

FASAB News

Issue No. 46, September 1997

Federal Accounting Standards Advisory Board • 441 G Street, NW, Suite 3B18, Washington, DC 20548 • 202-512-7350 • <http://www.financenet.gov/fasab/htm>

Distributing FASAB Documents as Attachments to the FASAB News

With last month's edition of the **FASAB News**, we attached to the newsletter an Exposure Draft that had a short comment period (see Issue 45, August, pp 1-2, "Effective Dates for SFFAS 4 and 7"). We did that to speed up the distribution of that document and to reduce some of the costs that would have been associated with a separate mailing. We have decided that, for those same reasons, when the distribution of other FASAB documents coincides with the distribution of the **FASAB News**, we will attach those documents to the newsletter. Accordingly, with this edition of the **FASAB News**, we are attaching 1) the Board's third Interpretation of Federal Financial Accounting Standards, *Interpretation Number 3: Measurement Date for Pension and Retirement Health Care Liabilities* and 2) guidance on submitting issues to the Accounting and Auditing Policy Committee (AAPC). Articles on both attachments follow.

FASAB Issues Interpretation Number 3

At its August 29 meeting, the Board approved its third Interpretation of Federal Financial Accounting Standards, *Interpretation Number 3: Measurement Date for Pension and Retirement Health Care Liabilities*. The interpretation provides that liabilities for pension and retirement health care shall be measured as of the end of the reporting period, but may be based on an actuarial valuation performed as of an earlier date during the reporting period with suitable adjustments for the effects of changes during the year in major factors. The complete interpretation is attached to this newsletter. For additional background information, see **FASAB News**, issue 44, July, pp 5-6, "Pension Measurement Date."

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

AAPC News

Guidance for Submission of Issues

In early August, the Accounting and Auditing Policy Committee (AAPC) provided guidance to members of the Chief Financial Officers Council and the President's Council on Integrity and Efficiency on submission of issues to the AAPC. This guidance is attached to this edition of the **FASAB News**.

September 12 Meeting Agenda

At the AAPC's September 12 meeting in Room 4N30, 441 G St., N.W. members will discuss two issues:

- 1.) Who should be the source of legal representation for matters involving the Treasury Judgement Fund and litigated by the Justice Department on behalf of other Federal agencies?
- 2.) What criteria should be used for determining when it is probable and reasonably estimable that a liability exists for environmental cleanup costs for past transactions or events?

Also, the AAPC will consider whether to add to their future agenda issues involving Property, Plant, and Equipment (PP&E); disclosures related to the Black Lung Disability Trust Fund; and lease costs.

AAPC Home Page Access

News and documents on AAPC issues are available on the AAPC Home Page at <http://www.financenet.gov/aapc.htm>.

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

FASAB's Home Page:
<http://www.financenet.gov/fasab.htm>

Statement of Federal Financial Accounting Standard 8 Published

Problems surrounding the release of Statement of Recommended Accounting Standard 8 have been resolved. The document has been issued by the Office of Management and Budget as Statement of Federal Financial Accounting Standard 8 (SFFAS 8).

SFFAS 8, dated June 11, 1996, is downloadable from FASAB's home page, <http://www.financenet.gov/fasab/htm>, or is available for purchase (until out of print) from the Government Printing Office, 202-512-1800, stock number 041-001-00493-9, price \$7.50

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

Discussion of Technical Corrections to SFFAS 6 and SFFAS 8 Continued

As reported in recent editions of the *FASAB News* (see issue 45, pp 2-3, issue 44, pp 1-3, and issue 43, pp 1-2), the Board has been discussing proposed technical changes to Statement of Federal Financial Accounting Standard 6 (SFFAS 6), *Accounting for Property, Plant, and Equipment*, and Statement of Federal Financial Accounting Standard 8 (SFFAS 8), *Supplementary Stewardship Reporting*.

At its August 29 meeting, the Board continued those discussions, focusing on the proposed definition and reporting requirements of Federal Mission Property, Plant, and Equipment (PP&E), the category of stewardship PP&E which the Board is proposing to redefine as National Defense PP&E. At its earlier meetings, the Board proposed that National Defense PP&E include only weapons systems used by military departments solely in performance of their military missions, and the Maritime Administration's Naval Defense Reserve Fleet ships. However, at the August meeting, the Board continued its discussion of other possible elements and reporting requirements of

National Defense PP&E. The Board's discussion centered on three issues:

- 1) Should the Coast Guard's aircraft and vessels over 65 feet be treated as National Defense PP&E or general PP&E?
- 2) Should defense ammunition be treated as National Defense PP&E, general PP&E, or operating materials and supplies?
- 3) Should information from the Selected Acquisition Report (SAR) be used to meet the stewardship reporting requirements for National Defense PP&E?

Classification of Coast Guard's Aircraft and Vessel s Over 65 Feet

As previously reported, in addressing the Coast Guard's suggested classification of its aircraft and vessels over 65 feet as Federal mission PP&E, the Board was considering whether in a multi-mission environment 1) the defense mission should result in the assets being categorized as National Defense PP&E, 2) the civilian mission should result in the assets being categorized as general PP&E, or 3) cost should be allocated between the categories.

The Coast Guard has stated that its aircraft and vessels over 65 feet were acquired to meet national defense needs and therefore should be treated as National Defense PP&E. However, Coast Guard has many missions in addition to national defense. Information from the Coast Guard indicated that these assets are used on a regular basis for maritime law enforcement, port security, and environmental protection. These missions would lead to classification of the assets as general PP&E.

The Board did not find that it would be practical to allocate the acquisition costs among categories. The Board agreed to categorize these assets as general PP&E that should be capitalized and depreciated. To provide information useful for assessing operating performance for each of the missions of the Coast Guard, the Board believes that depreciation expense should be allocated among the missions. This is

consistent with the requirements of SFFAS 4, *Managerial Cost Accounting Concepts and Standards*, which provide for allocation of expenses to the various functions supported, including the support of the function of national defense.

The Board also applied this approach to classifying multi-use heritage assets. A multi-use heritage asset is one that provides reminders of our heritage while being used in day-to-day operations unrelated to the assets themselves. The Board said that a multi-use heritage asset would be accounted for as general PP&E, if it is predominantly used in Government operations.

How Defense Ammunition Should be Reported

The Board considered a proposal that defense munitions be treated as National Defense PP&E and included in stewardship reporting. Most Board members disagreed with this proposal. They supported the Board's original position that defense munitions, including missiles, should be accounted for as operating materials and supplies.

The Board also considered a proposal for reporting several categories of defense items as National Defense PP&E. Board members generally agreed to include as National Defense PP&E:

- a) weapons delivery systems, such as ships, tanks, aircraft, grenade launchers, machine guns and rifles,
- b) principal weapon systems replacement parts and assemblies, and
- c) permanent ammunition bunkers, and missile silos.

Board members generally agreed that the list of items that follows should not be included as National Defense PP&E but should be reported as general PP&E.

- a) defense real property, other than ammunition bunkers and missile silos, and

- b) government-owned PP&E in the possession of contractors, such as special tooling and test equipment.

The Use of Selected Acquisition Reports (SAR)

The Board continued its discussion from earlier meetings on whether it should rely on portions of the Department of Defense Selected Acquisition Report (SAR), a report to Congress on quantities and cost of major defense weapons systems, as a basis for satisfying the definition and reporting requirements for financial and stewardship information (quantities and flow data, or cost trends) on defense weapons systems.

The Board reviewed a detailed description of a typical SAR, prepared by the FASAB staff. Staff pointed out that the SAR data base is limited to acquisition programs specifically selected by Congress or Defense officials, and includes only those programs that meet certain dollar thresholds. After considering any possible advantages and limitations of using SAR data to meet the stewardship reporting requirements, the Board concluded that the stewardship reporting standard should not require the use of SAR data. This conclusion supported the Board's general agreement that entity management should have the discretion of choosing the best data sources to meet reporting requirements.

Issuance of Exposure Draft Expected

The Board will be issuing draft language related to each of the above proposals for public comment. An exposure draft is expected to be issued before December 1997.

For further information, contact Rick Wascak, 202-512-7363, or email wascakr.fasab@gao.gov, or Richard Mayo, 202-512-7356, or email mayor.fasab@gao.gov.

**National Science Foundation
Request for Guidance**

Both the Chief Financial Officer and the Inspector General at the National Science Foundation have requested guidance from the FASAB on applying SFFAS 6, *Accounting for Property, Plant, and Equipment*, to property, plant, and equipment (PP&E) acquired and/or used by grant awardees but for which the National Science Foundation holds title. Specifically, they asked whether the provisions regarding "reversionary interest" in PP&E apply in specific types of the National Science Foundation's grants or operations.

Reversionary interest is when the Federal Government retains an interest in PP&E acquired with grant money such that in the event the grant recipient no longer uses the PP&E in the activity for which the grant was originally provided, the PP&E would revert to the Federal Government. SFFAS 6, paragraph 150 says that, in essence, these are contingent assets and should not be recognized on the balance sheet. The Board elected to specifically exclude these items from PP&E.

In asking whether the reversionary interest provision applies to some of their assets, the National Science Foundation discussed the funding of research and development at colleges and universities. These funds are used by grant awardees to purchase PP&E; title to the PP&E is specifically retained by the National Science Foundation. However, the National Science Foundation does not use the PP&E in its own operations. Rather, it retains title to facilitate transferring the PP&E from one grant awardee to another upon cessation of grant-funded research. In addition to this type of grant, the National Science Foundation is seeking guidance on grants it issues to support Federally Funded Research and Development Centers and its Antarctic research program.

Mr. Joseph L. Kull and Mr. Al Muhlbauer, the National Science Foundation Chief Financial Officer and Deputy Chief Financial Officer, and Mr. Edward L. Blansitt and Mr. Philip L. Sunshine, the National Science Foundation Assistant Inspector General for Audits and Deputy Inspector General, attended the August 29 FASAB meeting to answer Board members' questions regarding these activities. However, the Board was not able to reach consensus on this issue and directed staff to prepare additional research material for presentation at the September 26 Board meeting. The Board is particularly interested in how grant awardees are applying Financial Accounting Standards Board Statement of Financial Accounting Standards No. 116, *Accounting for*

Contributions Received and Contributions Made and whether other Federal agencies might be affected by this issue.

For further information, contact Wendy Comes, 202-512-7357, or email comesw.fasab@gao.gov.

FASAB Attempts to Reduce Printing and Mailing Costs

The mailing list for printed copies of FASAB documents and newsletters continues to grow as you, the preparers and users of Federal financial statements, become aware of how to get the latest information on Federal accounting and reporting. However, many of you may not be aware that FASAB also provides copies of all documents electronically through an electronic mailing list administered by Financenet.

The benefits of receiving documents through the electronic list are 1) you receive the electronic posting the day the electronic file is complete, as opposed to receiving the printed material 7 to 10 days after file availability (because the file must go through a printing, distribution, and bulk mail process), 2) you can perform word search and other text access functions that you cannot do with printed material, and 3) you can print the electronic file in whole or in part at your convenience.

To keep costs down, we would like to encourage you to switch your request for FASAB documents from the print mailing list to the electronic mailing list. If you subscribe to both lists, please consider dropping off the print mailing list. You may use the "Change of Address or Cancellation" form at the end of this newsletter to do this.

September 26 FASAB Meeting Agenda: Changes to Property, Plant and Equipment; Effective Date for Cost Accounting Standard; Social Insurance; and Grants issues posed by National Science Foundation.

**Documents Issued by the Federal Accounting
Standards Advisory Board (FASAB)**

Document Type	Document Number (if applicable)	Document Title	Document Issue Date	GPO Stock Number (if applicable) or Other Information	Price
Concept	SFFAC 1	Objectives of Federal Financial Reporting	September 2, 1993	041-001-00412-2 (OUT OF PRINT)	\$6.00
Concept	SFFAC 2	Entity and Display	June 6, 1995	041-001-00456-1	\$3.75
Standard	SFFAS 1	Accounting for Selected Assets and Liabilities	March 30, 1993	041-001-00403-3 (OUT OF PRINT)	\$4.00
Standard	SFFAS 2	Accounting for Direct Loans and Loan Guarantees	August 23, 1993	041-001-00416-5	\$6.00
Standard	SFFAS 3	Accounting for Inventory and Related Property	October 27, 1993	041-001-0415-7 (OUT OF PRINT)	\$3.50
Standard	SFFAS 4	Managerial Cost Accounting Concepts and Standards	July 31, 1995	041-001-00457-2	\$7.50
Standard	SFFAS 5	Accounting for Liabilities of the Federal Government	December 20, 1995	041-001-00463-7	\$7.50
Standard	SFFAS 6	Accounting for Property, Plant, and Equipment	November 30, 1995	041-001-00462-9	\$6.50
Standard	SFFAS 7	Accounting for Revenue and Other Financing Sources	May 10, 1996	041-001-00475-1 (+ implementation guide)	\$18
Standard	SFFAS 8	Supplementary Stewardship Reporting	June 11, 1996	041-001-00493-9	\$7.50
Exposure Draft		Management's Discussion and Analysis	February 1997	Written comments due 5/18/97	
Exposure Draft		Governmentwide Supplementary Stewardship Reporting	June 1997	Written comments due 9/15/97	
Exposure Draft		Accounting for Internal Use Software	June 25, 1997	Written comments due 9/25/97	
Exposure Draft		Deferral of Required Implementation Date for SFFAS 4	August 1997	Written comments due 9/12/97	
Invitation for Views		Accounting for the Cost of Capital by Federal Entities	July 1996	Written comments due 10/4/96	
Interpretation	1	Reporting on Indian Trust Funds	March 12, 1997		
Interpretation	2	Accounting for Treasury Judgment Fund Transactions	March 12, 1997		
Interpretation	3	Measurement Date for Pension and Retirement Health Care Liabilities	August 29, 1997		
Report	Report 1	Overview of Federal Financial Accounting Concepts and Standards	December 31, 1996		
Other	Codification, Vol. 1	FASAB Volume 1, Original Statements	March 1997	GAO/AIMD-21.1.1	

FASAB documents can be accessed at FASAB's home page, <http://www.financenet.gov/fasab.htm>. While copies exist, Invitations for Views, Exposure Drafts, and the Overview document can be obtained from FASAB, 202-512-7350. Until out of print, Concepts and Standards can be purchased from GPO, (202) 512-1800. While copies exist, the Codification can be obtained from GAO at (202) 512-6000. 9/8/97

INTERPRETATION OF FEDERAL
FINANCIAL ACCOUNTING STANDARDS

INTERPRETATION NUMBER 3

Measurement Date for Pension and
Retirement Health Care Liabilities

August 29, 1997

Point of Contact: Robert Bramlett
202-512-7355, email bramlett@fasab.gao.gov

INTRODUCTION

1. The Federal Accounting Standards Advisory Board (FASAB) was asked to endorse use of an actuarial valuation as of the beginning of the fiscal year to measure the pension and retirement health care liabilities in general purpose financial reports prepared pursuant to Statement of Federal Financial Accounting Standards Number 5 (SFFAS 5). This has been the practice in some of the special purpose financial reports on pension plans that are prepared pursuant to Public Law 95-595. OMB and GAO issue instructions for preparing the reports required by PL 95-595.

2. The plan reports called for by PL 95-595 receive scrutiny from congressional staff. Based on past experience, some actuaries were concerned that differences between actuarial measurements used in different reports would cause problems and confusion. Some people who support using a beginning-of-year valuation also were concerned about the potential for disagreements between auditors and preparers if projections or estimates were used instead of a full actuarial valuation. Other people, on the other hand, believed that measurements for recognizing liabilities in financial statements prepared pursuant to SFFAS 5 should be as of the end of the reporting period, and that a measurement based on a projection or "roll forward" of a full actuarial valuation would be appropriate if it were not feasible to perform a full actuarial valuation as of year end.

INTERPRETATION

3. Pension and retirement health care liabilities in general purpose federal financial reports prepared pursuant to SFFAS 5 shall be measured as of the end of the fiscal year (or other reporting period if applicable). This measurement shall be performed following the end of the period reported, but does not have to be based on a full actuarial valuation as of the end of the reporting period. The measurement shall, however, reflect the best available estimates of the major factors that would be reflected in a full actuarial

valuation, such as the actual pay raise, the actual cost of living adjustment, and material known changes in the number of employees covered (enrollment) that cause a change in the liability.

4. This measurement may be based on an actuarial valuation performed as of an earlier date during the fiscal year, including a beginning-of-year actuarial valuation, with suitable adjustments for the effects of changes during the year in major factors such as the pay raise, cost of living adjustment, etc. This is sometimes referred to as a measurement based on a "projection" or "roll-forward" of the most recent available actuarial valuation. In evaluating the effect on the liability caused by changes in enrollment for plans that cover employees of more than one reporting entity (e.g., CSRS, FERS), materiality shall be assessed at the plan level. In evaluating the effect on the liability caused by changes in enrollment for plans that cover employees of only one reporting entity (e.g., Coast Guard, Department of State), materiality shall be assessed at the reporting entity level.

SCOPE OF INTERPRETATION

5. This interpretation applies to pension and retirement health care liabilities recognized in accordance with SFFAS 5 in general purpose federal financial reports, such as financial statements prepared pursuant to the Chief Financial Officers Act of 1990, as amended. It does not apply to reports on pension plans pursuant to the requirements of PL 95-595.

EFFECTIVE DATE

6. This interpretation shall be applied for reporting periods that end on or after September 30, 1997. The FASAB has reviewed and agreed with this interpretation. After this interpretation is signed by the FASAB members who represent the Department of the Treasury, the Office of Management and Budget, and the General Accounting Office, it will be published by OMB and will be effective.

APPENDIX: BASIS FOR CONCLUSIONS

7. SFFAS 5 defines standards for recognition and measurement of pension and retirement health care liabilities, which are reported as of the balance sheet date. Although SFFAS 5 does not explicitly discuss the measurement date, its provisions implicitly call for measurement at year end. "Measurement" implies estimation based on the best available information at the time, but does not necessarily require a full actuarial "valuation" as that term is used by actuaries.

8. To avoid potential confusion, ambiguity, or conflict with auditors, some people would prefer to use a beginning-of-year valuation (which is permitted by private sector standards for plan reporting pursuant to SFAS 35), or at least would prefer to use beginning-of-year enrollment while updating the valuation for other changes during the year (e.g., interest rate assumptions, COLAs, salary increases), which generally are more significant.

9. The Board acknowledges that changes in enrollment during the year will rarely lead to a material change in the liability, and that such changes will therefore not be a factor in some years. Nevertheless, in those years when a material change in the liability does arise because of a change in enrollment during the year, that change should be reflected in the measurement. Conceptually there is no reason to treat enrollment differently from other factors used in the measurement. The Board also acknowledges that precise enrollment data may not be readily available soon after year end, when the measurement is to be performed. The Board does not believe that this should normally present a problem, however, because absolute precision regarding enrollment should not be necessary, given a reasonable definition of materiality.

AAPC ISSUE SUBMISSION GUIDANCE AND FORMAT

Submission. Matters may be referred to the AAPC by its members, OMB, GAO, Treasury, FASAB Board members, federal agency CFOs or Deputy CFOs, IGs, or other interested parties (e.g., Independent Public Auditors). The AAPC encourages entities to submit issues as soon as practicable after they arise and become unresolvable at the entity level. However, the AAPC is not intended to serve as a mediator for preparers, program managers, and/or auditors. Issues related to the Statements of Federal Financial Accounting Standards (SFFASs), OMB's Form and Content Bulletin, and audit requirements should be submitted when (1) there is more than one credible accounting or auditing solution or (2) entities are aware of diversity in practice.

The submission, or referral, of an issue to the AAPC should be addressed to the AAPC Chairperson, Ms. Wendy M. Comes at:

Accounting and Auditing Policy Committee
c/o Federal Accounting Standards Advisory Board
441 G Street, NW
Suite 3B18
Washington, DC 20548

In addition to mailing the materials, an electronic submission would be very helpful. E-mail can be sent to "COMESW.FASAB@gao.gov" and should include both ascii text files and files generated by standard word processing software such as Word or Wordperfect as attachments to the message.

Materials. The referral must be in writing and clearly describe the issue requiring attention. The issue statement should include a brief title and a clear question(s) regarding the issue being raised. For example, "Accounting for the Cost of Removing Asbestos from Existing Buildings" is the title for the following issue "Should the cost of removing asbestos be capitalized or expensed?"

The referral should reference relevant accounting or auditing literature and indicate what options have been considered for resolving the issue. Differing views should be thoroughly described. If applicable, current or past practice(s) should be described and excerpts from any entity accounting or auditing manuals should be provided. The provision of this background information will help to ensure that the AAPC accomplishes its mission to provide timely guidance by facilitating our research and deliberations.

In addition, the referral should discuss, to the extent practicable, which Federal entities would be faced with similar issues and any practices currently being applied by entities other than the referring entity. One of the AAPC objectives is to minimize diversity of practice. To that end, it would be very helpful to identify impacted entities early in the deliberative process.

Point of contact. Each submission should include a point of contact within the organization including his or her phone number. If possible, please provide the name(s) and phone number(s) of anyone in the organization that could serve on a task force if necessary. In addition, points of contact for any other parties to the issue (e.g., auditors) should be provided if available.

ILLUSTRATIVE ISSUE SUBMISSION

(attached to a cover letter from the submitting entity)

TITLE. Accounting for the Cost of Removing Asbestos from Existing Buildings

ISSUE. Should the cost of removing asbestos be capitalized or expensed?

RELEVANT LITERATURE.

Statement of Federal Financial Accounting Standards Nos. 6, *Accounting for Property, Plant, and Equipment*, para. 17-20 and 26.

Emerging Issues Task Force, Issue No. 89-13

OPTIONS.

Our current practice with regard to these costs is to ... Attached is an excerpt from our accounting manual describing the accounting practice. The issue arose during audit of our FY96 statements and our auditor believes....

In attempting to resolve the issue ourselves, we considered the following options and the support for each option.

Expense these costs -- <discussion of reasons to expense the costs; for example, the costs do not seem to meet the definition of capitalizable costs as presented in SFFAS No. 6>

Capitalize these costs -- <discussion of reasons to capitalize the costs; for example, the costs extend the useful life of the asset>

OTHER ENTITIES.

We believe that the majority of Federal reporting entities face this issue. We have informally inquired with XX other entities and determined that XX of those entities expense asbestos removal costs and XX of those entities capitalize these costs.

POINT OF CONTACT.

Please contact Jane Smith, Director of Financial Accounting Policy, at (XXX) XXX-XXXX with any questions regarding this request. Ms. Smith would be willing to serve on a task force if necessary.

Our auditors are _____ and the point of contact in their office is John Jones. Mr. Jones can be reached at (XXX) XXX-XXXX.

In addition, a list of the individuals from other entities that we contacted is presented below:

NAME	ORGANIZATION	PHONE NUMBER
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