

FASAB NEWS

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JOHN KOSKINEN ADDRESSES FASAB

John Koskinen, OMB's Deputy Director for Management, attended the morning session of the FASAB meeting on September 19th. Mr. Koskinen met the Board members and commented on the need for good accounting standards and good financial information. He emphasized that financial information must be provided in a way that encourages program managers and others to see its usefulness and to actually use it. He urged the Board to act as promoters for improved financial management by communicating to program managers the usefulness and the importance of financial information resulting from the standards that they develop. He also emphasized the need to harmonize financial and cost accounting with budget needs. Moreover, he suggested there may be areas, like credit reform, where budget and accounting can be integrated.

Mr. Koskinen shared with the Board members his understanding that basic accounting standards are not available throughout the federal government. Also, he emphasized that there is a need to fill this void by providing a basic set of standards, as called for by the National Performance Review, as soon as possible. He recognized that there are many accounting issues that ultimately must be addressed. However, he asked that the Board first concentrate on the basic accounting standards. He suggested that other issues be identified and addressed after the basic standards are completed. The Board concurred with Mr. Koskinen's views.

Mr. Koskinen acknowledged that there would likely be implementation issues in the reporting area. He suggested that OMB would wish to receive

suggestions from, and maintain a dialogue with, the Board on reporting issues associated with its standards. He said that this would help in the implementation of the accounting standards.

COST OF CAPITAL PROJECT

Mr. Donald Chapin, the General Accounting Office's Chief Accountant and chair of the task force, provided the Board with a revised paper on cost of capital at the September meeting. The Board agreed that the revisions were consistent with their requests at the previous meeting. However, Board members raised the following points:

- 1. The Board should define "cost" before addressing any "imputed" costs.
- 2. Comprehensive listings of pros and cons of imputing interest expense are required to meaningfully address the issue and this would require additional research.
- 3. Options for providing for interest cost without actually incorporating it in accounting entries should be considered.

The Board acknowledged that it lacked the resources to pursue this project as well as the more basic accounting issues currently being addressed. However, the deliberations highlighted the issue's importance and the potential benefits of increasing awareness of interest cost. The Board decided to address cost of capital at a later date when adequate resources would be available to do justice to the complexities of imputing interest. Issuance of any

requests for comments or views is deferred until the project resumes.

The Board commended the task force for its work - noting that the effort was useful and provided a base of knowledge to be relied on in the future.

STEWARDSHIP

At its September meeting, the Board focused on certain emerging concepts related to Stewardship Reporting that staff had identified. These were illustrated using a sample stewardship report that included sections on: investments in human capital; intellectual capital; non-federally-owned property; land; heritage assets; federal mission property; and service capacity analysis (future claims). The principal concepts discussed, but not finally resolved, related to:

-REPORT RATHER THAN STATEMENT - The report will provide relevant and important information on a number of items but will not be a "balancing statement" and will not necessarily relate to financial statement items.

-FLOW VS. STOCK - Certain data will be presented in terms of the flow of assets (e. g. the investment in human and intellectual capital) while other data will be stock-type data (e. g. land not associated with operating activities).

-PROSPECTIVE VS. HISTORICAL DATA - Some data will be presented in historical terms (e. g. investment in human capital) while other data will be presented in prospective data format (e. g. service capacity analysis).

-TIME FRAME FOR DATA - Data presented may relate to the prior twenty years (non-federally-owned property) or to the future 75 years (service capacity analysis) or, in certain instances, to some intervening period or specific date.

-REQUIRED REPORT - This report will be required in all financial reports containing financial statements which purport to be prepared in accordance with generally accepted federal accounting standards.

-PERFORMANCE MEASUREMENT - Output or outcome data relative to stewardship investment programs will be important but may be required in a section of the financial report other than the stewardship report.

These items will be the subject of future Board discussions. The Board did discuss specific aspects of an outline of an exposure draft (ED) sections on investment in human capital and research and development. The Board agreed that investments in human and intellectual capital should be measured in terms of the full cost of such investments, including cost of goods and services provided by government units other than the unit sponsoring the investment, and also the costs attributed to facilities used. Further, it agreed to restrict recognition of investment in human capital to education and training programs whose purpose is to increase national productive capacity and that demonstrate some measurable success after an appropriate time period. Finally, the Board agreed that staff should present it with outlines of ED sections and draft ED sections in October and November for additional discussion.

REVENUE RECOGNITION

In September the Board discussed the following seven issues related to "exchange" or earned revenue:

1. Reporting on Statement of Operations. The working draft ED presented for the Board's consideration said that exchange revenue should be presented on the Statement of Operations with the full cost of those transactions that produce exchange revenue, in order to calculate the net cost of the entity's transactions that produce exchange revenue. The Board expressed general agreement.



Recognition of exchange revenue. The working draft ED stated the general standard as follows: "Revenue from exchange transactions shall be recognized when goods or services are provided to the public or another government entity at a price." The Board expressed general agreement, but requested some minor changes in the ways the ideas were presented.

3. Proposed standards for federal government compared to private sector standards. The working draft standard suggested that a conservative bias due to concern about realization may be appropriate for the private sector, but is not appropriate for the government. Accordingly, the completed contract method would not be acceptable if it led to delayed recognition of material revenue, compared with the percentage of completion method. The draft Basis for Conclusions describes the rationale for the differences. The Board expressed agreement with the standard, but requested that the emphasis on differences between the private sector and the government in the Basis for Conclusions be reduced.

4. Uncollectible amounts. The working draft ED said that when realization of revenue is unlikely, the estimated amount that will not be realized should be recognized by an offset of revenue (each shown separately). One member observed that the proposal was intended to "keep the costs clean." Another said that bad debt expenses are expenses of administration and should be recognized as expenses. He distinguished between the cost of poor credit (relevant to evaluating the performance of the credit manager) and the cost of poor judgment or law that, in effect, creates a subsidy. The Board generally agreed that the presentation proposed would be appropriate, with the proviso that useful information not be lost. That is, it was suggested, in some cases it might be necessary separately to report components of the allowance. It was suggested that the ED include a question about this issue.

Disclosure for exchange transactions. The working draft proposed certain disclosures when

prices charged for government goods and services do not reflect costs or revenue foregone or otherwise conform to the requirements of OMB circular A-25.

The Board discussed reasons why A-25 might not be complied with, including conflicting demands, lack of information, waivers to A-25, and legislative requirements. The Board generally affirmed the disclosure requirements, but said that the revenue foregone disclosure requirement should be listed among questions to respondents.

6. Rents, royalties, and bonuses from Outer Continental Shelf and other petroleum and mineral rights are the exception in the working draft ED to including all exchange revenues in the Statement of Operations. Mr. Chapin observed that if the value of these national assets was recognized and depletion of the assets was a charge against operations, then it would be appropriate to treat these as exchange revenues. Absent that information and accounting, these revenues appear to be obtained without cost; hence, he believes it is appropriate to treat these as nonexchange revenue. An observer noted that the Budget treats these as undistributed offsetting receipts to avoid showing the Interior Department as a profit maker. Such a presentation had been found unsatisfactory years ago. One Board member said that these should be described and reported as "custodial" nonexchange revenues rather than being dealt with as an exception. One possibility mentioned would be to treat these as exchange at the government-wide level but as nonexchange for component units. It was noted that the "spectrum auction" revenue is another example of this kind of transaction.

7. Classification system. Exchange and nonexchange transactions with the public are classified according to whether each party receives and sacrifices something of value (i.e., whether the operations of the entity produce the revenue as well as the cost). If the corresponding budget system were used, nonexchange revenue would correspond to governmental receipts in the budget, and exchange revenue would correspond to offsetting collections. This would provide more

conformity with the budget. But there would still remain a number of differences; e.g., pre-credit reform loan repayments are included in offsetting collections, but are treated as reductions of the assets in the financial statements, so that full conformity with the budget is not possible. The Board expressed general support regarding the system and the need for accounting classifications that might differ from the budget.

AGENDA FOR OCTOBER MEETING

The agenda for the October 20 Board meeting includes discussions on: (1) Revenue Recognition issues, (2) a preliminary draft Exposure Draft on Property, Plant, and Equipment, (3) Human and Intellectual Capital draft Exposure Draft issues, and (4) an Exposure Draft outline on Land, Heritage, and Federal Mission Property, and Investment in Non-

Federal Physical Property. The meeting will be held in room 7C13 of the General Accounting Office, 441 G St., NW, Washington, DC. Further information on the agenda may be obtained by calling 202-512-7350.

**PUBLIC HEARING SCHEDULED FOR
NOVEMBER 29 & 30**

The Board plans to hold a public hearing on Tuesday, November 29 and Wednesday, November 30 on the Entity and Display and Managerial Cost Accounting Standards exposure drafts. Individuals who wish to present testimony on these ED's at the hearing should notify the Executive Director by November 15 and should provide a brief outline of major issues to be addressed. The hearing will be held in Room 7C13 of the General Accounting Office, 441 G St., NW, Washington, DC. Formal notice of the hearing will be timely published in the Federal Register.

