



FASAB News
Federal Accounting Standards
Advisory Board

NOVEMBER 2007/DECEMBER 2007

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REMINDER--VOLUNTEERS NEEDED FOR
THE FEDERAL ENTITY PROJECT
TASK FORCE

The Federal Accounting Standards Advisory Board (FASAB) initiated a project on the Federal Entity in conjunction with the Board's overall conceptual framework project. The Federal Entity project will focus on developing standards related to the boundaries of the reporting entity and specific criteria for each. The history for this project and issue papers to date can be found on our website at <http://www.fasab.gov/projectsfedentity.html>.

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,
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Please direct AAPC technical questions to Monica Valentine,
202-512-7362,
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Please direct FASAB and AAPC administrative questions to Charles Jackson, 202-512-7352, jacksoncw1@fasab.gov.

The standards being developed as a result of this effort will affect virtually all federal agencies. In an effort to involve the federal financial community in this process, we are inviting you to volunteer for service on a task force to assist us in more efficiently and effectively developing new standards related to the federal entity and consolidation. We believe that members of this task force will provide valuable insights based on their experiences addressing complex issues.

FASAB addresses the entity concept in its SFFAC 2, *Entity and Display*. The Board issued SFFAC 2 in April 1995, and for the most part, the first half of SFFAC 2 (paragraphs 1 through 53) addresses the entity issue. While SFFAC 2 provides criteria for determining if an entity should be included as a federal entity, questions continue regarding whether certain activities should be included within an entity.

The Board anticipates a focus on questions relating to inclusion or exclusion of entities from the reporting entity. The task force would be very helpful when considering the consolidation of other unique relationships and activities. Of particular importance will be relationships such as joint ventures, special-purpose entities, federally funded research and development centers, lease arrangements, and other financing arrangements (partnerships).

If you are interested in serving on the task force or need any additional information, please contact Ms. Melissa Loughan at (202) 512-5976 or loughanm@fasab.gov.

Current Board Projects

Reminder – Comments Sought Regarding Natural Resources

An exposure draft (ED) entitled *Accounting for Federal Oil and Gas Resources* was issued for public comment on May 21, 2007. Comments on the proposals presented in the ED were requested by September 21, 2007. However, because the Board received a request for the comment period to be extended and because few responses have been received, the Board has agreed to extend the comment period until **January 11, 2008**. The ED in PDF format and a separate Word file presenting the specific questions raised in the ED may be retrieved by accessing the **Exposure Drafts and Documents for Comment** link at www.fasab.gov.

Point of Contact: Rick Wascak, 202 512-7363, wascakr@fasab.gov

Concepts Project

Elements Phase

The Statement of Federal Financial Accounting Concepts 5, Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements (SFFAC 5) was issued on December 26th.

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

Entity Phase

At the December 2007 meeting, the Board discussed an updated outline paper on the boundaries of the federal reporting entity. The paper highlighted that all organizations within the three branches of the federal government are part of the federal reporting entity. In addition, the federal reporting entity includes all organizations that:

- the federal government is directly financially accountable for or owns;
- the federal government exercises control over; or
- the nature and significance of their relationships with the federal government are such that the exclusion would cause the government's financial statements to be misleading or incomplete.

The outline paper included specific, detailed criteria for each of the broad areas identified as well as an expanded introduction that included a discussion of component reporting entities. The Board members provided general comments on the paper. The comments are detailed in the December Board Minutes.

FASAB staff plans to form a task force to share the outline paper for comment. The task force will include members from the CFO, OIG, and IPA as well as specific

representatives from quasi government / hybrid organizations (such as FFRDCs), and intelligence agencies because of their unique nature. The task force will assist in developing the proposed standard on the boundaries of the reporting entity and consolidation. The task force will develop case studies testing the proposed criteria. Staff (and the task force) will concentrate on the areas identified by Board members for consideration. Staff will report back to the Board after meeting with the task force.

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

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

At the December 2007 meeting, the Board discussed a proposed concepts statement that would amend SFFAC 2, *Entity and Display*. During the Board's September 2007 meeting, members agreed that there are a number of factors to consider when determining how to communicate required information and those factors are presented in the basis for conclusions section of SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment* (Figure 2). Members relied on the factors when developing the standard and found them helpful for distinguishing basic information from required supplemental information (RSI). The Board then agreed that a concepts statement on communication methods should include the SFFAS 25 factors.

Rather than developing a concepts statement on communications methods that would include the factors for distinguishing basic and RSI, staff proposed a concepts statement that would amend SFFAC 2. The existing FASAB conceptual framework currently includes some guidance for communication methods. For example, SFFAC 2 discusses types of financial statements, management's discussion and analysis (MD&A), and RSI, and SFFAC 3, *Management's Discussion and Analysis* further discusses the MD&A. Amending SFFAC 2 to include the factors for distinguishing basic and RSI would help reduce the likelihood of repeating existing concepts in a new standard.

The Board agreed with the staff proposal to amend SFFAC 2 and provided comments on the content of the proposed statement. Staff plans to prepare a ballot draft for the February 2008 Board meeting.

In addition, staff noted that discussing required information categories raises another matter for the Board's consideration. Staff noted that the Required Supplementary Stewardship Information (RSSI) category remains a part of the federal financial reporting model. The Board has reclassified all RSSI items except Stewardship Investments. Stewardship Investments include investments in non-federal physical property, research and development, and human capital. Members noted that the information is currently being treated as RSI; however, when the Board originally created the category, the Board expected that the auditor would report on this information in a manner similar to basic information. Also, some members expressed concern whether the information should continue to be required. The Board agreed to

consider a project on the RSSI category during its February 2008 technical agenda setting discussions.

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

Fiscal Sustainability Reporting

The following members of the Fiscal Sustainability Task Force participated in the December 2007 Board meeting:

Robert Anderson, Senior Economist, Office of Management and Budget (OMB)

Benjamin R. Page, Principal Analyst, Macroeconomic Analysis Division,
Congressional Budget Office (CBO)

James Duggan, Senior Economic Advisor for Social Security, Office of Economic
Policy, U.S. Department of the Treasury (“Treasury”)

Thomas McCool, Director of the Center for Economics in Applied Research and
Methods, Government Accountability Office (GAO)

At the December Board meeting, the Board addressed assumptions, per capita measures and various options for a primary summary display.

Assumptions

The Board confirmed the consensus reached at the September Board meeting that policy assumptions¹ for the primary summary display should be consistent with current levels of federal benefits, services and taxation. Staff will draft additional language in the draft exposure draft (ED) to clarify this requirement.

Per Capita Measures

The members discussed the objections to per capita measures that were explained by the technical members of the Fiscal Sustainability Task Force:

- A majority of the technical members strongly objected to the use of per capita summary numbers using current-year population for the denominator. Such values would imply that the current-year population is solely responsible for funding program shortfalls into the distant future. Those members believe that any changes needed to address the shortfalls projected through, for example, the next 75 years, must be spread across the population throughout that 75-year period, and cannot be handled solely by today's workers.
- “Per capita” measures for infinite-horizon projection periods present special problems. It is uncertain how a reasonable “per capita” denominator for the “infinite horizon” ratio would be selected and explained, especially if the denominator includes an estimate of all individuals that enter the population during the projection period.

¹ Policy assumptions address the level of services provided by the federal government as well as the framework for assessing taxes and fees.

- Present value per capita amounts can be easily misinterpreted, because the reader will compare the amounts with current salary levels and not understand the role of potential future productivity increases.
- Per capita amounts represent amounts distributed equally among individuals with widely different abilities to pay.

The Board discussed the above objections and concurred that per capita measures should be deleted from the proposed reporting.

Initial discussion of summary displays

The Board discussed the options for summary displays. Options A, B and C are described in pages 6-12 of the December briefing memorandum (available on the Active Projects page of the FASAB website, www.fasab.gov) and an Option D that was presented at the meeting by Mr. Dacey of GAO (to be available as an attachment to the December 2007 meeting minutes when they are posted to the FASAB website in early February).

The members discussed the advantages of each of the four displays and noted that it would assist their evaluation if actual projections could be added to the various line items. Staff plans to ask the Congressional Budget Office for assistance in providing actual projections based upon the Board's requirements for assumptions.

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

Social Insurance

The Social Insurance (SI) project has focused on the adequacy of the SFFAS 17 approach to SI liability and expense. Two familiar and opposing views on that issue have come to the fore: on the one hand there is the view represented by SFFAS 17 (and SFFAS 25-26) approach, which provides that the SI expense is the cash outflow in the period, plus or minus the net change in the "due and payable" liability; on the other hand, there is the view that expense and liability ought to be recognized much earlier in the participants' work in covered employment. Both views would require a new basic statement displaying the causes of the change in statement of social insurance (SOSI) net present values during the period, as well as a rich display of required supplementary information (RSI), including cash flow projections as a percent of GDP and taxable payroll, the dependence ratio, and sensitivity analysis.

The Board is discussing a "compromise" position regarding recognition and display. In September, the Board began a general discussion about essential information and display, and that discussion continued in December.

The staff memorandum for December presented two issues: (1) what is essential social insurance information and (2) how should it be displayed. Regarding information on accrued cost, the September discussion included the following:

- The total change in SOSI, which is change in the open group net present value (NPV) over 75 years.
- The closed group portion of the SOSI NPV.
- The portion of the closed group NPV representing the accrued benefits from past work in covered employment.

In this regard, there had been support among some FASAB members for considering a measure currently used by the Social Security Trustees (“Trustees”) and/or the Social Security Administration (SSA). In their Annual Report, the Trustees’ use the terms – “unfunded open group benefit obligation,” and “unfunded closed group benefit obligation.” In its periodic Actuarial Note, SSA uses the term “accrued benefit obligation” and “maximum transition cost.”

Based on the Board’s September discussion and its subsequent research, the alternatives for obligation and “cost” as follows:

- 1) Accrued benefit obligation, which essentially involves the closed group population and past work in covered employment. The term “accrued benefit obligation” is defined in SSA’s Actuarial Note, along with the “maximum transition cost” (MTC) (see below). This term appears likely to be understandable. For example, it would be more understandable than “maximum transition cost.” Also, the Trustees’ use the term “unfunded obligation” in their Annual Report.
- 2) The MTC, which is the accrued benefit obligation less the Treasury securities held.
- 3) The FASB pension concepts of the “accumulated benefit obligation” (ABO) and “projected benefit obligation” (PBO).
- 4) The closed and open group NPVs from the SOSI, which include revenue and benefits attributable to future work in covered employment.

Staff presented two recommendations:

- 1) SI information to include SOSI, SFFAS 17’s RSI, a statement of SOSI changes, and an “accrued benefit obligation.”
- 2) A general approach for display featuring a highlights table for the MD&A, new line items for the basic statements (with possible notes), a statement of SOSI changes, and current SFFAS 17 RSI.

At the December meeting the FASAB members discussed the staff’s recommendations without voting on either. The Board directed the Social Insurance Project staff to continuing working on display options. A vote on SI accounting and reporting will follow the Board’s work on fiscal sustainability.

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

Reporting the Gains and Losses from Changes in Assumptions and Other Requirements for Accounting for Post-Employment Benefits

The FASAB extended the comment period for the exposure draft *Reporting Gains and Losses from Changes in Assumption and Selecting Discount Rates and Valuation Dates* until January 15, 2008. The FASAB is seeking public comment on this exposure draft for consideration at its February meeting and subsequent meetings. Your response will be very much appreciated. Board will consider the next steps at the February meeting.

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

Appropriate Source of GAAP

At the December 4, 2007 meeting, staff presented an informational paper to the Board members in order to provide them with a better idea of the extent of financial reporting using a primary source of generally accepted accounting principles (GAAP) other than that developed for federal entities by FASAB (e.g., GAAP developed by the Financial Accounting Standards Board (FASB)). It was thought that a closer look at the extent of the project would also serve to address open questions from the members about exactly what the impact might be to reporting entities in the executive, legislative, and judicial branches.

Staff's paper contained a listing of all of the entities required to prepare financial statements under the *Chief Financial Officers Act of 1990 as expanded by the Government Management and Reform Act of 1994 (CFO/GMRA)*, the *Accountability of Tax Dollars Act (ATDA)*, and the *Government Corporation Control Act (GCCA)* with a link to each entity's 2006 financial statements, if available, as well as the source of GAAP used to prepare the financial statements (FASAB vs. FASB GAAP) and the audit opinion received thereon. Information was also provided for some of the legislative branch entities as well.

Staff noted that an updated project schedule was included at the back of Appendix 1 and asked the members if they had any questions or concerns about the project proceeding as outlined at the September meeting.

The majority of the Board agreed that staff should continue as directed at the last meeting, which is to determine the user needs of the entities currently reporting under FASB, develop proposed reporting requirements that would incorporate those user needs with the needs of Treasury in compiling the consolidated financial report of the U.S. Government (CFR), and then prepare a draft survey to get feedback on the potential costs, burdens, and hurdles to providing the information necessary to satisfy

the proposed reporting requirements. One member also requested that staff prepare a position paper that compares the pros and cons or strengths and weaknesses of the CFR in its current format to one that requires more consistency or homogeneity, including an analysis of the balance of governmentwide costs vs. benefits of changes as well as status quo.

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

FASAB Current Technical Agenda &

Status of Projects

Project	Key Milestones	Quarter 1 2008	Quarter 2 2008	Quarter 3 2008	Quarter 4 2008	Staff Contact
Natural Resources	ED – May 2007	Oil & Gas DP	Oil & Gas DP	UR		Rick Wascak, 202-512-7363
Fiduciary Activity	SFFAS 31 Issued – October 2006	Develop Q&As	Implementation Guidance Finalized			Eileen Parlow, 202-512-7356
Fiscal Sustainability		Research	ED	DP	DP	Eileen Parlow, 202-512-7356
The Federal Entity		Research	Research	Research	ED	Melissa Loughan, 202-512-5976
Social Insurance Liabilities	PV -- October 2006	DP	DP	DP	ED	Richard Fontenrose, 202-512-7358
Reporting Gains & Losses from Changes in Assumptions	ED – August 2007	DP	DP	UR		Richard Fontenrose, 202-512-7358
Appropriate Source of GAAP		Research	ED or Other Product			Julia Ranagan, 202-512-7377
Conceptual Framework Project:						
Measurement Attributes		Research	Research	Research	Research	Penny Wardlow, 202-512-7350
Financial Reporting Communications Methods		ED	DP	DP	UR	Ross Simms, 202-512-2512

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

The AAPC has two draft Technical Releases (TR) currently on its agenda. The first TR is implementation guidance for SFFAS 30 *Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts* and was developed by the Inter-Entity Cost (IEC) task force, chaired by Michael McFadden and Dorrice Roth, designee for D. James Sturgill. The second TR is implementation guidance for SFFAS 29 *Heritage Assets and Stewardship Land* and was developed by the Heritage Assets/Stewardship Land (HA/SL) task force is chaired by and Frank Synowiec, Jr and Carrie Hug. Both of these TRs have gone through the exposure draft phase.

The draft technical releases were discussed at the November AAPC meeting. The task force chairs discussed the revisions made to the documents since the September meeting with the Committee members. Also at the November meeting both TRs were approved by the AAPC to be released to the FASAB for final approval and issuance. These TRs are expected to be issued as final guidance in early 2008.

Updates on all AAPC projects can be found on the AAPC website. The minutes for all meetings can be found on the FASAB/AAPC website at <http://fasab.gov/aapc/meeting.html>.

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

FASAB Meeting Schedule

Schedule for 2008 Meetings:

Wednesday, February 13th and Thursday, February 14th
Wednesday, April 16th and Thursday, April 17th
Wednesday, June 18th and Thursday, June 19th
Wednesday, August 20th and Thursday, August 21st
Wednesday, October 22nd and Thursday, October 23rd
Wednesday, December 17th and Thursday, December 18th

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/meeting.html> approximately one week before the meetings.

AAPC Meeting Schedule

Schedule for 2008 Meetings:

Thursday, January 17th
Thursday, March 20th
Thursday, May 15th
Thursday, July 17th
Thursday, September 18th
Thursday, November 20th

Unless otherwise noted, 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.