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FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

# FASAB NEWS

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## COST ACCOUNTING STANDARDS SIGNED BY PRINCIPALS

FASAB Statement of Recommended Accounting Standards No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, has been signed by the three principals and released for general distribution. OMB is in the process of converting and printing the document as Statement of Federal Accounting Statement No. 4, and copies will be available from the Government Printing Office soon. Also, the electronic file will be accessible through Internet.(FASAB's Home Page is on the World Wide Web under Financenet).

This statement contains managerial cost accounting concepts and standards for all federal reporting entities. Presently most federal entities do not have systematic cost accounting methods or procedures. The standards are expected to be implemented beginning with fiscal year 1997.

The standards will require cost information to help federal managers better understand the "full costs" of government programs and their products and services. The JFMIP is presently developing the managerial cost accounting system requirements document as requested by the Vice President's National Performance Review. The document should be available early next year.

## ACCOUNTING FOR PROPERTY, PLANT, AND EQUIPMENT

With the comment period on the Accounting for Property, Plant, and Equipment Exposure Draft completed, the Board is making rapid progress toward finalizing the recommended accounting standard. The Board held a public hearing on May 24 to hear views from various organizations on the proposed accounting standards. The presenters and their major issues were:

**Mr. Stuart L. Graff**, Senior Technical Advisor for Financial Reporting and Accounting Issues at the Department of Education, raised several issues for the Board's consideration. He supported the Board's proposal to expense internally developed software costs but stated that software developed by contractors should not be expensed. With regard to the proposed deferred maintenance standard, Mr. Graff encouraged the Board to modify the definition of liability and recognize deferred maintenance as a liability.

**Mr. Arnold G. Holz**, Chief Financial Officer at NASA, made two main recommendations. First, he asked that all categories of PP&E be included on the balance sheet and depreciated. Second, Mr. Holz objected to the deferred maintenance standard as a whole. He argued that estimates of deferred maintenance are not presented by private sector organizations due to lack of precision and reliability in the estimates.

**Mr. R. Schuyler Lesher**, Deputy Chief Financial Officer at Department of the Interior, suggested some changes to clarify the categories of PP&E; particularly multi-use heritage assets and stewardship land. In addition, Mr. Lesher addressed implementation issues. He was concerned about (1) separating the cost of existing general PP&E and heritage assets so that amounts relating to heritage asset could be removed from the balance sheet, and (2) partial implementation of the standards.

**Mr. Alfred M. King**, Senior Vice President of Valuation Research Corporation, provided the Board with valuable information on private sector uses of current value information, cost to determine current value, frequency for updating valuation, deferred maintenance information, and internally developed software costs.

**Mr. Ernest J. Gregory**, Deputy Assistant Secretary for Financial Operations at the Department of the Army, testified in support of the Board's proposal to report federal mission PP&E, including weapons systems, as stewardship assets. He stated that the stewardship reporting vehicle would provide useful information for Army's federal mission PP&E.

**Mr. Steve Schaeffer**, Director of the Office of Financial Policy and Systems Design at the Social Security Administration, testified on the treatment of internally developed software costs. He opposed the Board's proposal to expense these costs.

**Dr. Jesse W. Hughes**, Associate Dean for the College of Business and Public Administration at Old Dominion University, presented his views on the PP&E ED. Dr. Hughes voiced strong support for the Board's proposals.

**Mr. David M. Connor**, Director of Defense Financial Audits for the General Accounting Office, expressed views on the treatment of federal mission PP&E. He was particularly concerned that the Board had not yet determined (1) the prominence to be given to the stewardship report in the annual financial statements, (2) the level of audit to be applied to federal mission PP&E, and (3) how the information to be provided on federal mission PP&E through stewardship reporting. The Board members discussed the issues in depth with each presenter and gained a number of valuable insights as a result. Many decisions were reached, and staff was directed to incorporate them into a draft for review at a later meeting.

At its July meeting, the Board reviewed and approved the draft Exposure Draft, Recommended Accountinſ Standards for Property, Plant, and Equipment (PP&E, Changes included in the completed statement are listed below:

--capitalization of certain internally developed software costs is permitted if intended to be recovered through user charges and if project feasibility has been established,

--land rights such as restrictive easements have been specifically included in the PP&E definitions,

--cost of improvements to multi-use heritage assets will only be capitalized if the improvement is directly related to operations, and

--additional illustrations of PP&E categorization have been added to the appendix based on comments from respondents.

In addition to reviewing and approving these change; the Board discussed the treatment of other types of software costs. Software developed both internally and by outside contractors produces the same end product--a custom software package. The Board concluded that the same accounting treatment should apply to internally and contractor developed software. However, the PP&E exposure draft made no proposals on accounting for contractor developed software. The Board will not recommend accounting standards for contractor developed software costs in the PP&E document. Instead, this issue will be addressed in a future project to permit respondents to comment on the appropriate treatment of contractor developed software costs.

The statement is expected to be forwarded to the principals - the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General of the General Accounting Office, in late September for approval. In addition to approval by the principals, this standard will be forwarded to Congress for a 45 day review period. Dι a provision of the Chief Financial Officers Act of 1990, any accounting standards addressing capital assets must lie before Congress for 45 days before being implemented.

## SOCIAL INSURANCE

At its June meeting the Board reconsidered its tentative position developed at the April Board meeting. The Board had decided that the liability amount recorded for social insurance would be the amount "due and payable" at the end of the accounting period, and that important information about the social insurance obligation would be presented in a footnote and/or the stewardship section. There was a consensus that disclosure of all relevant information presents a satisfactory solution.

Continuing to recognize the conflicting positions regarding the social insurance obligation, the Board decided to propose a no- dollar-amount line item for social insurance separately on the balance sheet, after total liabilities and before the fund balance section. A footnote tied to this line item would provide all the social insurance information that the Board would require.

The Board believes that it is important to provide information about the present value of the responsibilities assumed by the federal government for social insurance programs under existing law and the projected cash flows of these programs as they are administered at the date of the financial statements. The Board believes that four items of social insurance information should be presented in addition to the "due and payable" amount recognized as a liability. The Board believes the following information may be useful and relevant:

1. The actuarial present value of future benefit payments to present beneficiaries and all others who are now eligible to receive benefits but are not receiving them.

2. A closed group estimate (i.e., for current workers only) of the actuarial present value of the excess of future benefit payments over (a) future contributions and (b) the assets accumulated in the fund at the valuation date.

3. An open group projection (i.e., including current and future workers) over 75 years of: receipts, outlays and asset balances under three alternative sets of assumptions; and the actuarial present value, using the intermediate set of assumptions, of the excess of future benefits over future receipts and current assets.

4. Data showing the change, over time, in the ratio of the present value of actual or estimated average aggregate lifetime benefits paid to, and contributions received from and on behalf of, similarly aged cohorts. This information is often referred to as the "money's worth" data.

The FASAB will solicit comments on the importance of each of these measures.

The Board also decided to frame the standard more broadly so as to include all social insurance programs. The drafts had been using Social Security and Medicare -- which represent more than 90 percent of total social insurance contributions and benefits - - as examples, but the Board decided that could result in doubt about whether and how the standard would apply to Black Lung, or other possible social insurance programs.

The Board discussed the desirability of requiring that each of the measures and the money's worth data be audited. The Members differed regarding which, if any, should be audited and which reviewed. The Board decided to indicate that all information would be categorized as "required supplementary stewardship information"; audit requirements for RSSI would be established by OMB and GAO. It is the sense of the Board, however, that these measures and data should be subjected to some level of audit scrutiny or review annually.

The Board discussed how to deal with the social insurance issues in terms of "due process." Some Members felt the issues have had sufficient exposure; others that all the issues and alternatives had not been fully exposed, and that the importance of the issue warranted more exposure. The Board decided to treat social insurance as part of the stewardship ED rather than as a separate ED. References to social insurance would be deleted from the liability standard. The document would explain that the Board exposed an initial position in the liability ED and has decided, based on the responses, that more analysis and exposure is needed.

## LIABILITIES

The Statement on the Accounting for Liabilities of the Federal Government is in its final stage before being sent to the FASAB Principals for their approval. The document underwent a "final fatal flaw" review by the Board, and now the staff is in the process of finalizing those comments received.

A significant change made to the document is the effective date, which has been changed to fiscal periods beginning after September 30, 1996. The most significant change since the ED stage, however, is the deletion of accounting for liabilities of social insurance programs. The accounting for these liabilities is discussed in the Supplementary Stewardship Reporting ED. The Liability Statement is expected to reach the Principals before the end of September. Once they have given their approval, it will be released to OMB for issuance.

## NATURAL RESOURCES

At the July Board meeting, the Executive Director introduced a new project that staff has begun to work on. This new project is addressing natural resources. The Board gave its approval for work to begin on this project at a prior meeting. A preliminary issues paper that had been provided to the Board members in advance was used as the framework for the initial discussions on natural resources during the meeting.

A major item discussed during the meeting was what natural resources would be addressed in this project, and ultimately in a standard. That is, would only natural resources intended to produce revenue be addressed, or would natural resources which should be sustained in perpetuity also be addressed? For example, the question was raised as to whether the air we breathe and the water we drink should be considered natural resources and addressed in this project. It was the initial belief of some of the Board members that this project should address those natural resources that might increase revenues if a choice can be made to sell them; and, that the balance sheet should report the value of natural resources that under any circumstances should provide revenue.

In the project approach that was discussed, it was proposed that a Roundtable discussion or some sort of fact-gathering conference be held prior to establishin a task force and beginning work on the development of an Exposure Draft. This approach was met with disagreement from some of the Board members. They thought that additional background information on current accounting practices for natural resources in the private sector should be reviewed and discussed before any type of Roundtable discussion is held.

Due to time constraints, preliminary issues that were identified in the issues paper were not discussed. However, a paper describing the evolving framework of federal land management, including the management of natural resources, was distributed and briefly explained. The paper consisted of three parts: 1) the current federal land management framework and how it developed; 2) a new, broader approach called ecosystems management, that is, the management of entire land units as a whole instead of managing individual natural resources on a land unit separately; and 3) background information about an Interagency Ecosystem Management Task Force tha ıs established by the White House.

In summary, staff was directed to review additional FASB material pertaining to natural resources and provide a digest of the material to the Board for review and discussion.

## PUBLIC HEARINGS TO BE HELD ON REVENUE AND STEWARDSHIP

Public hearings are being planned for the Revenue and Stewardship Exposure Drafts. The first, on Accounting for Revenue and Other Financing Sources, will be held on September 20 in the Elmer Staats Briefing Room, Room 7C13 in the GAO Building, 441 G St., N.W., Washington, DC; and the second, on Supplementary Stewardship Reporting, on October 26, room 4N30.

Formal notice for each hearing 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 two weeks prior to the scheduled date of the hearing along with a copy of their written comments addressing the standards in the respective Exposure Draft. Further information may be obtained by calling 202-512- 7350.

FASAB

Federal Accounting Standards Advisory Board

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