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FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

FASAB NEWS

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ACCOUNTING FOR LIABILITIES OF THE FEDERAL GOVERNMENT

Most of the fifty-five respondents to the Accounting for Liabilities of the Federal Government Exposure Draft (ED) agreed with the proposed principles of the standard contained in the ED. However, a majority disagreed with the proposed recognition of social insurance programs. These respondents assert that social insurance programs should be recognized when employees become fully eligible to receive benefits (e.g., the Social Security program requires that 'oyees meet both the forty quarters credit and the equirements).

At the March meeting the Board discussed a number of major issues identified by Staff, based on summaries of the comment letters received on the Liabilities ED. Summarized below are the issues, the Board's discussion, and tentative decisions where the "leanings" were evident. The discussion was intended as a review of issues and comments, not as a formal deliberation. All "leanings" must be confirmed by subsequent deliberation:

-Who is the "due and payable" recipient in the case of third party government grant programs? The Board agreed that the federal entities should report the full liability due to the third party entities (i.e., state governments); the federal entities should recognize an accrual for all amounts due as of the federal reporting . The accrual should include the amounts reported e third party entity as well as the "incurred but not reported" amounts, all as of the federal reporting date. The Board agreed not to specifically prescribe h he federal entities should obtain the needed i ation.

-Regarding the alternative view presented in appendix B (alternative social insurance liability recognition), should there be a recognition of a liability on social insurance programs beyond that provided for in the exposure draft? The majority of the Board still agrees that nothing more than the "due and payable" amount is a liability. At the same time, all Members strongly agree that full disclose of the social insurance programs, specifically Social Security, should be adequately presented in the financial reports.

The treatment of the Social Security program in governmentwide financial reports has been debated since the initial prototype Consolidated Financial Statements in the mid-1970s. Social Security presents unique accounting problems due to its magnitude and the focus on maintaining actuarial balance rather than accumulating assets. The Board has dealt with social insurance in its liability exposure draft and in the soon-to-be-released exposure draft on stewardship information. After considering the work of inter-agency task groups and the comment letters and testimony regarding liabilities, the Board favors comprehensive information about the program. Using the balance sheet, footnotes and stewardship information, the Social Security and Medicare obligations will be fully described and various financial perspectives will be published regarding the long-range actuarial status of the program.

-When should Veterans Affairs (VA) pension liabilities be accrued? Because eligibility for the VA pension program requires an income test, the Board agreed that VA pension liabilities result from a nonexchange transaction and should be recognized when due and payable, as with other entitlement programs.

-Based on the varying opinions noted in the comment letters on the pension, other post retirement

...cluding the recognition criteria, will be retained. However, in implementing the standard, the Board ...mmends that the principal agencies should ...operatively identify specific inter-entity costs to be recognized in accordance with the criteria. In addition, the Board will identify inter-entity costs for recognition in future recommended standards.

The Board also confirmed that accrued employee benefit costs, mainly pension and post-retirement costs, will be recognized in the development of full costs as discussed in the standard on full costing.

The staff will revise the final Statement in accordance with the Board's decisions and will present a draft for Board review at the April meeting.

SUPPLEMENTARY STEWARDSHIP REPORTING

...he February Board meeting, staff presented a ...ed exposure draft, which reflected the majority of changes requested by the Board at its January meeting. On the remaining issues, the Board took the following actions:

- STEWARDSHIP PROPERTY, PLANT, AND EQUIPMENT (PP&E)

The Board considered whether the exposure draft on stewardship PP&E should include standards on accounting for natural resources. Some members felt that such accounting would be a necessary part of a basic set of accounting standards. It was noted that some reporting on the known quantity of natural resources is already being done. Board members decided they would ask ED respondents to comment on the type of information available on natural resources maintained and reported, and the feasibility of presenting quantitative information about natural ...urces in the financial statements.

- STEWARDSHIP INVESTMENTS

... the Board considered issues related to the classification and measurement of expenses for human capital and research and development programs as investment for stewardship purposes.

The criterion for deciding that expenses on human capital and research and development programs should be considered stewardship investments is that the expenses will produce outputs and outcomes showing an increase or maintenance of national productive capacity, or in the case of research and development, a yield of other future benefits. The Board decided that if an entity has classified an expense for human capital or research and development as an investment, but is unable to report an output/outcome to substantiate that premise in the three years allowed in the draft standard, the entity should continue to report the expense as an investment if the entity anticipates an acceptable output/outcome.

The Board asked that the definitions for "output" and "outcome" used in the proposed standards be consistent with those for measurements currently being revised by National Performance Review and Government Performance and Results Act panels.

- STEWARDSHIP RESPONSIBILITIES

The Board discussed revisions in the Current Service Assessment (CSA) standard. The CSA standard requires a 75-year open system forecast of the Social Security and Medicare Hospital Insurance (HI) programs, as well as a five-year projection, for the governmentwide Consolidated Financial Statements, of the entire Budget, assuming no changes in law. The latter is not a prediction of the final outcome of the annual budget process, or a proposed budget, but rather a result of a largely mechanical application of estimating models to exiting laws. It is useful for assessing the future trend of current services.

The Board decided to divide the CSA information into two standards but not to change the basic requirements. The Board wants stewardship information about Social Security and HI to be part of comprehensive information that will include financial statements and footnote disclosure. The Board decided that the inherent uncertainty of the 75-

Consolidated Financial Statements of the U.S. Government.

Revenue gap/tax gap

Some members suggested that the "Required Supplemental Information" (RSI) designation proposed for this information may not be warranted because the Board has not defined detailed procedures for making the estimate. Others noted that the numbers involved were "soft." It was suggested that the information might belong in management's discussion and analysis [i.e., as "other accompanying information" rather than as RSI.] Staff will provide more information on the methods used by IRS to estimate the tax gap. Depending on the Board's assessment of those methods, the Exposure Draft may refer to the information on revenue gap either as RSI or as other "accompanying information."

It appeared that some Members contemplate the possibility of standards that would call for certain information to accompany the financial statements, without that information being referred to as "required supplementary information." This would mean that the auditor would treat it as "other accompanying information" that is provided by the statement preparer but not required by a standards setter. This approach would differ from practice elsewhere. When FASB or GASB requires certain accompanying information, it is, by definition, "required" supplementary information.

One can understand and explain this approach by considering the unique role of the FASAB, which differs considerably from that of GASB and FASB. In Objectives of Federal Financial Reporting the Board noted that federal financial reporting serves both internal and external users; indeed, the distinction often becomes hard to make. Similarly, the Board itself has an internal as well as external role. One may draw an analogy with a committee of controllers establishing accounting and reporting policy for a conglomerate. In other words, if the Board adopts this position, it might be viewed as functioning in its internal capacity, advising management on what "other accompanying information" the Government should provide in general purpose federal financial reports.

Statements in Entity and Display

The illustrations in Entity and Display will be conformed to those in the Revenue ED except for the Statement of Financing, which will be exposed for comment in Revenue. However, the Statement of Financing will not be added to Entity and Display. It will be required, however, by this standard.

Summary information for trust funds, special funds, and other earmarked funds

Certain disclosures are proposed for significant trust funds; respondents will be asked whether similar disclosures should be required for revolving and special funds.

PUBLIC HEARING TO BE HELD ON PP&E

A public hearing is planned for May 24 (9:00 A.M.-4:30 P.M.) in the Elmer Staats Briefing Room (Room 7C13) in the GAO Building, 441 G St., N.W., Washington, DC on the ED Accounting for Property, Plant and Equipment. Formal notice will be published in the Federal Register. Individuals or organizations wishing to make an oral presentation should provide the Board staff with written notification of that intent no later than May 10 along with a copy of their written comments addressing the standards in the ED. Further information may be obtained by calling 202-512-7350.

FASAB STANDARDS AND CONCEPTS TO BE PRESENTED AT THE AGA PDI

Mark your calendar to come early to the Association of Government Accountants' (AGA) Professional Development Conference and Exposition in San Diego. On Monday, July 3, from 8:00 a.m. to 5:00 p.m., FASAB Staff -- Ron Young, Executive Director, Wendy Comes and Lucy Lomax, Project