



FASAB News
Federal Accounting Standards
Advisory Board

June/July 2015
TABLE OF CONTENTS

Member News – Selection of Chairman and New Members for Terms to Begin in 2016 1

Current Board Projects.....2

 DoD Implementation Guidance Request Project 2

 The Financial Report: MD&A, Statements, Notes, RSI and OAI..... 3

 Leases 4

 Risk Assumed..... 4

 Public-Private Partnerships (P3)..... 6

 Internal Use Software (IUS) Implementation Guide Draft 8

FASAB Meeting Schedule.....9

AAPC Meeting Schedule.....9

Security Notice9

Member News – Selection of Chairman and
New Members for Terms to Begin in 2016

D. Scott Showalter has been appointed to serve as chairman of the Board beginning January 1, 2016. Mr. Showalter’s term will conclude on June 30, 2019. Mr. Showalter’s service on the Board began July 1, 2009. He is a retired partner at KPMG LLP, Professor of Practice at North Carolina State University, and a member of the Standing Advisory Group of the Public Company Accounting Oversight Board.

Regarding Mr. Showalter’s selection, Chairman Allen said, “The FASAB sponsors have made an excellent selection and I am pleased that Scott will succeed me as chairman. His recognized leadership abilities and depth of knowledge of both audit and accounting issues make him an ideal chairman. Under Scott’s leadership the Board will continue its work on critical federal financial reporting issues.”

Gila Bronner and George Scott have been appointed to the FASAB. Their five-year terms will begin January 1, 2016 when current members Tom Allen and Harold Steinberg complete their current terms.

Ms. Bronner, President and CEO of Bronner Group, LLC, is a certified public accountant (CPA) and highly respected by government lawmakers and regulators as an expert on government efficiency and reform, auditor independence, and related accountability and internal control issues. She is also a recognized thought leader on public sector implementation and compliance issues associated with the recently enacted Digital Accountability and Transparency Act (DATA Act). Throughout her distinguished career, Ms. Bronner has assisted several hundred government entities throughout the United States and Puerto Rico in streamlining business practices, implementing improved internal controls, and developing strong public oversight mechanisms.

George Scott, recently retired Partner of Deloitte LLP, is well known for his extensive knowledge and experience in state and local government accounting, financial reporting, and auditing related issues. He frequently serves as a resource for shaping conversations and regulatory guidance in these areas. With more than 39 years of experience at Deloitte serving public sector clients, Mr. Scott has been actively involved in industry organizations, ranging from Member to Chairman, at the national and regional level and is a nationally sought after speaker. Mr. Scott is a CPA and a CGFM.

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 Grace Wu, 202-512-7377, wug@fasab.gov.

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

Regarding the appointments, Chairman Allen said, "Gila and George bring a wealth of experience to the FASAB. Each has significant experience serving on boards and is held in high regard by their peers in the profession. While it is always sad to bid farewell to the members, new members ensure the board continues to thrive."

Current Board Projects

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

[DoD Implementation Guidance Request Project](#)

The Federal Accounting Standards Advisory Board (FASAB) released a proposed Statement of Federal Financial Accounting Standards on June 2, 2015 entitled Opening Balances for Inventory, Operating Materials and Supplies (OM&S) and Stockpile Material. The Department of Defense (DoD) requested FASAB's guidance on the use of reasonable baseline estimates for the valuation of legacy inventory, operating materials and supplies (OM&S), and stockpile materials because SFFAS 3, Accounting for Inventory and Related Property, requires valuation at historical cost (initial amounts).

The proposed Statement would allow a reporting entity to apply an alternative valuation method in establishing opening balances for inventory, OM&S, and stockpile materials. The alternative valuation method is available only when presenting information following generally accepted accounting principles (GAAP) either (1) for the first-time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP- based financial statements without use of the alternative valuation method.

This Statement is effective for periods beginning after September 30, 2016. Earlier implementation is encouraged. The exposure draft requests written comments by July 20, 2015. The exposure draft can be found on the at <http://www.fasab.gov/board-activities/documents-for-comment/exposure-drafts-and-documents-for-comment/index.html>.

At the June 2015 Board meeting, the Board discussed DoD's request to clarify the treatment of capital improvements when estimating the historical cost of GPP&E. They indicated that separately identifying the cost of capital improvements would be costly and time consuming.

The Board agreed that issuing a Statement and making the appropriate amendments to standards may provide a cost effective approach for DoD regarding baseline estimates of general property, plant, and equipment (GPP&E). While the Board did not decide on a particular approach, many options were discussed at the meeting and detailed in the minutes.

The Board suggested that DoD come back with what they believe the best approach is for the Board's consideration. It was agreed that FASAB staff would work with DoD and facilitate meetings to gather input from their auditors to discuss the approaches further. Staff will also consider the issues related to all general property plant and equipment, including real property, military equipment and land so all items can be addressed in one Statement.

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

[The Financial Report: MD&A, Statements, Notes, RSI and OAI](#)

The Board discussed revenue reporting practices and a draft concepts statement for an ideal reporting model. During the Board's educational session on revenue reporting, the Board recognized some of the complexities involved in reporting revenue at the component level. For instance, FASAB provides explicit guidance on how to classify various revenue transactions and, although an agency may collect and report exchange revenue on the Statement of Net Cost, it may not have the authority to spend those collections. Legislation must provide the agency with the authority to spend the collections or the agency must deposit the funds in the general fund of the Treasury. Also, in all cases, the funds that components collect are subject to appropriation and the agency must apply budgetary reporting controls. As a result, the Statement of Budgetary Resources may report appropriation amounts even when the

Statement of Changes in Net Position shows no appropriations used or unexpended. Board members discussed the need to make component level reporting less challenging for readers to understand.

The Board also discussed major sections of a draft concepts statement for an ideal reporting model. FASAB members deliberated a draft concepts statement that included concepts regarding the financial reporting objectives and FASAB's priorities with respect to those objectives; reporting on financial condition at the government-wide level; the scope of financial reporting; financial statements and their relationship to other financial information sources; component entity reporting; and reporting budgetary information. The Board decided that the section discussing FASAB's priorities was not needed because the Board's priorities have been communicated in its Strategic Directions document and the priorities are subject to change. Also, Board members suggested that the concepts provide general, aspirational guidance and determined revisions. Staff will present a revised draft concepts statement for the August 2015 meeting.

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

Leases

There was no staff presentation to the Board on the Lease project at the June 2015 meeting. Staff provided a memo to the Board updating them on the project's progress.

Since the April meeting staff has been working with GSA officials and other task force members to further develop the intragovernmental lease accounting standards. Thus far several additional intragovernmental leasing matters have been raised and are being researched for Board discussion.

The GASB met in early June to continue its deliberations on the comments received on their Lease preliminary views in preparation of an exposure draft. They have discussed the scope of the lease standard, its foundational principle, the lease term, and the lessee model. We are reviewing the related GASB staff discussion papers to assess if any of the issues raised in the GASB discussion papers need to be brought to our Board for discussion.

Staff will continue to work with the task force to further develop the lease standards, including the intragovernmental lease standards. Staff will also continue to follow the progress of the other standard setters' lease accounting projects.

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

Risk Assumed

At the June 2015 Board meeting, the Board continued to review the updated proposed insurance standards for risk assumed. Staff provided the Board with updated

information that can be found on the Risk Assumed project page at:
<http://www.fasab.gov/projects/active-projects/risk-assumed/>

The following items were discussed:

Estimated Losses on Remaining Coverage:

The Board reviewed the proposed language for measuring estimating losses on remaining coverage and returned to their original plan to require expected value, with more definitive language. In the event that expected value is not feasible or appropriate, the most likely amount would then be required. There was general consensus on the proposal. Board members noted that the approved order and language should clarify use of the approaches.

Proposed Insurance Program Categories:

Staff recommended three categories: 1) exchange revenue insurance programs other than life insurance, 2) nonexchange revenue insurance programs, and 3) life insurance programs.

Staff explained that SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, provides the definition for revenue types, and noted that SFFAS 7 and SFFAS 5, *Accounting for Liabilities of The Federal Government*, are in synch. Therefore, SFFAS 7 will identify whether a transaction is exchange or nonexchange and the related timing and recognition of revenue; while SFFAS 5 will govern when the associated loss becomes a liability.

Exchange revenue insurance programs other than life insurance category:

The exchange revenue insurance programs collect revenue through contracts/agreements. This category precludes separate categories for short- and long-duration contracts because the proposed standards will require disclosures by portfolio. Therefore, agencies should include short- and long-duration contracts in separate portfolios according to their similar characteristics.

The transactions that fall within this category may also need appropriations and/or borrowing for funding. Nonexchange revenue may also be collected in the form of fees and fines, not in relation to a contract, but in response to punitive actions. These additional types of funding should be captured in a proposed disclosure schedule. The Board approved the exchange revenue category.

Nonexchange revenue insurance programs category:

Nonexchange revenue programs collect money demanded by the government, such as dedicated taxes and regulated fees. Nonexchange transactions need to be tracked separately because they are not related to contracts and losses are only recognized when they occur. Therefore there will be no liability for losses

on remaining coverage, only liabilities for unpaid claims. The Board approved the nonexchange revenue category.

Life insurance category:

Staff recommended life insurance as a separate category because: 1) life insurance has a different risk profile—death always occurs resulting in a payout, whereas an adverse event for exchange and nonexchange transactions might not occur, 2) SFFAS 5 already separates it out, and 3) there will be a liability on future policy benefits which is different than a liability for losses on remaining coverage. The Board approved the life insurance category.

The government-wide (GW) financial report:

In relation to the proposed disclosure schedules in each category, the Board wanted to know if staff will recommend the same detail at the GW level. Staff noted that only certain pieces will be proposed. Staff also acknowledged Treasury's comment that FASAB can only require information at the GW level that is required at the component level, and will address the GW standards once the standards for all of the categories have been addressed.

Staff will present the proposed standards for insurance categories at the August 2015 meeting; all other updates will be provided at the October 2015 meeting.

Point of Contact: Robin Gilliam, 202-512-7356, gilliamr@fasab.gov

Public-Private Partnerships (P3)

The Board reviewed a draft of the revised standards for disclosure requirements for public-private partnership (P3s) that included changes made based upon respondent comments, P3 working group suggestions, and Board re-deliberations/discussions. Also, an illustrative flowchart outlining how preparers can determine if an arrangement or transaction is eligible for disclosure was reviewed. The TAB C materials are available at <http://fasab.gov/board-activities/meeting/meetings/june-2015-briefing-materials/index.html>.

Principal edits to this draft included (1) changing the P3 definition to add the requirement that the arrangement or transaction needs to exceed 5 years in order to be considered a P3 for reporting purposes, (2) deleting the 4 features contained in the P3 definition and realigning them directly into the risk-based characteristics, and (3) removing language that references materiality.

Mr. Dacey, who authored the alternative view, suggested that (1) clarification be made concerning materiality. Specifically, the Basis for Conclusions can explain what the general materiality box applies to and how materiality should be implemented and (2) that the use of the term "contractual" in paragraph 23d in connection with risks should be revisited.

It appeared that members generally agreed that through these modifications to the standards that the issues in the Exposure Draft's alternative view as well as respondent comments to the Exposure Draft have been satisfactorily addressed.

The project's next step will be moving to a complete standard for review and then balloting.

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

Accounting and Auditing Policy Committee

The Committee welcomes its new CIGIE audit committee member - Elliot Lewis, Assistant Inspector General for Audit, Department of Labor, who replaced CIGIE audit committee full-term member - Joseph Marchowsky, Assistant Inspector General for Audit, Pension Benefit Guaranty Corporation. In addition, the Committee also welcomes its new at larger member - Brett Baker, Assistant Inspector General for Audit, National Science Foundation.

Internal Use Software (IUS) Implementation Guide Draft

The FASAB IUS working group drafted the IUS implementation guide and provided the draft to its member and the Committee for feedback. An updated draft based on the comments received was presented and discussed during the July 16th AAPC meeting. During the meeting, the Committee concurred on the content presented in the implementation guide. In addition, a vote was passed to exclude the intelligence community specific topic on software with uncertainty from the implementation guide. Instead, a separate letter will be issued to intelligence community for this topic.

The Committee also concurred to present the draft IUS implementation guide to the FASAB board for comments.

Point of Contact: Grace Wu, 202-512-7377, WuG@fasab.gov

FASAB Meeting Schedule

Schedule for 2015 Meetings:

August 26th and 27th
October 21st and 22nd
December 16th and 17th

Unless otherwise noted, FASAB meetings begin at 9 AM and conclude before 5 PM. Meetings are held at 441 G Street NW in room 7C13. Agendas and briefing materials are available at <http://www.fasab.gov/board-activities/meeting/briefing-materials/> approximately one week before the meetings.

AAPC Meeting Schedule

Schedule for 2015 Meetings:

November 19th

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://www.fasab.gov/about/aapc/meetings/> approximately one week before the meetings.

Security Notice

If you wish to attend a FASAB or an AAPC meeting, please [pre-register](http://www.fasab.gov/board-activities/meeting/information-for-observers/pre-registration/) on our Web site at <http://www.fasab.gov/board-activities/meeting/information-for-observers/pre-registration/> **no later than 8 a.m. the Tuesday before the meeting to be observed.** The Government Accountability Office (GAO), which provides space for our meetings, has increased its security procedures and your name must be provided in advance to the GAO security force before you can enter the building. **When you arrive, please advise the security officer that you are attending either a FASAB or AAPC meeting. Doing so will assist the officer in locating the correct security list.** Thank you.