

New Documents Issued by FASAB

Deletion of Paragraph 65.2 -- Material Revenue-Related Transactions Disclosures - Exposure Draft

The Board approved an exposure draft amending Statement of Federal Financial Accounting Standard 7 (SFFAS 7), *Accounting for Revenue and Other Financing Sources*. The proposal would rescind para. 65.2, which requires disclosure of material revenue-related transactions.

Written comments on the draft are requested by December 12, 1998. Copies of the exposure draft have been mailed to all on FASAB's mailing list. Additional copies are available on request by calling FASAB at (202) 512-7350, or by faxing requests to (202) 512-7366. The document also is available on FASAB's home page at www.financenet.gov/financenet/fed/fasab/deletion.pdf

For further information, contact Robert Bramlett, 202-512-7355, or email at bramletr.fasab@gao.gov.

Amendments to Deferred Maintenance Reporting - Exposure Draft

The Board approved an exposure draft amending Statement of Federal Financial Accounting (SFFAS) 6, *Accounting for Property, Plant, and Equipment*, and SFFAS 8, *Supplementary Stewardship Reporting*. The exposure draft proposes reclassifying deferred maintenance from a note disclosure to Required Supplementary Stewardship Information (RSSI).

Written comments are due by January 22, 1999. The document has been posted to the FASAB web page at: www.financenet.gov/financenet/fed/fasab/dmed4.pdf.

For further information, contact Rick Wascak at 202-512-7363, or email wascakr.fasab@gao.gov.

Recognition by Recipient Entities of Receivable Nonexchange Revenue - Interpretation 5

The Board approved an interpretation SFFAS 7 that states:

Entities that receive nonexchange revenue

collected on their behalf by another entity should recognize the revenue based on the best available evidence at the time the financial report is prepared. This provision of paragraph 60 of SFFAS 7 is intended to require recognition of the excise tax "true up" of the difference between amounts transferred to trust funds based on estimates by Treasury's Office of Tax Analysis and the actual amount subsequently determined by the collecting agency, the Internal Revenue Service...The intent of paragraph 60 is to recognize this "true up" amount as a receivable or payable.

The full text of the interpretation can be found at www.financenet.gov/financenet/fed/fasab/interp5.htm.

For further information, contact Robert Bramlett, 202-512-7355, or email at bramletr.fasab@gao.gov.

MD&A Exposure Drafts Still Available for Comment

Standards for Management's Discussion and Analysis - Comments requested by January 4, 1999. Located at www.financenet.gov/financenet/fed/fasab/11-std.pdf

Concepts for Management's Discussion and Analysis - Comments requested by January 4, 1999. Located at www.financenet.gov/financenet/fed/fasab/11-con.pdf

For further information, contact Robert Bramlett, 202-512-7355, or email at bramletr.fasab@gao.gov.

Reporting Subsidy Expense for Direct and Guaranteed Loans

At its October 23, 1998 meeting, the Board continued to discuss reporting the subsidy expense of direct loans and loan guarantees. As reported in the April-May and June-July 1998 issues of **FASAB News**, the discussion was initiated by an earlier proposal presented to the Board by the Accounting and Auditing Policy Committee (AAPC) Credit Reform Task Force.

The proposal addressed paragraph 25 of Statement of Federal Financial Accounting Standards 2, Accounting for Direct Loans and Loan Guarantees. Paragraph 25 requires reporting the dollar amounts of subsidy expense by component for interest subsidy, defaults, other costs, and fee receipts for direct or guaranteed loans disbursed during the reporting period. The AAPC Credit Reform Task Force proposed reporting estimated subsidy rates from the budget for direct loans or loan guarantees for the current and preceding year's cohort, rather than reporting the expense by component for the dollar amounts of loans disbursed during the year. It also suggested that agencies should provide narratives and trend analysis of subsidy expense.

During previous discussions, the Board had agreed that agencies should provide narratives to discuss and analyze recent trends in subsidy expense. To assist in determining whether SFFAS 2 should be amended, however, Board members had asked staff to research 1) how difficult it is for agencies to report subsidy expense by component as required in paragraph 25, and 2) whether the reported information is useful. The first item, the difficulty of reporting, was addressed at the Board's June meeting. Representatives from the Small Business Administration and the Department of Education generally agreed that because of their comprehensive data bases for developing subsidy estimates and reestimates, meeting the paragraph 25 requirements required little additional effort.

Staff presented the results of its research on the second issue at the October Board meeting. A survey questionnaire had been sent to 21 parties including Congressional staff members who dealt with Federal credit programs and several major credit-related organizations familiar with private sector lending practices. Of the six written and four verbal responses received, responses were generally in agreement that

more, rather than less, detailed information on actual costs by subsidy component was desired for oversight and performance measurement. Of the written responses that addressed specific questions, one response indicated that the annual default expense should tie back to original estimates to evaluate actual performance against expectations. Another response suggested that more detailed information could help determine the financial health of Federal credit programs.

In considering alternatives for reporting credit subsidy expense, some Board members believe that the subsidy information should enable the Congress and the public to understand what are the cumulative results of a credit program's performance, so that the cumulative results can be compared with original expectations. They also believe that subsidy costs should be remeasured in each reporting year and the reestimates should indicate the program's current condition and performance.

Board member Donald Hammond, Fiscal Assistant Secretary of the Treasury, made a proposal to revise the current requirement. He proposed that a schedule be developed to reconcile the beginning balance of the subsidy allowance for direct loans (and the liability for loan guarantees) with the ending balance. He explained that the beginning balance would be increased by expenses (such as defaults and interest subsidies) for loans disbursed during the year as reported in the Statement of Net Cost, and decreased by interest amortization, fees, and other items, to arrive at the ending balance. He suggested that such a schedule would provide a full picture of a program's current and cumulative performance by: (a) relating the expense figure to the allowance presented in the balance sheet, (b) presenting the allowance balance as reflecting the cumulative results of a program's operation, and (c) providing information on a program's current performance based on the changes that occurred during the year. He also supported the disclosure of cohort rates as proposed by the AAPC Credit Reform Task Force.

The Chairman and several Board members liked Mr. Hammond's proposal. At the conclusion of the discussion, the Chairman asked staff to develop a paper on amending paragraph 25 of SFFAS 2 based on Mr. Hammond's proposal. That paper was presented at the Board's December meeting.

The paper presented three proposed schedules to reconcile the beginning and ending balances of the

subsidy allowance for direct loans and the liability for loan guarantees. A majority of the Board preferred, and the Chairman concluded that the first alternative, reporting subsidy expense in four components as currently required in paragraph 25 and in Office of Management Bulletin 97-01, would be used. The Board further agreed that this schedule would apply at the entity level of reporting.

The paper also presented alternatives for reporting subsidy reestimates for outstanding direct loans and loan guarantees. The Board preferred the first alternative, reporting subsidy reestimates in two components: the interest rate reestimate and the technical/default reestimate. The Board further agreed that the subsidy reestimates should be reported at the program level.

Finally, the Board agreed that agencies should present narrative discussions of the subsidy cost. To prevent voluminous reporting, the Board suggested that agencies should: 1) disclose cohort subsidy rates at the program level for the current reporting year; 2) discuss events, such as legislative changes, that have caused changes in subsidy rates; and 3) show trend data only to illustrate significant fluctuations in subsidy rates that have occurred. Trend data must be supported by adequate analyses and discussion.

FASAB staff will write a draft exposure draft for the proposed amendments to SFFAS 2 and will develop examples for the narrative disclosures.

For further information, contact Richard Mayo at 202-512-7356, or email at mayor.fasab@gao.gov.

"More Likely Than Not"

In the last issue of **FASAB News** (Issue 53, Aug.-Sep. 1998) we reported on the concerns of the legal profession with FASAB's use of the probability criterion of "more likely than not" for the recognition of contingent losses. That criterion is addressed in Statement of Federal Financial Standards 5 (SFFAS 5), *Accounting for Liabilities of the Federal Government*. SFFAS 5 defines "liability" and establishes specific standards for five liability categories, including contingencies. SFFAS 5 uses the same general framework for evaluating loss contingencies as the Financial Accounting Standards Board Statement of Financial Accounting Standards (SFAS) 5, *Accounting for Contingencies*. Contingencies can be "probable," "reasonably possible," or "remote," and, based on that, are recognized on the balance sheet,

disclosed in footnotes, or not mentioned in the financial statements, respectively. However, SFAS 5 defines "probable" as "likely to occur" (essentially an 85-90% probability of occurrence) instead of "more likely than not" (that is, greater than a 50% probability of occurrence).

Representatives of the legal profession argued that use of the lower threshold established by FASAB could expose clients with pending or potential litigation to potential liability. In particular, lawyers have expressed reservations about their ability under the American Bar Association code of ethics to respond to inquiry letters relating to Federal agency clients when FASAB's guidance is cited in the inquiry letter. This is based on their belief that responses on that basis might jeopardize the client's legal position. On the other hand, some auditors have expressed reservations about their ability under Statement of Auditing Standards 12 (SAS 12) to express an unqualified opinion on the entity's financial statements without a legal representation letter that refers to the SFFAS 5 standard.

On October 6, the Board asked staff to prepare a limited amendment that would affect pending, threatened, or potential litigation. Of particular concern was the implication of the current FASAB threshold for fiscal year 1998 reporting.

The Board decided to issue a proposed amendment using a "likely to occur" test. The exposure draft, *Recognition of Contingent Liabilities Arising from Litigation*, was released on October 30, 1998, posted on the FASAB Web page at <http://www.financenet.gov/financenet/fed/fasab/sffas5.pdf>, and mailed to the FASAB mailing list. Comments were due by November 30, 1998. The standard will be effective for reporting periods beginning after September 30, 1997.

For further information, contact Richard Fontenrose, 202-512-7358, or email fontenrosr.fasab@gao.gov.

Board Holds Hearing on Social Insurance

On February 20, 1998, FASAB issued an exposure draft, *Accounting for Social Insurance*, (see **FASAB News** Issue 50, Jan.-Mar. 1998). Comments were due by June 20, 1998. The Board received 28 comment letters on the exposure draft and heard testimony from six respondents at a public hearing on October 5-6, 1998.

At its October 22-23 meeting, the Board discussed the issues raised by respondents. The major issues were which programs to include, and whether the Board's identification of specific programs to be covered by the standard was preferable to developing specific criteria for identifying programs to be included as social insurance programs. The Board generally agreed that since social insurance programs have complex characteristics that make them unique (i.e., blending elements of exchange and non-exchange transactions), precise criteria for social insurance accounting purposes were not available and the Board's program identification approach was reasonable.

The Board discussed respondents' suggestions, including whether to standardize the assumptions and methodology for the required cash-flow projections in dollars and as a percentage of Gross Domestic Product, and whether an entity should be required to discuss differences between its "best estimate" assumptions and those of its actuaries. The Board also asked staff to prepare additional analysis regarding the choice of assumptions and how the uncertainty inherent in the "best estimate" should be disclosed.

The Board continued to address the need for educating users on the Board's approach to reporting social insurance programs, such as Social Security and Medicare, as Required Supplementary Stewardship Information rather than liabilities. Members discussed how best to explain the critical importance of the social insurance programs

Staff researched the issues raised as well as other respondent comments and suggestions. At the December 3-4 Board meeting, the Board discussed: 1) consistency of assumptions in cash flow projections; 2) discussion of differences of opinion between management and actuaries; and 3) sensitivity analysis.

Staff will prepare a preliminary draft of the standard for Board consideration at its February 1999 meeting.

For further information, contact Richard Fontenrose, 202-512-7358, or email fontenroser.fasab@gao.gov.

Board Holds Roundtable on National Defense PP&E

On December 3, 1998, FASAB held a morning and afternoon session of roundtable discussions on the type of

information needed for reporting on national defense property, plant, and equipment (PP&E). Participants in the discussions included representatives from the private sector, legislative aids from committees of the House and Senate, the Undersecretary of Defense (Comptroller), managers from the Department of Defense, analysts from the Bureau of Economic Analysis, and academics.

The discussion focused on current and potential use of cost and financial information on national defense PP&E. Participants discussed their roles as users and preparers of this information, information currently available, and information that would be useful to have. The discussions were informative, providing valuable insight into accounting perspectives for national defense PP&E. A task force is being established to continue work in this area. To further its understanding of the issues, the task force will be conducting follow-up interviews with several of the participants.

For further information, contact Rick Wascak at 202-512-7363, or email wascakr.fasab@gao.gov, or Andrea Palmer at 202-512-7360 or email palmera.fasab@gao.gov.

We Need Your Help!

FASAB is cooperating with Dr. James Patton on an important Federal accounting research project. Dr. Patton is Professor of Business Administration at the University of Pittsburgh, and Visiting Scholar, Department of Accounting at the George Washington University. He has an A.B. in Psychology, an MBA in Accounting, and a Ph.D. in Business Administration from Washington University (St. Louis) and he is a Certified Public Accountant. His research interests include governmental accounting, reporting, and auditing; financial reporting and auditing; and international financial reporting. Dr. Patton has been widely published, and is a member of the American Accounting Association, the American Institute of Certified Public Accountants, and the Government Finance Officers Association.

To assist in Dr. Patton's current research, a small number of FASAB News subscribers will receive a short survey in the mail from FASAB in February. We ask those who receive the survey to please take the time to complete it. Your confidential responses will provide information that will be quite useful to FASAB. Thanks for your help!

Corrections and Changes to FASAB News Special Edition 1

Following is a list of technical changes and corrections to the **FASAB News** Special Edition 1, "The Statement of Financing." Changes and corrections are identified based on the print version. However, there are slight shifts in pagination and formatting between print and web versions of the special edition because of changes that occur during software conversion. Therefore, to facilitate ease in locating affected areas in the web version, where necessary, the first few words of affected paragraphs are given.

We will not be reprinting an updated version of this special edition. However, an updated version will be posted to the FASAB web page at <http://www.financenet.gov/fasab.htm>.

Page 1, introductory paragraph, fifth line - replace "principle" with "principal."

Page 3, column 2, first full paragraph beginning, "For most agencies...", second to last line - replace "almost every" with "many."

Page 11, column 1, add the following two paragraphs at the end of the Line 10a section -

"Care must be taken to avoid double-counting the change in revenue collected in advance and the change in unfilled customer orders. In the adjustment to determine net resources obligated, which is reported on line 2 of the Statement of Financing, unfilled customer orders is a separate component from offsetting collections, and the illustrative statement in this article provides for that component to be adjusted on line 11b, discussed later. Note, however, that unfilled customer orders can be received with or without advances, and the amount with advances would generally constitute revenue collected in advance. The change in unfilled customer orders with advances cannot be entered both on line 10a and line 11b, or the adjustment would be counted twice and the relationship between resources and net cost of operations would not be properly explained.

It is the intent of this illustration to use line 10a only for revenue collected in advance that is not recognized in budgetary accounting as unfilled

customer orders and to include both unfilled customer orders with and without advances on line 11b. Agencies could, if they wished, include the change in revenue received in advance from unfilled customer orders on line 10a and include on line 11b only unfilled customer orders *without* advances. In that case, the heading for line 10, which indicates "offsetting collections," would need to be modified to include unfilled customer orders *with* advances."

Page 11, column 1, second sentence in the paragraph under 10b - replace "The principal" with "A common."

Page 12, column 1, third paragraph, before the second sentence that begins "Line 11c, "other...", add the following text (and make the second sentence that begins "Line 11c, "other...", a new paragraph that follows the new text):

"As discussed in the narrative for line 10a, care must be taken not to double-count the change in unfilled customer orders by including unfilled customer orders with advances both as revenue received in advance on line 10a and unfilled customer orders on line 11b. It is the intent for the Statement of Financing illustrated for this article to include the change in all unfilled customer orders, whether with advances or not, in line 11b. However, agencies may wish to include revenue received in advance for items that are classified as unfilled customer orders in budgetary accounting on line 10a, in which case 11b would contain only the change in unfilled customer orders *without* advances."

Page 18, column 2, first full paragraph beginning with "A second article..." - strike this paragraph.

Page 24, column 1, event 1, Proprietary entry, add a second transaction:

3100 Unexpended Appropriations	100	
5700 Appropriations Used		100

and, after the Analysis of the transaction, add:

"Note that the entry to record appropriations used has no effect on either resources or net cost of operations."

Page 26, sample report entitled "Statement of Financing for Selected Property Transactions" - after both of the item 13 transactions, "Adj. for Equip. Transactions," add an asterisk to refer to the asterisked note at the bottom of

the sample report.

Page 27, column 2, section entitled, "Specific Illustrations," third and fourth bullet - replace "adjustments" with "re-estimates."

Page 29, column 1, section entitled, "Upward Adjustments of Credit Program Subsidy Expenses," make the following changes:

- replace "Adjustments" with "Re-estimates" in the title.

- at the end of the paragraph under that section, which begins "An upward...",

- add the following text to the end of the last sentence in the paragraph:

"and account 6330 Interest Expense - Loan Guarantee Liability by 5310 Interest Revenue - Subsidy (the revenue account is appropriate here, for reasons beyond the scope of this article)."

- under the section entitled "Net proprietary entries" -

- add a line after the first line, which begins "6100 Subsidy..." -

6330 Interest Expense - Loan Guarantee Liab. (F) and a Year 1 entry of 5

- change the amount on the third line, which begins "2180 Loan..." from (100) to (105)

- under the section beginning, "The Statement of Financing..." -

- change "Line 2 - Budgetary Collections" to "Line 12 - Resources Funding Prior Period Expenses," and the Year 1 entry from 5 to 0.

- change Line "17e" to "18b"

- after the above line, add "Line 18c - Interest Expense - LGL" with a Year 1 debit entry of 5

- change the Line 21 Year 1 figure from 100 to 105

Page 29, column 2, section entitled "Downward Adjustments of Credit Program Subsidy Expense"

- under the section entitled "Budgetary entries - change line 2 from "4396 Authority Permanently

Unavailable (G)" to "4147 Actual Payments to Treasury (G)."

- under the section entitled "Net proprietary entries:

- change the Year 1 amount of line one, which begins "2180 Loan..." from 100 to 105

- after line one, add the following line "6330 Interest Expense - LGL (F) with a Year 1 entry of (5)"

- under the section beginning, "The Statement of Financing..." -

- change "Line 2 - Budgetary Collections" to "Line 4b - Transfers-out to Treasury"

- after Line "17e - Re-estimated Subsidy Exp." add another Line 17e entitled, "Interest Expense - LGL*" with a Year 1 entry of (5) and Year 2 entry of 0

- change the Line 21 Year 1 figure from (100) to (105)

- after Line 21, add "* Line 17d for direct loan programs"

Page 30, column 2, second full paragraph under "Summary and Observations", Move the last full sentence of the paragraph to a separate paragraph following the third paragraph, which begins, "Indeed, there..."

Page 31, make the following changes to the bio for J. Thomas Luter

- first line, change "1997" to "1996", and "4" to "5"

- after the first sentence add, "He served as the Standard General Ledger Board's representative for both agencies."

- change the fourth sentence to, "Mr. Luter taught accounting, auditing, and other college courses and has designed and taught training courses in Federal accounting."

For further information, contact Lucy Lomax at 202-512-7359, or email lomaxm.fasab@gao.gov.

AAPC News - October Highlights

At the October AAPC meeting, discussion focused on the work of the Stewardship Reporting Task Force. Mark Connelly, Assistant Director in the Accounting and Information Management Division of the General Accounting Office, with responsibility for doing the consolidated audits of several agencies, reported on the progress of the Task Force. He described the membership and reported that the task force will only address issues with stewardship land and PP&E. The task force has posted a working draft, "Determining Materiality for Stewardship Assets," at www.financenet.gov/financenet/fed/aapc/matrl25.pdf.

For further information, contact Dick Tingley at 202-512-7361, or email at Tingleyr.fasab@gao.gov.

1999 Meeting Schedules

FASAB

February 25 - 26
 April 12 - 13
 July 1-2
 September 16 - 17
 October 28 - 29
 December 13 - 14

Meetings begin at 9:00 and will be held in room 7C13 of the General Accounting Office, except for the September meeting, which will be held in room 4N30.

AAPC

January 14

March 11

May 13

July 8

September 23

November 18

Meetings are from 1:30 - 4:00 and will be held in room 4N30 of the General Accounting Office. The General Accounting Office is at 441 G Street, NW, Washington, DC.

For further information, contact Dick Tingley at 202-512-7363, or email tingleyr.fasab@gao.gov.

Highlights of September GASB Meeting

At the Governmental Accounting Standards Board's (GASB) September meeting, the GASB discussed fund-based financial statements, its nonexchange transactions project, infrastructure, and its schedule to discuss remaining issues on a final statement on the state and local government reporting model. Following are brief highlights:

- fund-based financial statements - Staff presented an approach that would provide for full accrual of expenditures except for certain accrual modifications where payment for a liability would extend over more than one accounting period. GASB members also discussed when a cash flow statement would be required and how to reconcile fund-based vs. governmentwide figures.

- non-exchange transactions - members discussed how to report flows of resources between primary governments and discretely presented component units and whether information in individual reports should be the same as for the entire reporting entity.

- infrastructure - discussion continued on how to report infrastructure assets and their costs.

- issues remaining on the reporting model - members discussed the steps necessary to clear remaining issues prior to issuance of the statement on the reporting model, expected in June 1999.

Additional information on the Governmental Accounting Standards Board may be found at GASB's web page, at

<http://www.rutgers.edu/Accounting/raw/gasb/>

More Cool Web Sites!

Technical Amendments to OMB Bulletin 97-01, "Form and Content of Agency Financial Statements." Specific questions should be addressed to James Short at 202-512-3124-

<http://www.whitehouse.gov/WH/EOP/OMB/html/bulletins/9701.html>

Revised OMB Circular A-21, "Cost Principles for Educational Institutions" - <http://www.whitehouse.gov/WH/EOP/OMB/html/circular.html>

Speech by Arthur Levitt, Chairman, Securities and Exchange Commission, expressing concerns about erosion in the quality of reported accounting numbers and a business culture that leads, in some cases, to pervasive earnings management. Chairman Levitt identified five popular reporting illusions and described a nine-point action plan to increase public confidence in America's capital markets-
<http://www.rutgers.edu/Accounting/raw/aa/newsarc/pr101898.htm>

Upcoming Meetings

FASAB: The next meeting will be on December 21, 1998, at 9:00, in Room 7C13 of the General Accounting Office Building, 441 G St., N.W. Topics will include contingent liabilities arising from litigation and material revenue related transactions and disclosures. The first meeting of 1999 will be February 25 and 26, at 9:00, in Room 7C13 of the General Accounting Office Building. Topics will include credit reform amendments, national defense PP&E, social insurance, natural resources, and new issues/projects.

AAPC: The December 10, 1998 meeting has been cancelled. The next meeting will be on January 14, 1999, at 1:30, in Room 4N30 of the General Accounting Office Building, 441 G St., N.W. The agenda will include stewardship reporting and auditing, liabilities not covered by budgetary resources, and new issues.

For further information, contact Dick Tingley at 202-512-7361, or email at tingleyr.fasab@gao.gov.

Note: FASAB News is a publication of the staff of the Federal Accounting Standards Advisory Board. This publication is intended to provide readers with an understanding of issues that the Board is considering by providing the highlights of proceedings of Board meetings. When an article refers to a Board decision, it should be understood that all Board decisions are tentative until a concept or standard is formally recommended by the Board to its principals, the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General. Moreover, formal recommendations of the Board are not considered final until they have been officially approved by the Board's principals, and issued by the Office of Management and Budget.

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