



FASAB News
Federal Accounting Standards
Advisory Board

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Current Board Projects

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

Federal Entity

The February Board meeting discussion focused on issue areas related to the federal entity conclusive principle and staff recommendations. Staff presented an issue paper to the Board outlining the following specific issues:

- *Issue 1: Conclusive really just means in the Budget*
- *Issue 2: Exceptions when applying the conclusive principle*
- *Issue 3: Entities partially on budget*
- *Issue 4: Basis for Conclusions language related to the Conclusive Principle*

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.

The Board discussed the issues at length (see the February 2010 Board Minutes for detail discussion) before agreeing to revise the proposal. The Board determined the conclusive principle would only be applicable at the government-wide entity level, not at the component entity level. The Board directed staff to restructure the federal entity proposed standard to incorporate a two tier approach. The two tier approach would first define the federal entity (government-wide entity) as the first tier which includes both the conclusive and indicative principles for defining the boundary of the reporting entity. The second tier would define component entities which only include indicative principles for defining the reporting entity (inclusion in the budget would be an indicative criterion at the component reporting entity level.)

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

The Financial Report: MD&A, Statements, Notes, RSI and OAI

During the February 2010 meeting, the FASAB discussed staff's survey of the financial reporting practices and experiences of other countries. Staff received survey responses from 10 Organization for Economic Co-operation Development (OECD) member countries (Australia, Austria, Canada, France, Italy,

New Zealand, Norway, Portugal, Sweden, and United Kingdom). The following is a brief overview of the survey results:

- All of the respondents indicated that they make their government-wide financial report available on the internet.
- Most of the respondents indicated that departmental financial statements are prepared and audited.
- Many of the countries indicated similar financial statement users as the U.S. For example, all the respondents noted that legislative bodies (parliament) and citizens or the public were considered users. In addition to parliament, some countries noted other internal users such as those within ministries or departments.
- Financial statements were used for various purposes, including budget decisions, demonstrating stewardship over assets or asset management, monitoring efficiency, and accountability and decision-making in general.
- Most of the survey respondents use accrual accounting and some countries consider private sector accounting standards in preparing their financial reports.
- Respondents generally used the same basis for budgeting and accounting and some countries indicated that they currently use or are moving to accrual budgeting and accounting.

Also, during March 2010, staff plans to interview executives and managers to learn about their financial information needs. Kelly, Anderson and Associates will be assisting FASAB staff in conducting the interviews.

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

Managerial Cost Accounting – Federal Reporting Model

The Board approved the use of a questionnaire to solicit information on agencies' successes and challenges in implementing Statement of Federal Financial Accounting Standards 4, *Managerial Cost Accounting Concepts and Standards in the Federal Government* (SFFAS 4), as amended and supplemented. However, the Board suggested that staff might have more success using a two-step approach to sending out the questionnaire: (1) send a brief one-page questionnaire to agency management to gauge the use of cost accounting within an agency and solicit contact information for the principal people involved in implementing SFFAS 4, and (2) send a more detailed questionnaire to those principal contacts identified in the first step.

Point of Contact: Julia Ranagan, 202-512-7377, ranaganj@fasab.gov

Natural Resources

SFFAS 38, *Accounting for Federal Oil and Gas Resources*, was transmitted to FASAB's sponsors on January 12, 2010, for a 90-day review period. Staff anticipates that SFFAS 38 will be issued as final on April 13, 2010.

Staff will begin drafting a technical bulletin to address accounting for other types of federal natural resources beyond oil and gas.

Point of Contact: Julia Ranagan, 202-512-7377, ranaganj@fasab.gov

Social Insurance

At its meeting on December 16, 2009, the Board discussed the final draft of the social insurance standard presented by staff. After making editorial changes to paragraphs 25, A87, and other paragraphs and illustrations in the standard, the Board approved the standard. Staff anticipates that SFFAS 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*, will be issued as final in April 2010 following a 90-day review period by FASAB's sponsors.

Point of Contact: Richard Fontenrose, 202-512-7358, fontenroser@fasab.gov

FASB Reporting by Federal Entities (Appropriate Source of GAAP)

Staff is continuing research to determine whether additional reporting should be required for any of the entities that primarily apply FASB GAAP in order to meet users' needs and federal financial reporting objectives. Further progress on this project will depend on workload demands of projects that have been designated as higher priority.

Point of Contact: Julia Ranagan, 202-512-7377, ranaganj@fasab.gov

AICPA Omnibus

The FASAB discussed comments received in response to the exposure draft (ED), *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards*. The American Institute of Certified Public Accountants' (AICPA) *Statements on Auditing Standards (SAS) AU section 560, Subsequent Events*, includes accounting and financial reporting guidance that is not discussed in the authoritative literature that establishes accounting principles. The ED discussed a proposal to incorporate that guidance into the authoritative literature of the FASAB and respondents generally agreed with the ED. The Board determined that a public hearing would not be needed and staff will incorporate members' comments into a pre-ballot draft before the April 2010 meeting.

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

Deferred Maintenance & Asset Impairment

At the February 24th Board meeting staff presented an overview of the draft Exposure Draft (ED) proposing changes to the maintenance definition. Staff also briefly reviewed three current issues now being addressed by the task force; defining criteria for acceptable condition determinations, critical versus non-critical classification, and whether or not agencies should be required to consistently follow condition assessment methods.

By majority vote the Board decided to continue developing the ED and to take into consideration the following matters, some of which require changes to the draft document.

First, the Board envisions issuing two EDs, this definition ED and then later, the measurement and reporting ED. Concerning the need to issue this ED in particular, which only seeks a change to a definition, it was noted that normally the Board would not issue interpretations or technical bulletins to make the type of changes that the Board is currently proposing.

Second, it was agreed that there would be no need to isolate or separately define the term repair(s) either in the SFFAS 6 or the glossary since (1) for accounting purposes repairs are treated the same as maintenance and (2) the Basis for Conclusions provides an acceptable definition for repair (i.e. restoration of function). The Board acknowledged that some in the functional community may define and/or treat repairs differently from maintenance however they are not separate or distinct accounting terms.

Third, the Board highlighted three reasons for its decision to proceed with the draft ED at this time:

1. Changing the definition is in fact expected to provide for improved reporting of deferred maintenance.
2. The Board recognizes that there is a significant amount of interest in this topic.
3. The Board would like to seek consultation from the broader community-at-large before moving onto the measurement and reporting aspects of the project.

Fourth, the Board noted that what is not included in a definition is just as important as what is. For example, some practitioners desire that future capital needs be included in deferred maintenance. However, since the Board considered the issue and decided against such inclusion, this draft ED would clarify this important matter.

Lastly, the Board made clear that this is a preliminary but all-important step going forward in this broad project and invites respondents to offer comments noting other considerations, changes or points the Board should consider in its deliberations.

The Chairman summarized that although the Board agreed to issue the draft ED, the document would need to be revised taking into consideration the points raised by the various Board members.

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

Review of Existing Standards: Earmarked Funds

There are currently over 500 funds in the U.S. Government reported as meeting the definition of earmarked funds in Statement of Federal Financial Accounting Standards (SFFAS) 27, *Identifying and Reporting Earmarked Funds*. The briefing materials for the February Board meeting outlined several options for focusing the reporting on only the most important earmarked funds.¹

At the February Board meeting, staff distributed a list of agencies with over 250 earmarked funds with a positive net position and a table that showed what proportion of the total net position for those funds would be accounted for if agencies were limited to only their five largest earmarked funds. The result was that 99.3% of total net position would be accounted for. A second table on the handout showed that if agencies were limited to reporting on only their three largest earmarked funds, 98.9% of total net position would be accounted for.

Conclusions and action items resulting from the February Board meeting were:

1. Staff will develop options for criteria that will limit the reporting of earmarked funds to major funds so that future reporting will not include over 500 funds government-wide, as is currently the case. However, the reporting will include more than just the social insurance funds.
2. The term “earmarked funds” can cause confusion – for example, confusion between earmarked collections and earmarked spending. Potential amendments to SFFAS 27 will include a proposal to rename “earmarked funds” with a more intuitively understandable term, such as a term that includes the word “dedicated collections.” The Board will consider specific options for terminology at a future meeting, after making some decisions about additional criteria.

Point of Contact: Eileen Parlow, 202-512-7356, parlowe@fasab.gov

¹ The options outlined in the staff paper were:

Option A: limit reporting to social insurance programs identified in SFFAS 17, *Accounting for Social Insurance*

Option B: limit reporting by excluding funds with zero or negative net position

Option C: limit reporting to a note disclosure, further refined by limiting to the largest earmarked funds

Option D: eliminate reporting by rescinding SFFAS 27

Grants Accounting

A series of roundtables in April 2009 indicated that guidance for determining whether estimates of advances and payables for grant programs are reasonable would be helpful for agencies. Specifically, agencies indicated a need for guidance supporting cost-effective development of reasonable estimates.

A Task Force consisting of representatives from federal agencies and independent accounting and consulting firms assisted FASAB staff in identifying areas where guidance would be helpful. Specifically, members indicated a need for guidance regarding:

- a. appropriate reliance on the best available data in light of the often limited access to grantee data,
- b. situations where no historical data is available such as new or modified grant programs,
- c. assessment about materiality and whether it is appropriate to focus on the statement of net cost when making such assessments, and
- d. cost-effective means of validating previous estimates.

Proposed draft guidance was submitted to the FASAB's Accounting and Auditing Policy Committee (AAPC) for consideration at the January 21, 2010 AAPC meeting. The AAPC agreed to accept the project. Staff has finalized a draft Exposure Draft, which the AAPC will consider for issuance at the March 18, 2010 AAPC meeting.

Point of Contact: Eileen Parlow, 202-512-7356, parlowe@fasab.gov

FASAB Current Technical Agenda and Status of Projects

Project	Key Milestones	Quarter 1 2010	Quarter 2 2010	Quarter 3 2010	Quarter 4 2010	Staff Contact
Natural Resources	Revised ED – July 2009	Oil & Gas UR; Draft Technical Bulletin	Oil & Gas Final; Technical Bulletin UR	Final Technical Bulletin		Julia Ranagan, 202-512-7377
The Federal Entity		Research	Research	Research	ED	Melissa Loughan, 202-512-5976
Social Insurance Liabilities	PV – Oct 2006 ED – Nov 2008	UR	Final			Richard Fontenrose, 202-512-7358
FASB Reporting by Federal Entities		Research	Research	Research	Research	Julia Ranagan, 202-512-7377
Deferred Maintenance & Asset Impairment		Research	Research ED on definition	Research	ED on measurement and reporting	Domenic N. Savini, 202-512-6841
Earmarked Funds		Research	Research	ED	DP	Eileen Parlow, 202-512-7356
Grants Reporting		Research	Tech Release ED			Eileen Parlow, 202-512-7356
Conceptual Framework Project:						
Measurement Attributes		Research	Research	ED	DP	Penny Wardlow, 202-512-7350
Financial Reporting Model		Research	Research	Research	Research	Ross Simms, 202-512-2512 or Julia Ranagan, 202-512-7377

Key Activities or Status - Note that all estimates of progress assume that exposure drafts are finalized as statements without re-exposure due to significant changes.

Research—Staff Research Phase of Project & Board Deliberations
 ED—Exposure Draft Issued
 DP—Board Due Process, including review of comment letters, etc.
 PH—Public Hearing
 PV—Preliminary Views Issued
 UR—Under Review, document approved by FASAB and sent to sponsors for 90-day review
 Final—Final Standard, Concept, Interpretation, etc. issued final.

Accounting and Auditing Policy Committee

In September the AAPC issued two Federal Financial Accounting Technical Release exposure drafts entitled *Implementation Guidance on Cleanup Costs Associated with Equipment and Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment* and comments were due on December 4. The guidance was developed by the Disposal subgroup of the AAPC G-PP&E task force. The task force is chaired by AAPC members, Donjette L. Gilmore, Department of Defense and Daniel Fletcher, US Department of the Interior. The subgroup is lead by Alaleh A. Jenkins of the Department of Defense.

The *Implementation Guidance on Cleanup Costs Associated with Equipment* is to address cleanup costs associated with equipment as it applies to SFFAS 1, 5, 6 and TR 2. The guide focuses on cleanup of hazardous waste associated with equipment and when the cleanup should be recognized as an environmental liability and when it should be expensed as a routine operation. In addition the guide includes two examples – one example is associated with equipment cleanup when a liability should be recognized and one is associated with equipment cleanup when the costs should be expensed as routine operations. This proposed technical release provides steps that can be followed to help federal entities consistently apply existing standards to help ensure consistent, accurate and meaningful application of the standard and should allow for consistent application of the provisions listed in the current standards. The proposed guidance will also assist federal entities to provide reasonable estimates of cleanup costs associated with the disposal of equipment assets, when required.

The *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment* addresses important implementation questions regarding the consistent application of TB-2006-1 as it relates to asbestos cleanup costs associated with facilities and installed equipment. As federal agencies continue to develop their approach to implementing SFFAS 6 and TB 2006-1 for recognition of cleanup cost associated with asbestos, it has become apparent that an implementation strategy is needed to ensure consistent reporting of asbestos cleanup liabilities. Many federal agencies continue to struggle with interpreting SFFAS 6 and Technical Bulletin 2006-1 while attempting to determine a cost effective standard implementation methodology for identification and recognition of an estimated liability for asbestos cleanup. This guidance provides additional clarification of SFFAS 6 and TB 2006-1 and a framework for identifying assets containing asbestos, assessing the asset to collect information and/or develop key assumptions in applying acceptable methodologies to estimate asbestos cleanup costs for federal facilities and installed equipment.

At the January meeting the Committee discussed the comment letters received on the two EDs. The subgroup proposed several edits adding references to the existing standards to better clarify the implementation guidance. The two proposed technical releases were approved for issuance at the March AAPC. The FASAB will review the technical releases and, if a majority do not object, the final documents will be released after 45 days.

At the January meeting the Committee added to its agenda a project on grants accounting. See Grants Reporting on page 7.

Also at its January meeting the AAPC considered a project request from the Intelligence Community's Accounting Standards Working Group AAPC on behalf of the Central Intelligence Agency (CIA). The request was regarding the appropriate accounting and reporting treatment of In-Q-Tel. In-Q-Tel is a not-for-profit organization that pursues research and development opportunities into innovative technology solutions. The request included two distinctly different interpretations from the CIA's Chief Financial Officer (CFO) and its Inspector General (IG) on the relationship between In-Q-Tel and the CIA, including the level of control and potential future economic benefit to the CIA. The CFO's position is that the characteristics of the relationship between In-Q-Tel and CIA do not meet the requirements for including In-Q-Tel as part of the CIA's reporting entity in accordance with SFFAC 2 Entity and Display. The CIA IG's position is that In-Q-Tel's net assets should be recorded as an investment on the CIA's financial statements. The AAPC agenda committee concluded that the existing standards were not ambiguous on this issue, however a clear resolution was not found in the existing FASAB standards. The Committee also recommended that the issue be referred to the FASAB Entity project.

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

FASAB Meeting Schedule

Schedule for 2010 Meetings:

Wednesday, April 28th and Thursday, April 29th
Wednesday, June 23rd and Thursday, June 24th
Wednesday, August 25th and Thursday, August 26th
Wednesday, October 27th and Thursday, October 28th
Thursday, December 16th and Friday, December 17th

Unless otherwise noted, FASAB 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/meeting.html> approximately one week before the meetings.

AAPC Meeting Schedule

Schedule for 2010 Meetings:

Thursday, May 20
Thursday, July 15
Thursday, September 16
Thursday, November 18

Unless otherwise noted, AAPC meetings begin at 1 PM and conclude at 3 PM. Meetings are held at 441 G Street NW in room 7C13. Agendas are available at <http://fasab.gov/aapc/meeting.html> 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 staff at 202-512-7350 or fasab@fasab.gov **at least two days before the meeting**. The Government 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.