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FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

FASAB NEWS

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ENTITY AND DISPLAY CONCEPTS

Mr. Hal Steinberg, OMB Deputy Controller, presented an update at the December Board meeting on entity and display concepts.

The entity phase of the project deals with defining the overall federal financial reporting entity and its programmatic and organizational component reporting units. The Entity and Display Task Force agreed that all programs and agencies included in the list of "Federal Programs by Agency and Account" in the Budget of the United States Government should be part of the federal financial reporting entity. Other units may also be included based on other criteria, such as Federal control over their economic resources and their use of the Government's sovereign power.

The display phase of the project deals with what financial statements are needed for each type of reporting unit, and what types of information are needed in each financial statement, in order to address the objectives of federal financial reporting. Financial reports on programs, for example, might include different financial statements than reports on organizations.

Mr. Steinberg led the Board in a discussion of three issues that needed to be resolved before an exposure draft can be completed for the Board's review. The first issue dealt with accounting standards to be used by federal government corporations. When such government corporations separately issue financial reports pursuant to directions from Congress, regulators, or other oversight authorities, the statements should be prepared in accordance with the standards specified by the recipient of the statements. When financial information from such corporations is included in financial reports of the Federal Government or federal units that prepare reports pursuant to FASAB's standards, the FASAB will need to consider whether any modification is needed to the standards used for the corporation's separately issued financial statements.

The second issue dealt with aspects of display in departmental financial reports. The Board agreed that the basic financial statements for federal departments should include both combining and "total" information. The combining statements typically would present information about major component units of the department (such as bureaus or programs) in a columnar format. The total columns or statements for the department would be consolidated totals (that is, with intradepartmental transactions and balances eliminated) unless FASAB identifies certain types of intradepartmental transactions and balances that should not be eliminated. Supplemental schedules would present more detailed information about the department's programs and activities.

The third issue dealt with one aspect of reporting on budget execution that arises from the fact that the President must send the proposed Budget of the United States Government to Congress well before audited financial statements for the prior year are available. The prior year's "actual" numbers reported in the Budget, therefore, are subject to adjustment for any material errors detected as a result of the auditor's review. The Board concluded that the financial statements would report the prior year's results with any necessary audit adjustments and would include a note that reconciles and explains any differences between those numbers and the prior year's results as reported in the Budget of the United States Government.

ACCOUNTING CONCEPTS

Mr. Ron Young, Executive Director, made a presentation on accounting concepts proposed for inclusion in a concepts document to be completed by the spring of 1994. As the Board discussed the issues highlighted in the presentation, the members agreed that one of the most important potential contributions of improved federal financial reporting will be information about the cost of government services. This information will help make better policy decisions about allocating scarce resources among programs designed to accomplish public objectives. It will also help make better management decisions about using those resources, once they are allocated, to attain to objectives in an economical and efficient fashion.

Accrual basis recognition of liabilities as they are incurred is important to measuring the cost of service, as well as financial position, but where the outflow of money is itself the service, as is the case with most income transfer programs, and where Congress has the power to determine whether the flow will continue in future periods, recognition of that flow as it occurs effectively constitutes accrual basis recognition.

The document will incorporate concepts which have evolved from the Board's work to date and other concepts necessary to guide the Board's remaining work. It will provide guidance to agencies on scope and focus of the standards, elements of financial reports, and recognition and measurement principles.

REVENUE RECOGNITION

Mr. Young noted that Board Member Don Chapin will be chairing a task force to study revenue recognition and measurement. Mr. Chapin will assemble a group with representatives from relevant agencies including IRS, Customs, and Interior.

Mr. Ives discussed the criteria for revenue recognition in GASB Statement 11, Measurement Focus and Basis of Accounting-- Governmental Fund Operating Statements. That statement described a "flow of financial resources" measurement focus for state and local governmental entities to use in governmental-type funds (i.e., expendable funds) such as the general fund. Application of Statement 11 has been deferred indefinitely. (GASB has issued Statement 22 on revenue recognition that requires revenue from taxpayer-assessed taxes, such as sales and income taxes, to be recognized in governmental funds in the accounting period in which they become susceptible to accrual--that is, when they become both measurable and available to finance expenditures of the fiscal period.)

Pursuant to Statement 11, tax revenue would have been recognized when the underlying event or transaction had taken place and the government had demanded the taxes, regardless of when cash was received. For example, for revenue from income taxes the underlying event would have been the earning of income by the taxpayer. The "demand" would have been the requirement for the taxpayer to remit taxes through withholdings, estimated payments, and final settlement during the fiscal year or within two months thereafter. Revenue would have been accrued to the extent that required tax payments were delinquent.

Revenue from fines, fees for licenses and permits, and donations would have been recognized when the underlying event had taken place and the government had an enforceable legal claim to the amounts, regardless of when received.

Governmental fund revenues from exchange transactions, such as charges for services and investment income, would have been recognized when earned under GASB 11, that is, when the entity had done what it must do to complete its side of the transaction.

CAPITAL EXPENDITURE PROJECT

Physical Property, Excluding Land

As part of its status report on the capital expenditure project, staff members presented the physical property subgroup's recommendations and the concepts implied by these recommendations. Generally, the subgroup supports (1) accrual accounting for physical property with exceptions based on recognition criteria, and (2) more current measurements of expense (e.g., forward-looking renewals accounting and current cost depreciation) than provided by historical cost accounting.

Staff also presented areas that the subgroup expects to explore and address in the future:

- usefulness of life-cycle cost information,
- forward-looking renewals accounting,
- cost-beneficial methods of applying current cost to long- lived assets (e.g., frequency of revaluation, valuation methods), and
- balance sheet reporting issues (e.g., how to report on items that do not meet the recognition criteria).

A majority of the Board members affirmed their preference for historical cost accounting. They noted that exceptions to historical cost may be necessary in certain instances. The staff will need to identify criteria or circumstances for the exceptions.

Land

Staff announced at the Board meeting that a subgroup to address land issues has been established. Background information and preliminary issues identified by the staff were also presented to the Board.

The land project is expected to ultimately be merged with the physical property subgroup. Agencies represented on the subgroup include the Department of the Interior, the Department of Agriculture, the Department of Defense, the General Services Administration, the Environmental Protection Agency, the Treasury Department, the Office of Management and Budget, and the General Accounting Office.

The scope of the project will entail only surface land. Natural resources (including timber) and the outer-continental shelf will not be addressed at this time. Existing studies point out the difficulties of accurately estimating and valuing natural resources.

As in the case with the physical property project, the land project will focus on the operating performance and stewardship reporting objectives.

COST ACCOUNTING CONCEPTS

A Task Force is now being organized to provide advice during the development of the cost accounting concepts project. Mr. Morgan Kinghorn, Chief Financial Officer of the Internal Revenue Service, will chair the Task Force. Other members are now being selected from federal departments and agencies, academia, and the private sector. Staff are developing a general outline of the concepts and a project workplan, including the scope and major issues to be addressed. Mr. Kinghorn will brief the FASAB on the composition of his task force and present a work plan at the January meeting of the Board. Also, there will be informal discussion about some possible issues to be examined by the task force. It is anticipated that this will lead to the development of a draft concepts paper by the second quarter of 1994.

In accordance with a previous Board decision, the staff began work on a survey of inter-agency costs in November. A short questionnaire was distributed to selected agencies requesting information on the costs incurred by agencies for nonreimbursable services and the current accounting methods for those costs. The objective of the survey is to (1) develop a better understanding of the nature of some typical nonreimbursable activities and related costs, and (2) identify issues related to the allocation or distribution of those costs. Information about inter-agency costs will be helpful to the Board in understanding circumstances relevant to determining the full cost of federal programs, products, and services. CFO Council members were informed that, while the cost accounting concepts project will address cost determination issues, the project is not expected to address whether such costs should be reimbursed, nor will it suggest anychanges in the funding mechanism. It is expected that responses to the questionnaire will be received in January 1994.

LIABILITIES AND FUTURE CLAIMS PROJECT

At its meeting on December 8, the Board reviewed pension accounting issues and options and approved the staff's recommendations. The issues and recommendations were as follows:

1. Whether to use the projected unit credit (PUC) or the entry age normal (EAN) actuarial method. The Board approved the EAN, to be consistent with the method now used for budgeting purposes. The Board based its decision, in part, on information from OPM's actuarial staff that results of applying the PUC and EAN were, for the federal plans, substantially similar.

2. Whether the program agency or the plan should be charged with prior service costs (or gains); and, whether these costs (or gains) should be recognized immediately or amortized over future periods. The Board decided that the plan should be charged or credited and that the prior service cost (or gains) be recognized immediately by the plan rather than amortized.

3. Whether actuarial losses (or gains) should be charged (or credited) to the plan or the program agency; and, whether the loss (or gain) should be amortized. The Board decided that the plan should be charged (or credited) and that actuarial losses (or gains) be recognized immediately by the plan rather than amortized. Items 2 and 3 mean that agencies would recognize only the "normal" cost of pensions: Gains, losses, and prior service costs would be reported by OPM.

4. What should the accounting be between the program agency and the central pension plan. The Board decided that an intra-governmental financing source should be recognized at the program agency to cover amounts in excess of the program agency's budgetary contribution to the pension fund, if any.

5. Whether to specify the basis for one or more actuarial assumptions to be used for calculating pension expense and obligation, or allow each actuarial board to use its own best estimates. The Board decided that, for the two major retirement systems (MRS and CSRS/FERS), financial statements would reflect each board's own best estimates, and that assumptions should be disclosed. The Board will encourage the actuaries to consult with each other in order to achieve maximum consistency. Also, financial statements of smaller pension systems will be able to use the assumptions provided by the actuaries of either of the two major systems or explain the differences from them. In addition, the Board favored having the Office of Management and Budget guidelines for P.L. 95-595 actuarial reports be revised to be consistent with the financial statements.

FASAB STAFF CHANGES

A number of staff changes have taken place recently. Two staff members, Jimmie Brown, Deputy Staff Director, and Alice Keels, Secretary, retired at the end of 1993. Both completed long and productive federal civil service careers and were on the FASAB staff since its inception.

Jim came to us from OMB, where he served as Chief of the Financial Systems and Policy Branch; prior to that, he held a wide variety of financial management positions in the Departments of Commerce, Agriculture, and Energy. Alice worked in a number of secretarial positions, mainly in GAO's Accounting d Financial Management Division. We have all enjoyed working with both of them and wish them well in their retirements.

Larry Modlin, Gordon Peterson, and Allison Powell have recently joined the staff. Larry and Gordon are detailees on a one year assignment to FASAB from GAO and Treasury, respectively. Larry will be working with Richard Mayo on cost accounting issues, and Gordon will work with Rick Wascak and Wendy Comes on the capital expenditure project. Allison, who comes to FASAB from the Office of Public Affairs in GAO, fills the secretarial position left vacant by Alice's retirement. We welcome you all to the staff!

1994 MEETING SCHEDULE

FASAB Board meetings for 1994 have been scheduled as follows. All meetings will be held in Room 7313 of the GAO Building:

Thursday, January 20
Thursday, February 24
Thursday, March 17
Thursday, April 21
Tuesday, May 17
Thursday, June 23
Thursday, July 21
Thursday, August 18
Thursday, September 22
Thursday, October 20
Thursday, November 17
Thursday, December 8