



FASAB News
Federal Accounting Standards
Advisory Board

APRIL/MAY 2010

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Earmarked Funds: Task Force Members Wanted!

FASAB staff is currently recruiting a task force on earmarked funds for assistance in evaluating existing standards (Statement of Federal Financial Accounting Standards 27, *Identifying and Reporting Earmarked Funds*).

The task force will evaluate various options for proposed changes to reporting requirements by performing field testing to provide FASAB staff with information on various potential “filters” that would be intended to streamline on earmarked funds. The task force will field test various options and provide staff with information on (a) how well various options meet the objectives of earmarked funds reporting, (b) the likely impact of various options on reporting of earmarked funds by agencies, and (c) the time and effort involved in applying various options.

For additional information on this project, see page 3 of this newsletter and background information at http://www.fasab.gov/earmarked_funds.html.

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

At the April 2010 meeting, the Board discussed the following issue areas and staff recommendations related to the federal entity project:

- *Clarification of language for entities receiving subsidies that are listed in the budget*
- *Clarification that all accounts for any entity should be considered in the conclusive principle*
- *Entities partially in the budget*
- *Identifying Reporting Entities and Federal Entities Subject to FASAB*
- *Terminology & Definitions*
- *Principles for both the government-wide reporting entity and component reporting entities should be addressed within one proposed Statement*

Detail staff analysis of each issue was included in the staff paper and can be found on the active project page referenced above.

While additional detail of the deliberations can be found in the minutes, the Board agreed to the following at the April 2010 Board Meeting:

- The clarifying language for entities receiving subsidies that are listed in the budget presented by staff.
- The issue *Clarification that all accounts for any entity should be considered in the conclusive principle* would be addressed further in relation to the component reporting entity and staff will determine if language is still necessary for the government-wide reporting entity.
- For entities partially in the budget, the entity as a whole should be included in the federal reporting entity. The issue of how they would be presented or displayed would be addressed at the end of the federal entity project along with other unique relationships.
- The use of terms and definitions for government-wide reporting entity and component reporting entity.
- Incorporate language from SFFAC 2 that related to *Identifying Reporting Entities* into the Draft ED and didn't anticipate staff revisiting these areas.
- Issue one Statement covering principles for both the government-wide reporting entity and component reporting entities.

Staff will continue presenting additional issue areas for the Board's consideration at the next meeting.

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

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

At the April 29, 2010 meeting, the FASAB discussed the staff user needs studies. Staff conducted a series of user studies involving citizens, executives and managers, and the Congress. Upon completion of the studies, staff developed a user needs inventory for use in determining improvements in existing federal financial reports. The financial reporting objectives are broad enough to encompass the user needs identified and the following are some of the highlights of the user needs studies:

- Citizens and some executives and managers noted difficulty in understanding information in financial reports. They believed that the documents are intended for accountants or economists rather than citizens and managers. In some instances, executives and managers develop their own data and reports.
 - Congress seeks timely, easy to understand information to address particular issues.
 - Citizens were not aware that the federal government and agencies prepared audited financial statements and some executives and managers had not seen their agency's financial statements.
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- Some executives and managers noted that they need training in financial management.
 - Congress seeks financial information about specific issues of the day and uses many sources to obtain the information it needs such as obtaining the information directly from agencies and utilizing legislative support organizations, i.e., the Government Accountability Office, Congressional Budget Office, and Congressional Research Service.
 - Congress also routinely seeks information about the budgetary effect of legislative proposals on the budget and the cumulative effects of legislation.
 - Executives and managers use multiple systems, cuff systems, or systems other than financial systems to get financial information, including basic budgetary information.
 - Both cash and accrual basis accounting appears to be needed to provide the information users need.

- Executives and managers need information at least monthly, but timelier, if possible. However, some did not believe that timelier information was possible.

The FASAB also discussed the FASAB reporting model task force scope and structure, and the Board's views or issues that they would like the reporting model task force to consider during the project.

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

Managerial Cost Accounting – Federal Reporting Model

At the February 2010 meeting, 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.

At the advice of the board, staff conducted the survey as a two-part process. Staff plans to provide the results of research, consolidated survey responses, and staff analysis to members for discussion at the June 23, 2010, board meeting.

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

Natural Resources

SFFAS 38, *Accounting for Federal Oil and Gas Resources*, was issued as final on April 13, 2010. The final standard may be downloaded from the Pronouncements, As Amended page on FASAB's website at <http://www.fasab.gov/codifica.html>.

Staff has begun 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

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

During the April 28, 2010, meeting, the Board approved Statement of Federal Financial Accounting Standards 39, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statement on Auditing Standards*.

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

Deferred Maintenance & Asset Impairment

At the April 28th Board meeting the Board reviewed and approved the draft Exposure Draft entitled, *Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment*.

Mr. Allen noted that the Board wished to remind everyone that for reasons previously discussed and noted, it decided to split the deferred maintenance and asset impairment project into two distinct phases; the definition phase and measurement & reporting phase. The Board believes that in so doing it is taking an incremental approach to deferred maintenance and repair reporting. The Board plans to address measurement and reporting issues through continued consultation with stakeholders which could lead to the issuance of additional guidance and/or standards.

The Exposure Draft may be found at: <http://www.fasab.gov/exposure.html> and the Board invites interested parties and stakeholders to respond and provide appropriate comment. Responses are due no later than June 25th, 2010 and should you have any questions, please contact Mr. Domenic N. Savini.

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

Review of Existing Standards: Earmarked Funds

Over 500 funds are currently being reported as earmarked funds. In addition, some earmarked funds recognize long-term liabilities resulting in large negative net positions, a situation that detracts from the usefulness of segregating earmarked funds' net position on the face of the balance sheet.

At the April 2010 meeting, the Board briefly discussed several potential filters identified by FASAB staff and decided that staff should recruit a task force. A description of the potential filters that were identified by staff is included in the April 2010 briefing materials on Earmarked Funds at http://www.fasab.gov/pdf/files/tab_earmarked.pdf.

The task force will evaluate options for filters already identified by performing field testing to provide staff with information on (a) how well various options meet the objectives of earmarked funds reporting, (b) the likely impact of various options on reporting of earmarked funds by agencies, and (c) time and effort involved in applying various options.

The task force would also discuss other potential options that might be field-tested, such as a focus on (a) restricted assets rather than restricted net position (and limiting this to restricted assets that have not been offset by recognition of a long-term liability) and/ or (b) certain intragovernmental investments in Treasury securities.

To volunteer to participate on this task force, please contact Ms. Eileen Parlow.

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

FASAB Current Technical Agenda and Status of Projects

Project	Key Milestones	Quarter 2 2010	Quarter 3 2010	Quarter 4 2010	Quarter 1 2011	Staff Contact
Natural Resources	Revised ED – July 2009	Oil & Gas Final; Draft Technical Bulletin	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	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	Research	ED	Eileen Parlow, 202-512-7356
Grants Reporting		Research	Tech Release ED	DP/UR/Final		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

General PP&E Project

At its March meeting the AAPC approved the release of two Federal Financial Accounting Technical Releases entitled *Implementation Guidance on Cleanup Costs Associated with Equipment* and *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*. The technical releases are currently under the FASAB 45-day review period. If the Board does not object to the technical releases they will both be released as final after May 21, 2010. The guidance was developed by the G-PP&E task force.

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.

Management's Discussion and Analysis Project

In October 2009, the AAPC's agenda committee received a request from the FASAB to develop a "best practices" guide for management's discussion and analysis (MD&A) of financial condition and results of operations in federal financial reports. In July and

August 2009, a FASAB working group and the FASAB itself concluded that (1) FASAB's MD&A concepts and standards are satisfactory but that (2) an MD&A "best practices" guide would be useful. The FASAB asked the AAPC to initiate a project to develop the guide.

The AAPC agenda committee concluded that an MD&A "best practices" guide would be valuable for federal entities and recommended the project be added to the AAPC agenda. In November 2009 the AAPC voted unanimously to add the MD&A "best practices" guidance to its agenda, with AAPC member Regina Kearney as leader on behalf of the Committee.

An AAPC task group ("TG") was formed in March 2010 to review FY 2009 MD&As based on criteria developed from the Office of Management and Budget's Circular A-136. Circular A-136 MD&A guidance is basically the same as Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management's Discussion and Analysis*, and Statement of Federal Financial Accounting Standards (SFFAS) 15, *Management's Discussion and Analysis*, and therefore also reflects the Certification of Excellence in Accountability Reporting (CEAR) review guidance, which cites Circular A-136 almost paragraph-by-paragraph.

The first meeting of the MD&A TG was held on April 8, 2010, and subsequently task group members were assigned MD&A to review and discuss at the second meeting, scheduled for May 20.

Grant Accrual Project

At its January 2010 meeting the AAPC added to their agenda a project from the FASAB on issues surrounding grant accruals. Substantial work had been done by FASAB staff and a task force on the issues. The task force recommended that the FASAB provide guidance on cost-effective methods of performing reasonable estimates of grant accruals. Ideally, the guidance would address (a) developing estimates and (b) validating estimates with a goal of reporting reasonable estimates that are developed and validated in a cost-effective manner. At the March AAPC meeting staff presented to the members for approval a ballot draft exposure draft on grant accruals. The exposure draft was issued for comments on March 22, 2010. Comment letters received are posted on the FASAB website at <http://www.fasab.gov/commentlettergrant.html>.

The AAPC will be discussing the comment letters received on the ED at the May 20, 2010 AAPC meeting. Comment letters received after May 6 but prior to the May 20 AAPC meeting date will not be reflected in the staff analysis of comments but will still be forwarded to AAPC members for consideration.

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

FASAB Meeting Schedule

Schedule for 2010 Meetings:

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

*The FASAB will meet at the offices of the Governmental Accounting Standards Board in Norwalk, CT on June 24th. The agenda will include a joint meeting with GASB as well as a separate FASAB meeting.

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 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 22
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.