



# *FASAB news*

*Federal Accounting Standards  
Advisory Board*

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Issue 87 August/September 2004

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## FASAB Welcomes New Board Member: Mr. Robert F. Dacey

The Chairman of the Federal Accounting Standards Advisory Board (FASAB), David Mosso, is pleased to welcome Mr. Robert F. Dacey as a FASAB Board Member. Mr. Dacey became the Government Accountability Office (GAO) representative for FASAB with his appointment to the position of Chief Accountant at GAO by Comptroller General, David M. Walker.

FASAB welcomes Mr. Dacey and his biography is included below for your information:



Mr. Dacey is currently Chief Accountant for the Government Accountability Office (GAO). Mr. Dacey has provided leadership for significant GAO efforts in financial accounting and auditing, as well as in information security, homeland security, and other information technology areas. He served as Director of the consolidated financial statement audit for the initial three audits of the U.S. government's financial statements. He also led GAO's initial financial audit efforts at the Department of Health and Human Services and the Internal Revenue Service, and the

development of comprehensive audit manuals for financial auditing and information security as well as related training. Mr. Dacey served as a member of the AICPA's Auditing Standards Board (ASB) and the federal government's Accounting and Auditing Policy Committee. In addition, Mr. Dacey's long-term leadership in GAO's information security audit efforts has resulted in numerous result-oriented reports and testimonies, including (1) addressing information security challenges in federal agencies and corporations, (2) assessing emerging information security issues, and (3) evaluating the federal government's efforts to protect our nation's private and public critical infrastructure from cyberthreats. Prior to joining GAO, Mr. Dacey was a senior manager with Deloitte & Touche and served as divisional business manager and controller for an international corporation. Mr. Dacey is a Certified Public Accountant, Certified Government Financial Manager, and Certified Information Systems Auditor. He received a B.B.A., magna cum laude, from the University of Cincinnati and a J.D. from the George Mason University School of Law.

Biographies for all current Board Members are available on the World Wide Web at <http://www.fasab.gov/fasabinfo.htm>

# Current Board Projects

## Natural Resources

### Disclaimer

The staff of the Federal Accounting Standards Advisory Board publishes FASAB News following Board meetings to provide highlights of recent Board actions and issues. When an article refers to a Board decision, it should be understood that Board decisions are tentative until FASAB issues a Statement of Federal Financial Accounting Concepts (SFFAC) or Statement of Federal Financial Accounting Standards (SFFAS).

Please direct newsletter editorial questions to Melissa Loughan, 202-512-5976, [loughanm@fasab.gov](mailto:loughanm@fasab.gov).

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

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

### 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.

### Project History:

The project initially 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.) In 2002, the Board resumed active consideration of the issues raised by the task force after a deferral to address other issues.

At the 2002 meetings, Board members suggested that Staff initially address each type of natural resource in phases, (i.e., separately and individually) when developing accounting standards for natural resources. The Board decided to proceed with developing standards for oil and gas first due to the extensive literature available in other domains. The oil and gas project framework would be used in subsequent phases for the remaining types of natural resources (e.g., coal, timber, hard rock minerals).

During 2003 and in recent 2004 meetings, the concept of capitalizing the “production stage” anticipated revenue stream flowing to the Federal government (from royalty collections) was pursued, along with the development of various disclosures. However, the Board learned that the Energy Information

Administration (EIA), Department of Energy, is to begin distinguishing between the quantity of the proved reserves from lands under Federal jurisdiction and the quantity of proved reserves from other lands in its reports. The EIA defines proved reserves as those volumes of oil and gas resources that geological and engineering data demonstrate with reasonable certainty to be recoverable

(extracted and produced) in future years from known reservoirs under existing economic and operating conditions. As a result, the Board is researching the concept of capitalizing the estimated cash inflow from royalties based on the estimated quantity of proved oil and gas reserves from lands under Federal jurisdiction with various supporting disclosures.

### Recent Actions and Plans:

At the August Board meeting, FASAB staff provided a preliminary exposure draft (ED) on reporting for oil and gas resources to the Board members. The objectives of the meeting were to get general approval from Board members on the proposals contained in the ED and to get feedback and suggestions from them in regard to all areas of the ED. The major proposal was to capitalize the estimated cash inflow from royalties based on the estimated quantity of proved oil and gas reserves from lands under Federal jurisdiction. Staff received a considerable number of comments from the Board. Staff will continue developing the ED based on the comments received from Board members.

### Points of Contact:

Rick Wascak, 202 512-7363, [wascakr@fasab.gov](mailto: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 minimum reporting requirements. The ED 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 includes disclosure requirements for the U.S. Government-wide Financial Statement that would provide for a general discussion and direct users to the applicable entities' financial statements for more detailed information on heritage assets and stewardship land. 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.

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](http://www.fasab.gov/exposure.htm) for a copy of the ED.

The Board discussed the comments received on the ED at the December 10-11, 2003 FASAB meeting. Based on the comment letters received, staff determined the following summary of responses:

- A majority of the respondents do not agree with the Board's proposal for heritage assets and stewardship land to be reported as basic information.
- Most respondents agree with the Board's new disclosure requirements and do not foresee any problems with the new disclosure requirements about entity stewardship policies and an explanation of how heritage assets and stewardship land are pertinent to the entity's mission.
- Most respondents do not agree with the proposed effective date for periods beginning after September 30, 2004.
- Most respondents agree that the preparer should be allowed to exercise professional judgment in determining if the heritage assets and stewardship land are significant.

The Board held a public hearing on the ED and comments in conjunction with the March 2004 Board meeting. Individuals from the Library of Congress, U.S. Department of Agriculture, Department of Interior (including representatives from

the CFO, OIG and IPA currently performing the DOI audit), and a representative from the Institute for Truth in Accounting provided testimony to the Board. Details are available in the March 2004 minutes on the FASAB website [www.fasab.gov](http://www.fasab.gov) under Meetings.

### Recent Actions and Plans:

Staff will research issues presented further, review alternatives for an incremental or staggered transition toward implementation of the proposed standard and develop options for consideration by the Board. Additionally, the next actions on this ED will depend upon and follow the Board's decisions regarding the "Systems and Control" and "Stewardship" Objectives (see Concepts project).

### Point of Contact:

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## Earmarked Funds

### 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 earmarked funds, the objective is to ensure that federal financial reporting at both the entity and the consolidated level differentiates between earmarked funds and fiduciary 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 continued 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 in net assets supporting future activities.

At the August 2003 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.

An Exposure Draft, *Identifying and Reporting Earmarked Funds*, was approved by all Board members and issued on October 16, 2003. It is available on the FASAB website [www.fasab.gov](http://www.fasab.gov) under Exposure Drafts.

The Board held a public hearing on the ED and comments in conjunction with the March 2004 Board meeting. The Department of Interior, the Department of the Treasury, and a representative from the Institute for Truth in Accounting provided testimony to the Board. Details are available in the March 2004 minutes on the FASAB website [www.fasab.gov](http://www.fasab.gov) under Meetings.

At the April 2004 Board meeting, staff presented proposed revisions related to the term “significant,” certain funds excluded from Earmarked Funds reporting requirements, and other issues raised at the hearing and in the comment letters that were received. Details of the changes are available in the April 2004 minutes on the FASAB website [www.fasab.gov](http://www.fasab.gov) under Meetings.

At the June 2004 Board meeting, the Board discussed staff proposals regarding the term “accounting mechanism” and specific funds that would be excluded from the reporting standards for Earmarked Funds. At the August 2004 Board meeting, staff will present proposals relating to the restatement of prior periods in the initial year of implementation and other issues identified by Board members.

### Recent Actions and Next Steps:

At the August 2004 Board meeting, staff presented, and the Board approved, the following revisions to address issues raised by Board members during and after the June 2004 Board Meeting:

- In the initial year of implementation, entities should not restate “prior period” columns, for the same reason that early implementation is

prohibited. Duplicate reporting, or gaps in reporting, could occur if some agencies impacted by paragraph 20 implement early, or choose to restate prior periods, and others do not. Paragraph 20 states that if more than one component entity is responsible for carrying out the program financed with earmarked revenues and other financing sources, and the separate portions of the program can be clearly identified with a responsible component entity, then each component entity should report its portion in accordance with the requirements of the Earmarked Funds standard.

- Language was added to make it clear that disaggregated information in the note disclosures is mandatory.
- The standard will explicitly state that there is no requirement to report Earmarked Funds separately on the Statement of Net Cost.

The Board unanimously approved a pre-ballot draft of the Earmarked Funds standard. A ballot draft was sent to the Board members on September 1, 2004 and was unanimously approved. The Earmarked Funds standard will be submitted to the Board's sponsors for a 90-day review. Absent an objection from the Director of the Office of Management and Budget or the Comptroller General the standard will be issued in late December.

#### 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 by 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 "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 2003 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.

At the August 2003 meeting, the Board reviewed the responses to the exposure draft (ED) *Accounting for Fiduciary Activities* received as of August 11, 2003. The comment period for the ED ended July 31, 2003. 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. 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.

The Board conducted a public hearing on fiduciary activities on October 8, 2003. The Interior Department, the Library of Congress, the Defense Department, and the Treasury Department testified. The testimony reiterated the issues raised in the respondents’ comment letters and/or sought guidance on specific issues of concern to the agencies. The Board is considering whether non-federal assets should be reported on federal balance sheets and, if so, what types, e.g., escrow balances, seized assets, federally managed assets, privately managed assets in federal custody; and how to distinguish between federal assets, federally-managed non-federal assets, and privately-managed assets in federal custody.

At the December 2003 meeting, The Board approved certain staff recommendations including the following:

- ▶ Cash held outside the Treasury in the name of a non-federal party that can only be withdrawn by a federal entity is in substance a fiduciary asset held in the name of the federal entity. Language will be added to the standard emphasizing the need to consider the substance of the activity.

- ▶ Assets seized by a federal entity for which it is the executive agent and responsible for all financial management, internal controls, and accounting and reporting are to be accounted for under the provisions of SFFAS 3, *Accounting for Inventory and Related Property*, “Seized and Forfeited Property,” pars. 57-78.
- ▶ The required note disclosure is not excessive and will be retained as the minimum necessary to understand the fiduciary activity.
- ▶ The government-wide consolidated financial statements should not “double count” assets and liabilities.
- ▶ The prohibition against characterizing assets of non-fiduciary “trust funds” and associated activity as “fiduciary” or “trust” activity in general purpose financial reports should be retained. A primary issue with respect to the fiduciary activities and earmarked funds projects has been the confusion over the usage of the term “trust fund” in the Government. The proposal requires that the preparer not characterize non-fiduciary activity as “trust fund”. There would be flexibility for the preparer to craft explanatory language.

The Board continued to discussion clarification of “control” as it relates to “held in the name of the federal entity.’ The Board members requested detailed information on two fiduciary activities for the next meeting.

At the March 2004 meeting, the Office of the Special Trustee for American Indians, Department of the Interior, provided detailed information regarding assets held for Indian tribes and individual Indians. Details are available in the March 2004 minutes at the FASAB website [www.fasab.gov](http://www.fasab.gov) under Meetings.

### Recent Actions and Plans:

At its October 2004 meeting the Board will consider options for resolving the issues raised by respondents.

### Point of Contact:

Eileen Parlow, 202-512-7356, [parlowe@fasab.gov](mailto:parlowe@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. The Board discussed 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.

In August 2003, the Board received background information about finance-related laws and about the evolution of reporting on internal control. Members 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*. Also, 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.

At the October 2003 meeting discussion focused on the "budgetary integrity" and "operating performance" objectives. The Board discussed its comparative advantage, and the implications for its agenda. The Board expressed general satisfaction with the operating performance objective. At the December 2003 meeting, the Board began deliberation on "elements of financial reporting," which is phase II of the concepts project. Penny Wardlow presented information on FASB's approach to defining elements of financial reporting and led a discussion about the essential characteristics of assets. In March 2004, the Board discussed whether to revise or eliminate the "Systems and Control" objective but did not reach a conclusion. The Board agreed in general terms on the "essential characteristics" of an asset.

In April 2004 the Board considered three alternatives for amending paragraph 150 of SFFAC 1, which deals with systems and control, with several hypothetical rationales for the third alternative, but did not reach a conclusion. The Board continued its discussion with Ms. Wardlow regarding essential characteristics of an asset, and began discussing how to define an asset. In July the Board discussed options about how to proceed in its consideration of "objectives." Ms. Wardlow led further discussion of the definition and essential characteristics of "assets."

## Recent Actions and Plans:

In August the Board's discussion on objectives focused on methods to "narrow down" the Board's focus from the broad objectives described in SFFAC 1. Some Board members have suggested that such a narrowing would be desirable. In connection with this, the Board considered the extent to which it should rely on "users' information needs" versus "accountability" as a foundational concept to shape its work. The Board also refined its working definition of "asset" and began to consider the essential characteristics of a "liability" in the federal context. The Board will continue deliberations on both topics at its next meeting.

## Point of Contact:

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## 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.

At the August 2003 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.

At the October 2003 meeting, the Board decided that the development of asset and liability definitions would proceed on parallel and equal tracks, and neither element would be declared more fundamental than the other. With respect to assets, the Board agreed that the FASAB "working definition" from the FASAB Consolidated Glossary would not be afforded status in the project that would have to be overcome. However, this decision would not preclude the use of a word or words from the working definition.

With respect to liabilities, the Board directed the staff to develop more background on some of the terms used in the existing FASAB liability definition in SFFAS 5 (par. 19), in FASB, and elsewhere. The Board wants to give further consideration to adding the phrase "present obligation" to the current FASAB definition. The elements project described elsewhere in this newsletter is charged with developing asset and liability definitions. The scope of the social insurance project does not include the liability definition.

At the March 2004 meeting the Board approved the staff recommendation that the SI liability project proceed under the presumption that the current liability definition in SFFAS 5, par. 19, is workable either as currently worded or with minor modification. The Board directed the staff to proceed with its analysis of the Social Security program, especially with respect to the alternative liability and expense recognition points.

At the meeting on April 29<sup>th</sup> the staff presented a paper briefly summarizing the Social Security program characteristics, and presenting for discussion four possible criteria that would have to be met for expense and liability recognition for Social Security, and six alternative recognition points. Staff noted that the four criteria were adapted from the IFAC Public Sector Committee's Invitation to Comment (ITC) *Social Policies*, and/or the Canadian Institute of Chartered Accountants' exposure draft *Liabilities, Contingent Liabilities and Contractual Obligations*, and were not verbatim from them. The Board discussed the notion of constructive obligations. The Board is developing a conceptual basis for recognizing liabilities that are constructive in nature rather than strictly legal liabilities. The notion that a liability for accounting purposes does not necessarily have to be a legal liability is generally accepted throughout the world.

At the July 1, 2004 Board meeting, the staff presented a paper relating the four criteria (for identifying constructive and equitable obligations and potential liabilities that was discussed at the April FASAB meeting) to the three draft

“essential liability characteristics,” and otherwise developing the criteria further. The three characteristics are:

- (1) A present obligation.
- (2) An expectation that the present obligation will be settled by a future outflow of resources.
- (3) The transaction or event that creates the obligation has occurred.

The Board discussed the meaning and usage of the term “obligation,” including the prior FASAB usage of the term. FASAB concepts and standards have used the term “obligation” in both the general sense and the budgetary sense. The Board also discussed the four criteria, which reflect similar work underway in other public sector forums. Some members believe criteria are useful while others said they present significant problems.

### Recent Actions and Plans:

At the August 25 meeting the staff presented a paper to the Board discussing 6 issues related to Social Security. The paper sought to determine if a consensus existed relative to issues 1-3. Issue 4 compared select characteristics of several federal programs to Social Security. Issues 5-6 raised other issues. Fact sheets of all the newly introduced programs were included in the paper as well as tables and charts illustrating the discussion points of the paper. The six issues presented were:

- (1) Distinction between Present vs. Future obligations
- (2) Constructive vs. Equitable obligations
- (3) Discussion on current law
- (4) Essential characteristics of Social Security and other Federal programs
- (5) Consideration of a liability for Social Security beyond the due and payable amount
- (6) Does “Fair Presentation” of Social Security require a liability beyond due and payable?

The board discussed the importance of emphasizing the existence of a present obligation for Social Security. Present obligation is one of the draft “essential liability characteristics” being developed by the Board concurrently. In regards to the second issue the Board decided that it was not necessary to develop further the concept of constructive obligations for this project. The Board also agreed that legal enforceability of liabilities is not required for recognition. The discussion on current law generated a consensus among Board members that current law is important to this project and can possibly assist in identifying an obligating event and when a present obligation exists. The comparison of other Federal programs (i.e. Medicare, TANF, Food Stamps, SSI, and Medicaid) in issue #4 helped the Board differentiate Social Security from these other programs. However, there was no consensus as to whether any of these differences were critical in determining if these programs gave rise to a liability beyond due and payable.

In regards to the last two issues, the Board voted in favor of exploring other possible presentations of the Social Security liability beyond due and payable on

the face of the balance sheet as well as alternative presentations. The Board also asked the staff to collect all relevant issues regarding this project that they will likely encounter prior to issuing an exposure draft.

For the October meeting, the Staff will develop a paper on recognizing a liability beyond due and payable on the face of the balance sheet as well as alternative presentations and identify associated issues.

#### Point of Contact:

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

## Research into the Application of the Liability Definition

#### Objective:

The primary objective of this project is to reconsider the recognition, measurement and display of liability and expense, potential new elements/statements, and all related disclosures for commitments of the federal government that could potentially result in a net outflow of resources. This project is considered a companion research project to the liability element and social insurance projects to help determine the government-wide impact of proposals currently under review by the Board.

#### Project History:

This project was formally introduced at the April meeting. It has naturally evolved from the social insurance project (see above) due to the need to concurrently review other commitments undertaken by the Federal Government that may be more accurately portrayed with additional liability recognition, disclosure, and/or display requirements beyond due and payable.

At the April 29, 2004 meeting, the Board discussed the staff's preliminary plan for the project under the title "Long-Term Commitments." The Board expressed a preference to characterize the project primarily as research at that point and directed staff to prepare a list of the major programs to be reviewed (i.e., Medicaid, Food Stamps, etc) before approving a formal project plan.

At the July 1, 2004 meeting, the Board requested relevant background information on other Federal programs in order to compare and contrast how the liability recognition criteria being studied as part of the social insurance project may be applied to other government programs. It was agreed that this information would be provided at the August meeting.

#### Recent Actions and Plans:

As discussed in the recent actions of the social insurance liability project above, fact sheets prepared for Medicaid, Food Stamps, Temporary Assistance for

Needy Families, and Supplemental Security Income were provided for the Board's information at the August 25<sup>th</sup> meeting in conjunction with the social insurance presentation (see previous project for more information). Additional information will be gathered on various government programs in order to assist the Board in making a determination of proper liability recognition for various government events. An updated project plan will be provided for the Board members to review at the October meeting.

#### Point of Contact:

Julia Ranagan, 202-512-7377, [ranaganj@fasab.gov](mailto:ranaganj@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.

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.

At the October Board meeting, the Board reviewed a revised exposure draft. The revised draft included a stronger rationale for the action in the document and more extensive questions for respondents. After further Board discussion, it was agreed that staff would work with the task force (following the November reporting deadlines) on several issues and present an updated version to the Board.

An exposure draft entitled *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts* was issued on April 26, 2004. The proposal in the exposure draft would require full implementation of the full cost standards in FY 2008 by amending Managerial Cost Accounting Standards to require inter-entity cost implementation.

### Recent Actions and Plans:

At the August Board Meeting, staff presented an analysis of the comment letters received on the ED. A total of 21 letters were received and staff presented the following high-level summary of responses to questions posed in the ED:

- 12 of 21 **agree** with the Board's proposal that the inter-entity cost provisions of SFFAS 4 be fully implemented for reporting periods beginning after September 30, 1997. In other words, 9 of 21 **disagree** with the Board's proposal.
- 13 of 21 **agree** with the alternative view proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis. Staff explained that there was an overlap of 4 respondents agreeing with both the ED proposal and the alternative view.
- 11 of 21 **believe** that there are now non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria in SFFAS4.
- 14 of 21 **believe** that federal entities will seek additional reimbursable agreements or modify existing agreements (e.g., by increasing fees) because non-reimbursed or under-reimbursed inter-entity costs may be recognized.
- 10 of 21 **believe** that additional guidance is needed to apply the factors in determining whether an inter-entity cost is material to the receiving entity.
- 9 of 21 **believe** that additional guidance is needed to apply the broad and general support exception.

Based on the comments received, staff recommended that there should be additional guidance provided on certain areas and that it could be accomplished through staff implementation guidance or a technical release (versus within the proposed standard.) Staff also recommended that the implementation date be delayed an additional year to allow for the development of the guidance. The Board tentatively agreed with staff recommendations and requested that staff develop a draft plan of guidance that would include the partnerships, timelines, and types of guidance that would be envisioned from the different sources—AAPC, staff, etc. In addition, the Board agreed that a public hearing should be held on the ED and it was set for December 16, 2004.

### Point of Contact:

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

## Stewardship Investments

### Objective:

SFFAS 8 requires the reporting of Stewardship Investments, which includes Nonfederal physical property, Human capital, and Research and Development. This project relates to the reclassification of Stewardship Investment information that is now currently classified as RSSI. This project evolved as part of the Board's overall project of reviewing and re-categorizing the stewardship elements to fit the categories identified in the traditional auditing model. The Stewardship Investments category covers the remaining RSSI elements.

### Project History:

Staff provided the Board an introduction to the project at the December 2003 Board meeting. Staff provided the Board with background information, which included a Summary Chart of RSSI Elements & Status, Summary of Remaining RSSI Elements & Requirements, Pertinent Excerpts from SFFAS 8 *Supplementary Stewardship Reporting* Related to Stewardship Investments, and Sample Stewardship Report Excerpts for Stewardship Investments.

The Board did agree with the preliminary staff recommendation which would be to classify the information as RSI, but the Board would like staff to research the area further to determine if the information is still necessary, especially in relation to the Board's reconsideration of the Stewardship Objective.

### Recent Actions and Plans:

Staff will continue to research and develop alternatives for classification of Stewardship Investment information, which may include eliminating the reporting requirements, reclassifying as RSI, reclassifying as basic, or a combination of these alternatives. Staff research will also include determining if the information currently required for Stewardship Investments is being reported by other means.

Additionally, the next actions on this ED will depend upon and follow the Board's decisions regarding the "Stewardship" Objective (see Concepts project).

### Point of Contact:

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

## Leases Project

## Objective:

The purpose of the lease project is to broaden the current Federal accounting standards addressing leasing transactions of Federal entities.

## Project History:

Current FASAB standards addressing leasing transactions include SFFAS 5, "Accounting for Liabilities of the Federal Government" and SFFAS 6, "Accounting for Property, Plant, and Equipment." This guidance broadly defines capital and operating leases, outlines the four criteria for capital lease classification, and the recognition of the liability and asset. Entities seeking additional guidance on leasing transactions rely on the FASB standards developed for private sector use. In some cases the FASB standards are applicable to Federal entity leasing transactions and can be applied for appropriate reporting.

A FASAB detailee began research May 2003 in response to issues on accounting for leases and leasehold improvements raised by the Department of Justice, Office of Inspector General, at the October 2002 Board meeting. Also, in the past, FASAB staff had received a number of questions on lease accounting. Existing FASB guidance has been used to the extent the guidance is applicable.

A research report entitled *Research Report on Capital and Operating Leases* on the treatment of lease accounting by various standard-setting bodies and issues relating to lease accounting was presented at the October 2003 Board meeting. The Board decided to add two key issues to the technical agenda of items to be considered for future projects. One issue related to the applicability to the Federal sector, of a "new approach" for accounting for leases. This approach would eliminate the criteria for determining whether a lease is a capital lease or operating lease, and all non-cancelable leases of more than one year would be recognized at their present value. The second issue would be to evaluate whether a special-purpose entity that is essentially established and controlled by a Federal agency, as in some public/private partnerships, should be consolidated into an agency's financial statements.

The research report was formally released on April 19, 2004 and is being made available for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its Staff. The research report will serve as a reference tool for future Board discussions on the varying lease transactions throughout the Federal government. An electronic version of the research report is available on the World Wide Web at <http://www.fasab.gov/reports.html>.

## Recent Actions and Plans:

At the August Board meeting Staff proposed that the Board accept "Leases" as the next major project of the Board, based on the work done in the research report. Staff asked the Board if they did accept leases as the next major project what approach would the Board like to take for the project. The two approaches

proposed by Staff were (1) the “new approach” currently being researched by the IASB or (2) provide comprehensive lease guidance based on the current FASB literature. The Board expressed interest in the lease project from the perspective of the “new approach”, however they would like to see a full list of other potential projects before committing to the lease project.

The Board agreed to have a full agenda setting discussion at the next Board meeting. Staff will provide a description of all the projects that are potential. In addition, Staff agreed to provide the Board with the following information as additional research on the leasing project.

- Gather information from FASB on the current status of their work on the leasing “new approach” as well as their initial response to the February 2000 report on the *Implementation of a New Approach*.
- Provide examples of any unique leasing activities within the Federal government that are not covered by the existing guidance.
- Review the possible application of the “new approach” to Federal leasing transactions.

#### Point of Contact:

Monica Valentine, 202-512-7362, [valentinem@fasab.gov](mailto:valentinem@fasab.gov)

## Other FASAB Information

### Recent Documents Issued

► Exposure draft of Federal Financial Accounting and Auditing Technical Releases (TR) entitled *Recognition of the Transfer of Funds Between Interior’s Reclamation Fund and Energy’s Western Area Power Administration: In Accordance with SFFAS 1 Accounting for Selected Assets and Liabilities and SFFAS 5 Accounting for Liabilities of the Federal Government* was issued on August 20, 2004. The purpose of this proposed technical release is to provide technical guidance to the Department of Energy (Energy) and the Department of the Interior (Interior) on a difference in their interpretation of the effect of legislation on their application of accounting standards to certain transactions between them. The Office of Management and Budget (OMB) posed a question to the AAPC as to whether Energy should be recognizing a liability to Interior for amounts received from the Reclamation Fund managed by Interior and whether Interior should recognize a corresponding receivable. The objective of the technical release is to provide guidance to Energy and Interior on the consistent application of the current FASAB standards.

All comments on the content of the exposure draft are welcome. **Responses are requested by September 20, 2004.** An electronic version of the exposure draft is available on the World Wide Web at [www.fasab.gov/exposure.htm](http://www.fasab.gov/exposure.htm). Printed copies can be obtained from FASAB by calling 202-512-7350.

## Original Pronouncements and Current Text Updated

FASAB has just updated the Original Pronouncements (Volume I) and Current Text (Volume II) on the FASAB website. Both Volume I & II have been updated to include all FASAB guidance issued through June 30, 2004.

The Original Pronouncements compiles and codifies the documents produced by the FASAB. It is designed to meet the needs of users for an authoritative reference to concepts, standards, interpretations, technical bulletins, technical releases, and other issuances. It contains extensive cross-referencing and indexing. Original Pronouncements presents each issuance as a separate chapter. The issue date and effective date of each statement and standard are presented first. Next, references to relevant sections within Original Pronouncements such as later standards amending the section, or related interpretations, technical bulletins, and technical releases. In addition, each Original Pronouncement section includes references to the applicable Volume II sections. In addition to the authoritative volume of Original Pronouncements, FASAB Staff provides a Current Text referred to as Volume II.

Current Text (Volume II) presents the authoritative portions of the Original Pronouncements in a topical arrangement. For example, all the literature related to direct loans is presented together. The Current Text is a resource for preparers and auditors but is not an authoritative reference since it does not undergo Board level review for accuracy.

Both volumes will only be available on the FASAB website and can be downloaded as a PDF file. Any questions or corrections may be submitted to Monica Valentine at [valentinem@fasab.gov](mailto:valentinem@fasab.gov) or 202 512-7362.

## FASAB Current Technical Agenda & Status of Projects

Project	Previous Key Milestones	Quarter 4 2004	Quarter 1 2005	Quarter 2 2005	Quarter 3 2005	Staff Contact
Natural Resources		Oil & Gas Research	Oil & Gas Research	Oil & Gas ED	Oil & Gas DP	Rick Wascak, 202 512-7363
Heritage Assets and Stewardship Land	ED-2003 PH-2004	DP	DP	UR	Final	Melissa Loughan, 202-512-5976
Earmarked Funds	ED-2003 PH-2004	UR & Final				Eileen Parlow 202-512-7356
Fiduciary Activity	ED-2003 PH-2003	DP	DP	UR	Final	Eileen Parlow 202-512-7356
Concepts Project		Research	Research	Research	Research	Robert Bramlett, 202 512-7355
Social Insurance Liabilities		Research	Research	Research	Research	Richard Fontenrose, 202-512-7358
Research into the Application of the Liability Definition		Research	Research	Research	Research	Julia Ranagan, 202-512-7377
Inter-entity Project	ED-2004	DP/PH	DP	UR	Final	Melissa Loughan, 202-512-5976
Stewardship Investments		Research	Research	Research	ED	Melissa Loughan, 202-512-5976

### Key Activities or Status

Research—Staff Research Phase of Project & Board Deliberations

ED—Exposure Draft Issued

DP—Board Due Process, including review of comment letters, public hearings, etc.

PH—Public Hearing

UR—Under Review, document approved by FASAB and sent to sponsors for 90-day review

Final—Final Standard, Concept, Interpretation, etc. issued final.

# Accounting and Auditing Policy Committee

## Recent Actions and Plans:

At its July 29, 2004 meeting AAPC members agreed by a “straw poll” to release for a 30-day exposure period, an exposure draft of Federal Financial Accounting and Auditing Technical Releases (TR) entitled *Recognition of the Transfer of Funds Between Interior’s Reclamation Fund and Energy’s Western Area Power Administration: In Accordance with SFFAS 1 Accounting for Selected Assets and Liabilities and SFFAS 5 Accounting for Liabilities of the Federal Government*. Subsequent to the meeting the members formally approved the issuance of the ED on August 20, 2004.

All comments on the content of the exposure draft are welcome. Responses are requested by September 20, 2004. An electronic version of the exposure draft is available on the World Wide Web at [www.fasab.gov/exposure.htm](http://www.fasab.gov/exposure.htm). Printed copies can be obtained from FASAB by calling 202-512-7350.

## Plans for Future Meetings:

The next AAPC meeting has not been scheduled. All meetings are 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](mailto:valentinem@fasab.gov)

## FASAB Meeting Schedule

### Schedule for 2004 Meetings:

Wednesday, October 20<sup>th</sup> and Thursday, October 21<sup>st</sup>  
Wednesday, December 15<sup>th</sup> and Thursday, December 16<sup>th</sup>

### Schedule for 2005 Meetings:

Wednesday, March 2<sup>nd</sup> and Thursday, March 3<sup>rd</sup>  
Wednesday, May 4<sup>th</sup> and Thursday, May 5<sup>th</sup>  
Wednesday, June 22<sup>nd</sup> and Thursday, June 23<sup>rd</sup>  
Wednesday, August 17<sup>th</sup> and Thursday, August 18<sup>th</sup>  
Wednesday, October 5<sup>th</sup> and Thursday, October 6<sup>th</sup>  
Wednesday, December 7<sup>th</sup> and Thursday, December 8<sup>th</sup>

Unless otherwise noted, meetings begin at 9 AM and conclude at 4 PM. Meetings are held at 441 G Street NW in room 7C13. Agendas are available at

<http://www.fasab.gov/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](mailto:nicholsonm@fasab.gov) **at least two days before the meeting**. The General Accountability Office, which provides space for our meetings, has increased its security procedures and your name must be provided to the security force before you can enter the building. Thank you.