



FASAB news

*Federal Accounting Standards
Advisory Board*

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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:

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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 minimum reporting requirements. The ED also introduces minor changes to the current disclosure requirements for heritage assets and stewardship land by requiring additional reporting disclosures about entity stewardship policies and an explanation of how heritage assets and stewardship land are pertinent to the entity's mission. 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 August meeting, the Board reviewed a ballot draft of the ED and requested that staff incorporate some minor changes. The Board voted to issue the ED.

The ED *Heritage Assets and Stewardship Land: Reclassification from Required Supplementary Stewardship Information* was issued on August 20, 2003 with comments requested by November 10, 2003. See FASAB Web site www.fasab.gov/exposure.htm for a copy of the ED.

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 August Board meeting, members made further revisions to the Exposure Draft. They decided not to prescribe exact wording for a footnote to accompany earmarked funds' investment in Treasury securities, but rather to require that certain concepts be included in a note and to provide an example. They also asked staff to add a paragraph specifically addressing accounting and reporting treatment at the government-wide level. Board members will review on-going revisions with the intent of voting on a ballot draft at the October Board meeting.

Point of Contact:

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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:

At the August meeting, the Board reviewed the responses to the exposure draft (ED) *Accounting for Fiduciary Activities* received as of August 11. The comment period for the ED ended July 31. The staff plans to develop staff responses to each of the comments after researching the issues and receiving input from the Board. The Board decided that a public hearing should be held on this exposure draft in conjunction with its October meeting.

The proposed standard defines fiduciary activities and provides accounting procedures for instances (1) where the Federal entity is managing the non-Federal assets and the assets are “held in the name of” the Federal entity and (2) where the Federal entity is merely providing a supervisory or administrative service and the assets are “held in the name of” the non-Federal entity. The respondents generally agreed with the definition of fiduciary activities. However, several respondents questioned the proposed accounting treatment. One respondent said that the distinction for accounting purposes between assets held “in the name of” the Federal entity and assets held “in the name of” the non-Federal owner was not clear because, for this respondent, the Federal entity’s responsibility appeared to be the same. Another respondent objected to reporting non-Federal assets on a Federal entity’s balance sheet. Several objected to the proposal that the entity minimize the use of the term “trust fund” in its general purpose external financial statements where the Federal “trust fund’s” activity does not meet the proposed definition of fiduciary activity.

Several responses involved the Board’s working definition of asset, which the Board plans to develop further in the near future. The Board discussed the possibility of emphasizing the concept of control over the asset to help differentiate the instances where the Federal entity would recognize assets and offsetting liabilities on its balance sheet.

Point of Contact:

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

Concepts Project

Objective:

To ensure that federal financial accounting standards are based on a sound framework of objectives and 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. In April, Ms. Justine Rodriguez of the Office of Management and Budget provided background on the development of SFFAC 1 *Objectives of Federal Financial Reporting* and discussed the stewardship chapter of the *Analytical Perspectives* volume of the President's Budget. In June FASAB decided not to pursue a new users' needs study. Members requested more information about finance-related laws and about reporting on internal control. Some members expressed a desire to consider implications of: (1) the dual "internal/external" focus asserted in SFFAC 1, (2) 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.

Recent Actions and Plans:

In August, the Board received background information about finance-related laws and about the evolution of reporting on internal control. Members also received a copy of the recent SEC *Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System*. The report does not directly apply to FASAB, but some of its recommendations for "objectives-oriented standards" and improvements in FASB's conceptual framework may be of interest. One recommendation, that statements of concepts be elevated in the hierarchy of accounting guidance, could—if implemented—have such far-reaching implications that it would likely have some impact on FASAB. The report is available at <http://www.sec.gov/news/studies/principlesbasedstand.htm>.

In October the Board will consider whether SFFAC 1, *Objectives of Federal Financial Reporting*, should be revised or clarified in light of changed conditions, and whether new or revised accounting standards are needed to address the objectives. This corresponds to phase I of the concepts project plan, "evaluate objectives."

Also in August, Ms. Penelope Wardlow discussed with FASAB the work that the Governmental Accounting Standards Board (GASB) has done on elements of financial reporting for states and local governments. Ms. Wardlow is a consultant to GASB, and was the principal staff person involved in developing GASB's draft statements of concepts on elements of financial reporting and on

communications methods. These projects offer background that may be useful to FASAB in phase II of its concepts project, “elements and statements,” and in other FASAB projects.

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 on the treatment of lease accounting by various standard-setting bodies and issues relating to lease accounting will be presented at the October Board meeting.

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.

Social Insurance Liabilities

Objective:

The object of this project is, first, to reconsider the FASAB liability definition and specifically its application to social insurance programs. At the same time the Board will consider developing an asset definition to replace the current working asset definition in the *Consolidated Glossary*. Subsequently the Board will consider recognition, measurement and display of social insurance obligations.

The project will:

- (1) Describe the current FASAB liability definition and its application in SFFAS 17;
- (2) Describe liability and asset definitions established by other standard-setters;
- (3) Develop possible alternative concepts, definitions, recognition points, etc., for liabilities and asset;

- (4) Develop alternative potential social insurance liability measures;
- (5) Develop alternative displays for the balance sheet, statement of net cost, and/or other statements, and
- (6) Explore and analyze issues.

Project History:

Board members and others continue to question the Board's decision in SFFAS 17, *Accounting for Social Insurance*, to limit liability recognition for social insurance programs to the "due and payable" amount at the end of each period. Moreover, in SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, the Board increased the prominence of the Statement of Social Insurance (SOSI) and raised questions about the SOSI's relationship to the other basic financial statements.

Recent Actions and Plans:

At the August meeting, the Board discussed the staff's preliminary plan for the project. The Board decided to begin with general concepts and definitions for liabilities and assets. The Board also decided to include all five social insurance programs within the scope of the project. The Board directed the staff to first develop liability and asset concepts and definitions and then consider how each social insurance program would be treated under these working concepts.

Other FASAB Information

Recent Documents Issued

The following FASAB documents were issued during August-September 2003:

- ▶ Exposure draft of a new Statement of Federal Financial Accounting Standards entitled *Heritage Assets and Stewardship Land: Reclassification from Required Supplementary Stewardship Information*. Responses are requested by November 10, 2003.
- ▶ Exposure draft of Federal Financial Accounting and Auditing Technical Releases (TR) entitled *Auditing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act (Amendments to Technical Release 3: Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act)*. Responses are requested by October 5, 2003.
- ▶ Exposure draft of Federal Financial Accounting and Auditing Technical Releases (TR) entitled *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act (Amendments to Technical Release 3: Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act)*. Responses are requested by October 5, 2003.

American Institute of Certified Public Accountants Rule 203 Review

The AICPA recently appointed a panel to review the Federal Accounting Standards Advisory Board's (FASAB) continuing authority to set generally accepted accounting principles for the federal government under Rule 203 of the AICPA Code of Conduct. The panel will assist the AICPA Board of Directors and Council by providing its recommendations on the continued recognition of the FASAB in accordance with an October 1999 Council resolution on the initial recognition of FASAB under Rule 203. The Council resolution called for the Board of Directors to, by no later than October 2004, review the mission and operations of the FASAB, evaluate whether the FASAB continues to meet Council-approved criteria used to assess standards-setting bodies designated under Rule 203, and recommend to Council whether the Council shall continue to designate the FASAB under Rule 203.

The panel members are Dr. Gary Previts, chair; Case Western Reserve University; Judith O'Dell, O'Dell Valuation Consulting, LLC; Marilyn Pendergast, Urbach Kahn & Werlin, Inc.; Sharon Russell, Alabama Department of Examiners of Public Accounts; and Pete Smith, Private Sector Council.

If you have questions or concerns you wish to convey to the panel, please contact Ian A. MacKay, CPA; Director, Professional Standards & Services-American Institute of CPAs, (phone) 202-434-9253, (fax) 202-638-4512 or IMacKay@aicpamail.org

Accounting and Auditing Policy Committee

Exposure Drafts Released:

The AAPC has issued two exposure drafts of Federal Financial Accounting and Auditing Technical Releases (TR) entitled *Auditing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act (Amendments to Technical Release 3: Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act)* and *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act (Amendments to Technical Release 3: Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act)*.

The purpose of proposed Technical Release 3 is to amend the guidance for auditors to audit credit subsidy estimates provided in the original technical release (July 1999). The most significant changes made in this amended TR 3 are (1) the removal of the preparation guidance from this amended TR to only

include the audit guidance and (2) procedural changes updating the document to reflect new guidance and changes in terminology in the area of credit reform (e.g., SFFAS 18 & 19; and OMB Circular A-11).

The purpose of proposed Technical Release 6 is to amend the implementation guidance for agencies to prepare and report credit subsidy estimates provided in the original technical release (July 1999). The most significant changes made between the original TR3 and this amended TR are (1) the removal of the audit guidance from this amended TR to only include the preparation guidance; (2) clarification of OMB's role in the credit subsidy estimation and re-estimation process; and 3) credit subsidy re-estimates may now include 6 months of actual data and 6 months of projected estimates.

All comments on the content of both exposure drafts are welcome. Responses are requested by October 5, 2003. An electronic version of the exposure draft is available at www.fasab.gov/exposure.htm. Printed copies can be obtained from FASAB by calling 202-512-7350.

Plans for Future Meetings:

The AAPC will meet on Monday October 27, 2003 at 1:00 pm in room 6N30 of the GAO Building (441 G Street, NW). 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:

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.