monica Valentine, 202-512-7362, valentinem@fasab.gov or Richard Wascak, 202 512-7363, wascakr@fasab.gov

Heritage Assets and Stewardship Land

Objective:

SFFAS 8 requires reporting of stewardship PP&E, which includes heritage assets and stewardship land (HA & SL.). As described in SFFAS 8, required supplementary stewardship information (RSSI) is a category created by FASAB and its audit status was not designated. RSSI was intended to provide information that the Board believed was necessary for the 'fair presentation' of financial statements. In practice, preparers and users have not understood that RSSI is integral to fair presentation and people often assume that the information reported in RSSI is supplementary or of a secondary nature. This is contrary to the Board's intention. Consequently, the Board is reviewing and re-categorizing the stewardship elements in the Federal financial model. (If this effort leads to reclassification of all items in the RSSI category, the Board will ultimately eliminate the category.) The Board solicited comments on its efforts to eliminate the RSSI category through a Preliminary Views document in December 2000 (the preliminary views document can be found at <http://www.fasab.gov/pdf/rssi.pdf>) This particular project addresses appropriate categorization of two of the stewardship elements: heritage assets and stewardship land.

Project History:

At the February 2003 meeting, staff solicited Board input on the project objective, project scope, and initial project issues. The Board reviewed the history of the project and discussed some of the issues identified in the past. At the June 2003 meeting, staff presented an overview of the Exposure Draft *Heritage Assets and Stewardship Land: Reclassification from Required Supplementary Stewardship Information* to the Board. The ED proposes that heritage assets and stewardship land information be reported as basic information, except for condition reporting, which would be reported as Required Supplementary Information. The ED provides for a line item to be shown on the balance sheet for significant heritage assets and stewardship land, but no financial amount should be shown. Instead, the line item would reference a note disclosure that would provide the current minimum reporting requirements consistent with those in SFFAS No. 8. The ED also incorporates the revised multi-use heritage asset standards of SFFAS 16 and the deferred maintenance reporting requirements related to heritage assets and stewardship land from SFFAS 14. Accordingly, the ED proposes rescissions to those standards. As a result, the ED will provide all current standards for heritage assets and stewardship land.

Recent Actions and Plans:

At the June meeting, the Board concurred with the substance of the ED and directed staff to incorporate suggestions made during the meeting. The Board expects to finalize the ED for issuance in late summer 2003.

Point of Contact: Melissa Loughan, 202-512-5976, loughanm@fasab.gov

Earmarked Funds (or Dedicated Collections)

Objective:

The objective is to ensure that financial reporting clearly distinguishes between the various types of funds used or managed by the federal government. With respect to dedicated collections or earmarked funds, to ensure that the objectives of federal financial reporting are addressed at both the entity and the consolidated level reports for “trust funds” that are committed to fund future Federal program activity.

Project History:

The project research began in August 2001. In December 2001 and February 2002, the Board reviewed information on (1) reporting under current accounting standards (SFFAS 7, par. 83-87), (2) the universe of special and trust funds in the federal government and existing definitions, (3) the nature of the surpluses generated in some funds (e.g., the Social Security Trust Fund) and public confusion regarding the investments acquired with the surpluses, (4) fiduciary activities addressed in SFFAS 7, par. 83-87, (5) whether the fund balances are also liabilities to the potential beneficiaries of the funds, and (6) characteristics of these funds. The Board decided to address “fiduciary activity” through another project.

In April, June, August, and December 2002, the Board reviewed issues papers, illustrations and draft definitions. The Board tentatively concluded that the surpluses or cumulative results of operations for these types of funds are distinguishable from cumulative results of operations from operations financed through the general fund. The Board requested that staff develop an exposure draft.

During the April 2003 Board meeting the Board discussed the Exposure Draft presented by staff and suggested several changes. They also requested that staff develop several alternatives for presenting the flows of earmarked funds, including showing the flows on the face of the financial statements. The Board continues to work toward an exposure draft that would (1) define the types of activities that result in a dedicated or earmarked fund, (2) segregate the net positions – cumulative results of operations – resulting from these activities from general fund activities, and (3) require disclosure of changes net assets supporting future activities.

Recent Actions and Plans:

At the June meeting, the Board considered a revised exposure draft prepared by staff. The Board requested that staff (1) develop a plain language explanation of the nature of the investments associated with earmarked funds, (2) refine the disclosure requirements, and (3) only require disaggregated information relating

to significant earmarked funds. The Board is expected to vote on issuance of the exposure draft at the August meeting.

Point of Contact:

Andrea Palmer McKinney, 202-512-7360, mckinneya@fasab.gov

Fiduciary Activity

Objective:

The objective of the fiduciary activity project is to (1) define and characterize fiduciary activity in the Federal Government and (2) develop accounting and reporting standards for such activity. Federal fiduciary activity is the same as what is commonly understood to be trust fund activity in the private sector. The project will distinguish Federal fiduciary activity from other Federal activity referred to as "dedicated collection" or "earmarked funds" activity that is often referred to as "trust fund" activity but that is in fact Federal program activity.

Project History:

The Board voted in April to publish the exposure draft of a proposed standard entitled *Accounting for Fiduciary Activities*. The proposed standard shows how to distinguish Federal fiduciary activity from Federal program activity that in many cases is called "trust fund" activity but in fact represents taxes or other Federal resources dedicated to specific Federal programs. The proposed standard provides guidance about how to account for and report fiduciary activity. The standard requires that the term "fiduciary" be used in general purpose Federal financial reports for fiduciary activity as defined in the proposed standard. Activity involving assets held in a form that is designated in law as a "trust fund" but dedicated to Federal programs will no longer be characterized as "fiduciary" or "trust" activity in general purpose financial reports of Federal entities. The FASAB is working on a second exposure draft regarding how to account for and report "trust funds" that arise from dedicated or "earmarked" fund activity conducted as a federal program. Comments on the exposure draft are due by July 31. See FASAB Web site www.fasab.gov/exposure.htm.

Recent Actions and Plans:

The Board anticipates reviewing comment letters at the August Board meeting. It is likely that the Board will decide then whether a public hearing is warranted.

Point of Contact:

Richard Fontenrose, 202-512-7360, fontenroser@fasab.gov

Concepts Project

Objective:

To ensure that the Federal Financial Accounting Standards are based on a sound framework of objectives and fundamental concepts regarding the nature of accounting, financial statements, and other communications methods. The framework should:

- provide structure by describing the nature and limits of federal financial reporting,
- identify objectives that give direction to standard setters,
- define the elements critical to meeting financial reporting objectives and describe the statements used to present elements,
- identify means of communicating information necessary to meeting objectives and describe when a particular means should be used, and
- enable those affected by or interested in standards to understand better the purposes, content, and characteristics of information provided in federal financial reports.

Project History:

The Board reviewed a draft project plan in February 2003. At the April Board meeting, Ms. Justine Rodriguez of the Office of Management and Budget provided background on the development of SFFAC 1 *Objectives of Federal Financial Reporting*. Ms. Rodriguez also provided an overview of the stewardship chapter of the *Analytical Perspectives* volume of the President's Budget. Mr. Robert Anderson, also of OMB, provided background on the development of estimates for many of the resources reported on in the chapter.

Recent Actions and Plans:

In June the Board decided not to pursue a new users' needs study at this time. Board members requested more information about finance-related laws passed since SFFAC 1 was published, and about the evolution of reporting on internal control. Members expressed a desire to consider further the implications of: (1) the dual "internal/external" focus asserted in SFFAC 1, (2) the implications of the "budgetary integrity" objective, and (3) the idea expressed in SFFAC 1 that multiple information sources and systems, including many outside FASAB's purview, contribute to achieving the objectives described in SFFAC 1.

Point of Contact:

Robert Bramlett, 202 512-7355, bramletr@fasab.gov

Leases Project

Objective:

The Objective of this project are (a) to develop a summary paper covering lease accounting under FASAB, FASB, GASB and the international public sector accounting standards and identifying global issues related to lease accounting and (b) to aid in determining if new uses of leases by federal entities create different and/or more urgent needs for guidance.

Project History:

Staff has begun research on leases and leasehold improvements reviewing lease accounting under FASAB, FASB, GASB, and international public sector accounting and a review of the current use of leases by federal entities.

Recent Actions and Plans:

A summary paper will be developed to familiarize the Board with the treatment of lease accounting by various standard-setting bodies and to identify issues relating to lease accounting.

Point of Contact:

Susan S. K. Lee, 202-512-3522, LeeSK@fasab.gov

Inter-entity Project

Objective:

Statement of Federal Financial Accounting Standard (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*, issued in July 1995 and effective in fiscal year 1998, provides the following requirement for inter-entity cost:

Each entity's full cost should incorporate the full cost of goods and services that it receives from other entities. The entity providing the goods or services has the responsibility to provide the receiving entity with information on the full cost of such goods or services either through billing or other advice.

Recognition of inter-entity costs that are not fully reimbursed is limited to material items that (1) are significant to the receiving entity, (2) form an integral or necessary part of the receiving entity's output, and (3) can be identified or matched to the receiving entity with reasonable precision. Broad and general support services provided by an entity to all or most other entities should not be recognized unless such services form a vital and integral part of the operations or output of the receiving entity. (Text preceding paragraph 105 of SFFAS 4)

SFFAS 4 provided for gradual implementation of this requirement.

Project History:

A government-wide group has been working to provide guidance on implementing this requirement. The government-wide group recently recommended that guidance be deferred due to higher priority demands on resources. Staff initiated a proposal to establish a date certain for implementation. The proposed date is FY 2008.

Recent Actions and Plans:

At the June Board, staff proposed that the Board issue an exposure draft that (1) presented the government-wide group's findings and (2) requested comments on the FY 2008 date certain implementation. Since this is a staff initiated effort, staff hopes to accomplish it without delaying other Board work. Two members opposed the issuance of the proposal. Members supporting the proposal requested that more information be included in the exposure draft and that respondents be asked specific questions about the impact of the change. Staff plans to provide a revised exposure draft to the Board for the August meeting.

Other FASAB Information

Recent Documents Issued

The following FASAB documents were issued during June-July 2003:

- ▶ Technical Bulletin 2003-1, *Certain Questions and Answers Related to the Homeland Security Act of 2002* (June 13, 2003)
- ▶ Statement of Federal Financial Accounting Standards 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment* (July 17, 2003)

FASAB Welcomes Susan Lee for Six-month detail

FASAB welcomes Susan K. Lee from the Federal Aviation Administration (FAA), Department of Transportation. Ms. Lee will serve a six-month detail with FASAB. Ms. Lee has had an extensive career in Federal accounting and budget, having also worked at the National Archives and Records Administration, the Office of Management and Budget, and the Financial Management Service, Department of the Treasury. At the National Archives, she was the Director of Accounting and the Director of Budget, in charge of accounting operations, systems, and policy; financial management; grant payments; budget formulation and execution. At the FAA she chaired an intra-agency task group to identify possible user fees, co-authored a report to Congress on FAA's existing billings and collections system, and wrote a report on Government Corporations that was cited by the National Performance Review. More recently, she established and

coordinated the FAA's Audit Advisory Committee and served as FAA's audit liaison for the FY 2002 financial statements audit, and was responsible for preparing the agency's FY 2002 Performance and Accountability Report.

In her last position at Treasury, Ms. Lee was the Director of the Federal Agency Financial Systems Program and served as Treasury's Fiscal Service representative on the Chief Financial Officers' Council and the Systems Committee of the President's Council on Management Improvement. While at OMB, she worked on financial systems, implementation of the Federal Managers' Financial Integrity Act, and debt collection. She has been active in the Association of Government Accountants, American Association of Budget and Program Analysis, the Brookings Institution Accountants' Roundtable, and the Comptrollers' Roundtable. She is a Certified Public Accountant and a graduate of the University of Maryland School of Business.

American Institute of Certified Public Accountants Rule 203 Review

The American Institute of Certified Public Accountants (AICPA) has begun its five-year review of FASAB. The AICPA's 1999 recognition of FASAB as the generally accepted accounting principles standard setter for federal entities included a sunset review to be performed by October 2004.

Accounting and Auditing Policy Committee

New Members:

The Chair of the AAPC announces the appointment of the following new members to the Committee, D. James Sturgill, Greg James, and Michael T. McFadden. Treasury's Fiscal Assistant Secretary Donald Hammond appointed D. James Sturgill as the new Treasury representative to the AAPC. Mr. Sturgill is the Assistant Commissioner for Governmentwide Accounting at Treasury's Financial Management Service. The CFO Council's Executive Chair and OMB Controller, Linda Springer appointed Greg James as the third CFOC representative to the AAPC. Mr. James is the Department of Labor's Acting Associate Deputy CFO. Ms. Springer also re-appointed James Taylor, DCFO at Commerce, and De Ritchie, DCFO at HUD. Mr. Greg Friedman, Chair of PCIE Audit Committee appointed Mr. Michael T. McFadden as the third PCIE representative to the AAPC. Mr. McFadden is the Director of the Office of Accountability Audits in the Department of Labor's Office of the Inspector General. We all welcome the newly appointed members and look forward to working with each of them.

Recent Activities:

The AAPC has two active projects: (1) revising Federal Financial Accounting and Auditing Technical Release No. 3: *Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act* and (2) research on inter-entity costs. An intra-agency working group staffs the Credit Reform project. The working group will be presenting its latest proposed amendments to Technical Release No. 3 at the next AAPC meeting.

At its May 22, 2003 meeting, AAPC Chairperson proposed that the AAPC recommend that the FASAB act on the removal of the provisions in SFFAS 4 paragraph 110 and no members objected to that decision. The Chair also thanked the task force for its hard work and accomplishments on the inter-entity cost project.

Plans for Future Meetings:

The AAPC will meet on July 29, 2003 at 10:00 AM in room 6N30. The meeting is open to observers (see "security notice" below) and an agenda will be provided via the FASAB electronic mailing list and posted to the website shortly before the meeting. To access the agenda, visit <http://www.fasab.gov/aapc/meeting.htm>.

Point of Contact:

Monica Valentine, 202-512-7362, valentinem@fasab.gov

FASAB Meeting Schedule

Remaining meetings for 2003 are:

August 13th & 14th

October 8th & 9th

December 10th & 11th

Unless otherwise noted, meetings begin at 9 AM and end before 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.

Security Notice

If you wish to attend a FASAB or an AAPC meeting, please provide your name, organization, and phone number to Marian Nicholson, at 202-512-7350 or nicholsonm@fasab.gov **at least two days before the meeting**. The General Accounting 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.