

FASAB NEWS

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(Please note that no Newsletter was published in April or May.)

FASAB STANDARDS COMPLETED AND SIGNED BY PRINCIPALS

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General (the FASAB Principals) have approved, by signature, all of the basic accounting standards recommended to them by the Federal Accounting Standards Advisory Board (FASAB).

FASAB is proceeding to incorporate the standards into form and content guidance. This marks the beginning of an era, where for the first time ever, the federal government has a body of "generally accepted accounting principles" to govern the preparation of financial statements for departments and agencies. These standards were developed over a period of about five years involving extensive "due process" which included public deliberation by the FASAB members, involvement of task forces from all major agencies, issuance of exposure drafts, and extensive public hearings. Not only does this signal the beginning of the creation of a reliable and meaningful data base of information to better report on the financial condition of government entities, but it also marks the first time cost accounting requirements will be imposed to help measure the cost of outputs called for under the Government Performance and Results Act.

The standards promulgated by the Principals represent a major breakthrough in accounting and reporting by federal entities. The former standards were not accepted because they were based on private sector standards and the "for profit" reporting model. Not only has the FASAB established accounting standards, but

they have been developed to accommodate a reporting framework uniquely designed to provide useful information to those interested in analyzing and understanding the financial condition and cost of government programs.

Although the FASAB standards address the accounting and reporting of most transactions the federal government engages in, an agenda of new issues has been developed that will occupy the FASAB's time over the next several months. The agenda includes projects such as accounting for natural resources, accounting for social insurance programs (e.g., social security, medicare, black lung), a codification of all accounting standards, guidelines for a management discussion and analysis, and guidance for implementing the accounting and reporting standards in the government-wide consolidated financial statements. (See article below on Stewardship Reporting.)

According to Ron Young, Executive Director of the FASAB, the Chief Financial Officers of federal departments and agencies must now take up the responsibility of seeing that the standards become implemented into their agency systems, and also help analyze and interpret the financial and cost information to assist agency executives, program managers and members of Congress in making assessments about the efficiency and effectiveness of programs and service delivery. They should also assist in identifying ways to reduce costs and improve performance. Mr. Young went on to say that this may be a difficult task for some departments, such as the Department of Defense, because of their antiquated systems and the Department's inability to make substantial progress toward improvements in financial management reforms. However, many agencies are

actively pursuing the changes needed in their financial management systems albeit not as rapidly as envisioned under the CFO Act and by some members of Congress. Mr. Young went on to say that much of the slowness is due to the significant cutbacks in funding of government financial management and the resulting inability to attract and retain highly regarded financial management specialists.

He also stated that as the agencies begin to implement the new standards there will, no doubt, be many requests of the FASAB for interpretations of the standards; and, he said, undoubtedly there will be some need to develop new standards or modify existing standards. He added that no matter how carefully the FASAB members tried to address all of the major issues, the vastness and complexity of the federal government budget structure and operating style almost assures the need for refinements, modifications and strengthening of some of the standards. Finally, Mr. Young said that the FASAB will serve as the clearinghouse for all substantive interpretations of the FASAB standards.

STEWARDSHIP

At the April 25, 1996, FASAB meeting, the Board discussed the applicability of the stewardship standard to the consolidated financial report of the federal government. The members discussed potential implementation problems at the consolidated, government-wide level. For example, several of these standards provide for a transition period during which agencies may or, in some cases, may not report investments in human capital, research and development and nonfederal physical property; and, if investments are reported for earlier years during the transition period, the entities may report on the basis of either outlays or expense. The Board also discussed implementation problems at the consolidated level, which arise from the possibility of agencies using differing measures for land, heritage assets, and mission properties. The Board agreed on the need to be highly selective in proposing requirements for the consolidated report.

Because of these possible implementation problems and the need to consider other disclosures or presentations, the Board decided to continue its deliberations relative to the consolidated report. Accordingly, the effective date for component units of the Government will be for fiscal years beginning after September 30, 1997; but, for the consolidated report, the effective date would be deferred except for Chapter 8, which deals with the Current Service Assessment, where no implementation problem is foreseen. In the interim, the Board suggests the consolidated report include such summary or selected information as is feasible, and encourages experimentation and the presentation of additional information to enhance the report.

Additionally, the Chairman will organize a task force to consider the various concerns raised regarding the consolidated financial statements. The task group will be chaired by Mr. Murphy.

On May 2, 1996, after obtaining the approval of the FASAB members, the Recommended Statement of Supplementary Stewardship Reporting was forwarded to the Director of OMB, the Secretary of the Treasury, and the Comptroller General for their approval. After approval by the Principals, the Statement will be sent to Congress for a 45 day review period.

NATURAL RESOURCES PROJECT

For the May Board meeting, staff had provided the Board with sample disclosures for reporting information about natural resources. Also provided to the Board were a discussion guide and a matrix which described where information about natural resources could be reported in an annual report. The matrix developed by staff identifies (1) a number of natural resources currently held by the federal government and (2) the functions performed and the reporting methods utilized by the federal entities associated with the resources. The Board was especially interested in the mechanics involved in purchasing federal land for the purpose of mining hardrock minerals.

The Board also discussed various issues involved in the ways by which federal entities report information about natural resources. Several members suggested that the "depletable" and "renewable" aspects of the resources should be major reporting categories. These members noted that the entities should be able to report the loss of value to the government when the depletable resources are extracted. These documents were provided to initiate and focus discussions on the possible reporting requirements for a natural resources standard.

Staff members briefed the Board about information they identified as possible reporting requirements for natural resources. The information was divided and presented in four categories on the documents. The four categories were:

- o Natural Resources Extracted, Produced, and Sold by a Federal Entity

- o Quantifiable Lease Program Natural Resources

- o Nonquantifiable Lease and Sale Program Natural Resources

- o Timber

Staff members explained that the discussion guide and matrix indicated whether the information is currently reported by the entity or not, and if the information is currently reported, where it is being reported. They further explained that the discussion guide also noted where the information could possibly be reported within an annual report (i.e., face of the financial statements, footnotes, required supplemental information (RSI), required supplemental stewardship information (RSSI); or Management, Discussion and Analysis (MD&A)). That is, the location of the information being reported was based on the firmness of the data and the level of audit it would be subject to.

Some Board members expressed concern over the amount of emphasis being placed on the ability to audit the information when determining where information should be reported. One stated that the first criterion for determining the location for reporting information should be the relevance of the information, rather than how auditable it is. He added that a standard could be developed to set the level of auditability of the information, which would ultimately govern where it should be reported on an annual report.

Another member voiced his concern about some natural resources being extracted from federal lands without it being recorded anywhere and without some value being assigned to those extracted resources. He explained that the federal government has an obligation to tell citizens whether the country is better off or worse off based on activities of the government.

With these concerns in mind, the Board decided to create a task force to study the kinds of information about natural resources which can be obtained and to provide options for framing where it can be reported. Based on this decision, the Board instructed staff to develop a "Charge to Task Force" document and a proposed list of task force members, including proposed names of individuals to chair the task force. Both documents will be presented to the Board at the June meeting for discussion and their approval.

INVITATION FOR VIEWS ON COST OF CAPITAL WILL BE ISSUED

At the May 30, 1996 Board meeting, members reviewed and approved a revised draft of Invitation for Views (IFV) on Accounting for the cost of Capital. It will soon be issued after making some revisions. The document invites views and comments from federal agencies and other interested parties on the feasibility and appropriateness of measuring and recognizing the cost of capital in financial reporting by federal agencies. The Board is very careful to emphasize that it has not reached a conclusion on any of the issues

and would like to consider all views and comments objectively.

The IFV points out that currently, federal entities do not report the cost of capital except for interest on debt borrowed by the entities individually. However, many people believe that cost of capital is no less significant than the costs of labor and material for the production of government goods and services. The IFV presents four groups of issues for respondents to comment on. Respondents are encouraged to raise other issues they deem relevant to accounting for the cost of capital by the federal government. The four groups of issues address:

- What are the specific areas in which the information on cost of capital could be used by federal executives and managers at various levels?
- What are the categories of assets that should be included in the capital base and how should those assets be valued for the purpose of calculating the cost of capital?
- What is the capital cost rate that should be used to calculate the cost of capital?
- What would be a cost-effective approach to accounting for the cost of capital without making it unnecessarily complex?

After receiving written comments, the Board may hold a public hearing for some respondents to present their oral comments.

CODIFICATION PROJECT

The Board decided on a specific format for the two-volume codification of FASAB standards.

The first volume is modeled after FASB & GASB's original pronouncements publications. The original FASAB statements will be reprinted with two

modifications. First, the executive summary and introductory material will be replaced with a status section and a maximum one-page summary of the standards. The status section will provide (1) the issue date, (2) the effective date, (3) references within Volume I and to Volume II, and (4) any amendments to the standards. Second, the glossaries included with each statement will be consolidated into a single glossary in the final appendix to the volume.

The second volume will be arranged alphabetically by topic -- as is the FASB's Current Text and the GASB's Codification. All material relating to a particular topic will be grouped together for ease in use. In addition, lists of potential disclosures will be provided by topic.

These volumes will greatly enhance the user's ability to locate relevant material. The volumes will provide an extensive index-referencing to Volume I, the original statements, and Volume II. In addition, any interpretations of the standards will be incorporated in both volumes.

The Board anticipates providing a computer-based tool for users in the near future.

FASAB WORKSHOP SERIES SCHEDULED

Treasury's Center for Applied Financial Management (the Center) and FASAB are conducting a series of workshop on the new federal financial accounting standards. These workshops offer agencies a complete assessment of all the federal government accounting standards emphasized by the National Performance Review (NPR). Participants will be able to address related standards and identify accounting changes. The workshop format includes lecture, group discussion, and illustrative examples.

Workshop I will cover Objectives, Entity and Display, Sample New Reporting formats; and the standards for Management Cost Accounting and Supplementary Stewardship Reporting. The first offering was held on April 29 and 30. The second v

be held August 29 and 30 in the Washington, D.C. area.

Workshop II will cover the standards for Selected Assets and Liabilities; Direct Loans and Loan Guarantees; Inventory and Related Property; Liabilities; Revenue; and Property, Plant, and Equipment. It will be held on September 24 and 25 in the Washington, D.C. area.

For the benefit of people outside the Washington, D.C. area, the Workshops will also be held in the following cities. Each of these offerings will cover condensed versions of both Workshops:

- Baltimore, MD, June 25 and 26
- Seattle, WA, July 23 and 24
- Denver, CO, August 1 and 2

Each workshop carries 16 CPE's. To register for any of these workshops, call the Center on (202) 874-9560 or fax on (202) 874-9629. The Center's mailing address is:

The Center for Applied Financial Management,
Financial Management Service, Department of the
Treasury, 401 14th St., SW, Suite 1100 KSB,
Washington, DC 20227.

FUTURE MEETING DATES

The FASAB planned future meeting dates are:

- June 20, 1996
- July 25, 1996
- No August meeting
- September 26, 1996
- October 24, 1996
- November 21, 1996
- December 19, 1996

FASAB STATEMENTS ISSUED TO DATE

Accounting for Selected Assets and Liabilities, Accounting Standards Statement #1, issued March 30, 1993. GPO Stock # 041-001-00403-3. \$4. The accounting standards recommended in this Statement are effective for financial statements prepared for fiscal years ending September 30, 1994 and thereafter. Earlier adoption is encouraged.

Accounting for Direct Loans and Loan Guarantees, Accounting Standards Statement #2, issued August 23, 1993. GPO Stock #041-001-00416-5. \$6. The standards in this Statement require that direct loans obligated and loan guarantees committed after September 30, 1991, be accounted for on a present value basis. The accounting standards recommended in this Statement become effective for fiscal years ending September 30, 1994, and thereafter. Earlier implementation is encouraged.

Objectives of Federal Financial Reporting, Concepts Statement #1, issued September 2, 1993. GPO Stock #041001004122. \$6. This document is a conceptual statement on the objectives of financial reporting by the federal government. It focuses on the uses, user needs, and objectives of such reporting.

Accounting for Inventory and Related Property, Standards Statement # 3, issued October 27, 1993. GPO Stock #041-001-00415-7. \$3.50. The Board recommends that these accounting standards become effective for fiscal years ending September 30, 1994, and thereafter. Earlier implementation is encouraged.

Entity and Display, Concepts Statement #2, issued June 6, 1995. GPO Stock #041-001-00456-1. \$3.75. This document provides guidance on what would be encompassed by a Federal Government entity's financial report.

Managerial Cost Accounting Standards for the Federal Government, Standards Statement #4, issued

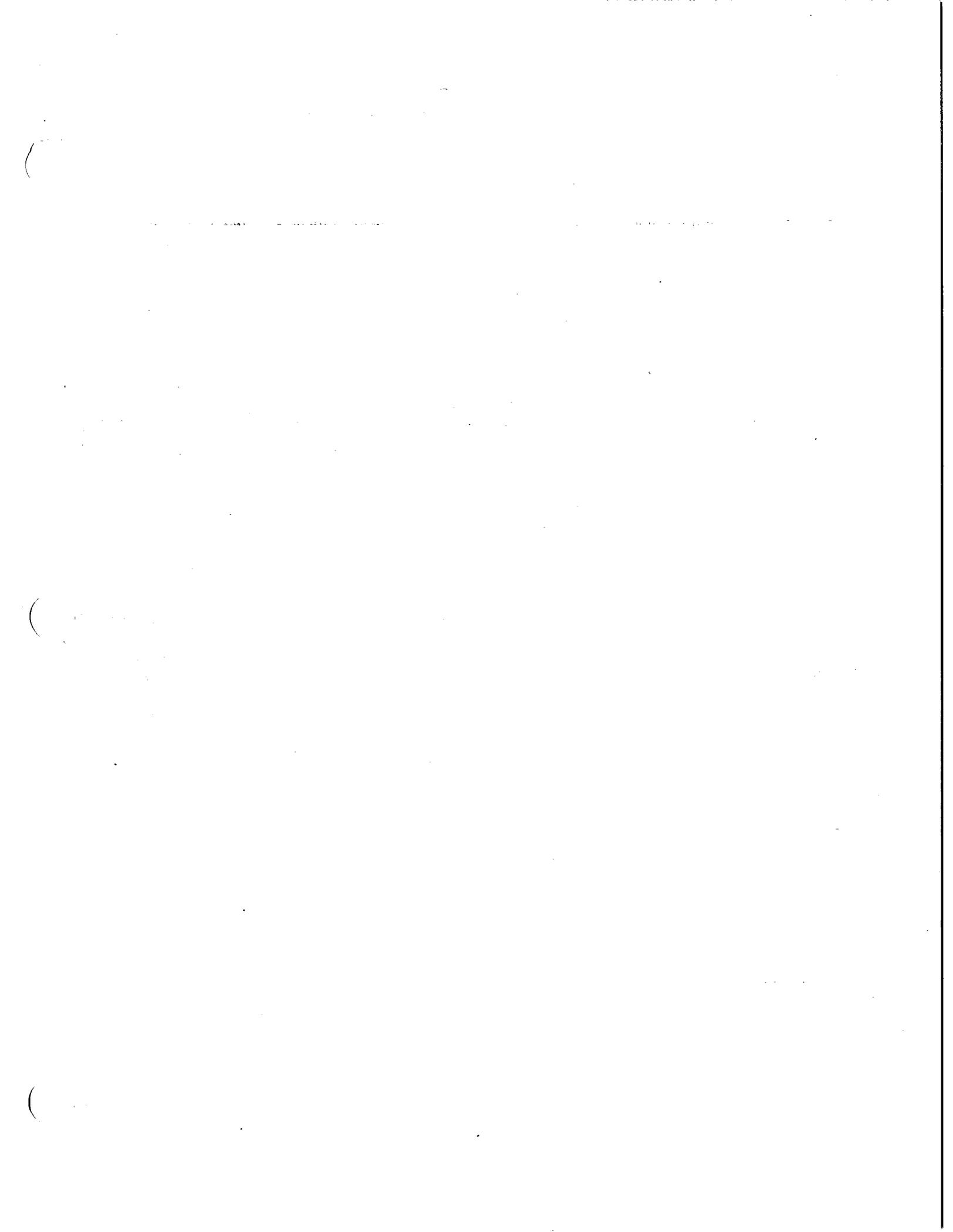


July 31, 1995. GPO Stock #041-001-00457-2. \$7.50. The standards in this Statement will be effective for fiscal periods beginning after September 30, 1996. Earlier implementation is encouraged.

Accounting for Liabilities of the Federal Government, Standards Statement #5, issued February 15, 1996. GPO Stock # 041-001-00463-7. \$5.50. The accounting standards presented in this Statement become effective beginning after September 30, 1996. Earlier implementation is encouraged.

Accounting for Property, Plant, and Equipment, Standards Statement #6, issued June 3, 1996. GPO Stock # 041-001-00462-9. \$6.50. The recommended implementation date for these accounting standards is for periods beginning after September 30, 1997. Earlier implementation is encouraged.

Statements (approved standards) may be purchased from GPO, 202-512-1800. Also, for people with access to Internet, the Standards are accessible by using the address <http://www.financenet.gov>. Then click on "Resources" and then on "FASAB".



FASAB

Federal Accounting Standards Advisory Board

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