ACCOUNTING PRINCIPLES AND STANDARDS HANDBOOK

CHAPTER 9. LIABILITIES

Section 1.0 General

The accounting system must recognize and record all liabilities on the accrual basis of accounting. Liabilities must be recorded regardless of fund availability and liquidated as payment is made. A liability is a probable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities recognized according to FASAB standards include both liabilities covered by budgetary resources and liabilities not covered by budgetary resources.[1] This chapter provides guidance on the recognition points for liabilities associated with different types of events and transactions, except for the following types of transactions:

a. Liabilities for Loan Guarantees: Bureaus which administer direct loan and loan guarantee programs must recognize loan guarantees outstanding at the present value of net cash outflows, along with a subsidy expense. See SFFAS No. 2, "Accounting for Direct Loans and Loan Guarantees" for more information.

b. Operating Leases: An agreement conveying the right to use property for a limited time, i.e., a portion of its useful life, in exchange for periodic rental payments.

c. Capital Leases: Leases that transfer substantially all the benefits and risks of ownership to the lessee. A lease transaction should be reported as a capital lease when one or more of the following four criteria are met:

    1. Transfer of ownership to lessee at the end of the lease term,
    2. Option to purchase the leased property at a bargain price,
    3. Lease term is equal to or greater than 75 percent of the economic life of leased property, and
    4. Present value of rental and other minimum lease payments excluding executory costs, equals or exceed 90 percent of fair value of lease property.

[1] Liabilities covered by budgetary resources are liabilities incurred that will be covered by available budgetary resources encompassing not only new budget authority but also other resources available to cover liabilities for specified purposes in a given year. Liabilities not covered by budgetary resources include liabilities incurred for which revenues or other sources of funds necessary to pay the liabilities have not been made available through congressional appropriations or current earnings of the reporting entity.

The last two criteria are not applicable when the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property. If a lease does not meet at least one of the above criteria it should be classified as an operating lease.

See SFFAS No. 5, "Accounting for Liabilities of the Federal Government," Sections 43-46 for more information.

d. Federal Debt and Related Interest Cost: Accounting for the Federal debt should identify the amount of the outstanding debt liability of the Federal Government at any given time and the related interest cost for each accounting period. For Commerce bureaus that fall under this exception, see SFFAS No. 5, "Accounting for Liabilities of the Federal Government," Sections 47-55 for accounting guidance.

e. Insurance and Guarantee Programs: Insurance and guarantee programs (other than social insurance and loan guarantee programs) are Federal programs that provide protection to individuals or entities against specified risks. For Commerce bureaus that fall under this exception, see SFFAS No. 5, "Accounting for Liabilities of the Federal Government," Sections 97-121, for accounting guidance.

Section 2.0 Authority

The policies and procedures contained in this chapter are issued pursuant to generally accepted accounting principles for federal agencies:

Generally Accepted Accounting Principles (GAAP)

In October 1990, three officials responsible for Federal financial reporting established the Federal Accounting Standards Advisory Board (FASAB). The officials (the Principals) were the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General of the U.S. They created FASAB to develop accounting standards and principles for the U.S. government.

The Original Pronouncements compiles and codifies the documents produced by the FASAB. It is designed to meet the needs of users for an authoritative reference to concepts, standards, interpretations, technical bulletins, technical releases, and other issuances. It contains extensive cross-referencing and indexing.

The following FASAB authoritative GAAP is currently applicable to bureaus, which can be downloaded from the following FASAB website location: http://www.fasab.gov/accounting-standards/authoritative-source-of-gaap/accounting-standards/

Category A Hierarchy

FASAB Standards and Interpretations

SFFAS 1	Accounting for Selected Assets and Liabilities
SFFAS 2	Accounting for Direct Loans and Loan Guarantees
SFFAS 3	Accounting for Inventory and Related Property
SFFAS 4	Managerial Cost Accounting Concepts and Standards
SFFAS 5	Accounting for Liabilities of the Federal Government
SFFAS 6	Accounting for Property, Plant, and Equipment
SFFAS 7	Accounting for Revenue and Other Financing Sources
SFFAS 8	Supplementary Stewardship Reporting
SFFAS 9	Deferral of the Effective Date of Managerial Cost Accounting Standards for the Federal Government in SFFAS No.4
SFFAS 10	Accounting for Internal Use Software (amends SFFAS 6)
SFFAS 11	Amendments to Accounting for PP&E: Definitions (amends SFFASs' 6 and 8)
SFFAS 12	Recognition of Contingent Liabilities from Litigation (amends SFFAS 5)
SFFAS 13	Deferral of Paragraph 65.2 - Material Revenue-Related Transactions (amends SFFAS 7)
SFFAS 14	Amendments to Deferred Maintenance Reporting (amends SFFASs' 6 and 8)
SFFAS 15	Management's Discussion and Analysis - Standards
SFFAS 16	Amendments to Accounting for PP&E: Multi-Use Heritage Assets (amends SFFASs' 6 and 8)
SFFAS 18	Amendments to Accounting Standards for Direct Loans and Loan Guarantees (amends SFFAS 2)
SFFAS 19	Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees (amends SFFAS 2)
SFFAS 21	Reporting Corrections of Errors and Changes in Accounting Principles
SFFAS 22	Change in Certain Requirements for Reconciling Obligations and Net Cost of Operations
SFFAS 27	Identifying and Reporting Earmarked Funds
SFFAS 29	Heritage Assets and Stewardship Land
SFFAS 30	Inter-Entity Cost Implementation (amends SFFAS 4)
SFFAS 31	Accounting for Fiduciary Activities
SFFAS 33	**(NOAA only)** Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates
SFFAS 34	The Hierarchy of GAAP, Including the Application of Standards by FASAB

SFFAS 35	Estimating the Historical Cost of General Property, Plant, and Equipment: Amending SFFAS 6 and 23
SFFAS 39	Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in AICP Statements on Auditing Standards
SFFAS 40	Definitional Changes Related to Deferred Maintenance and Repairs: Amending SFFAS 6, Accounting for Property, Plant, and Equipment
SFFAS 42	Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32
SFFAS 43	Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds
SFFAS 44	Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use

Interpretation 2	Accounting for Treasury Judgment Fund Transactions
Interpretation 3	Measurement Date for Pension and Retirement Health Care Liabilities
Interpretation 4	Accounting for Pension Payments in Excess of Pension Expense
Interpretation 5	Recognition By Recipient Entities of Receivable Nonexchange Revenue: An Interpretation of SFFAS No. 7
Interpretation 6	Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4
Interpretation 7	Items Held for Remanufacture

Category B Hierarchy

FASAB Technical Bulletins

2000-1	Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance
2002-1	Assigning to Component Entities Costs and Liabilities That Result From Legal Claims Against the Federal Government
2002-2	Disclosures Required By Paragraph 79(g) of SFFAS 7
2003-1	Certain Questions and Answers Related to the Homeland Security Act of 2002
2006-1	Recognition and Measurement of Asbestos-Related Cleanup Costs
2009-1	Deferral of the Effective Date of Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs

Additional Category B Guidance: AICPA Industry Audit and Accounting Guides, if specifically made applicable to federal governmental entities by AICPA and cleared by FASAB.

Category C Hierarchy

Technical Releases of the Accounting and Auditing Policy Committee of FASAB

No. 1	Audit Legal Representation Letter Guidance

No. 2	Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government
No. 3 (Revised)	Auditing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act Amendments to Technical Release 3: Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act
No. 4	Reporting on Non-Valued Seized and Forfeited Property
No. 5	Implementation Guidance on Statement of Federal Financial Accounting Standards 10: Accounting for Internal Use Software
No. 6	Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act Amendments to Technical Release 3: Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act
No. 8	Clarification of Standard Relating to Inter-Entity Costs
No. 9	Implementation Guide for Statement of Statement of FASAB 29: Heritage Assets and Stewardship Land
No. 10	Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment
No. 11	Implementation Guidance on Cleanup Costs Associated with Equipment
No. 12	Accrual Estimates for Grant Programs
No. 13	Implementation Guide for Estimating the Historical Cost of General Property, Plant, and Equipment

Category D Hierarchy

Implementation Guides Published by FASAB Staff

Implementation Guide, Accounting for Revenue and Other Financing Sources
Implementation Guide to Statement of Financing in SFFAS 7, Accounting for Revenue and Other Financing Sources: Detailed Information on the Statement of Financing
Staff Implementation Guidance: Guidance for Implementation of SFFAS 31, Accounting for Fiduciary Activities

If Accounting Treatment for a Transaction or Event is Not Specified by a Pronouncement in Category A

If the accounting treatment for a transaction or event is not specified by a pronouncement in category (a), a federal reporting entity should consider whether the accounting treatment is specified by an accounting principle from a source in another category. In such cases, if categories (b)-(d) contain accounting principles that specify accounting treatments for a transaction or event, the federal reporting entity should follow the accounting treatment specifies by the accounting principles from the source in the highest category – for example, follow category (b) treatment over category (c) treatment.

If Accounting Treatment for a Transaction or Event is Not Specified by a Pronouncement or Established in Practice as Described in Categories A to D

If the accounting treatment for a transaction or event is not specified by a pronouncement or established in practice as described in categories (a)-(d), a

federal reporting entity should then consider accounting principles for similar transaction or events within categories (a)-(d) before considering Other Accounting Literature discussed in paragraph 8. For example, it might be appropriate to report the event or transaction by applying, in a similar manner, an accounting principle established within categories (a)-(d) for an analogous transaction or even on the basis of its substance.[7] A federal reporting entity should not follow the accounting treatment specified in accounting principles for similar transactions or events in cases in which those accounting principles either (a) specifically prohibit the application of the accounting treatment to the particular transaction or event or (b) indicate that the accounting treatment should not be applied to other transaction or event by analogy.

Other Accounting Literature from FASAB

Other Accounting Literature

Other Accounting Literature includes, for example, FASAB Concepts Statements: the pronouncements referred to in category (b) of paragraph 5 when not specifically made applicable to federal reporting entities by the FASAB; pronouncements of other accounting financial reporting standards-setting bodies, such as FASB, Governmental Accounting Standards Board, International Accounting Standards Board, and International Public-Sector Accounting Standards Board; professional associations or regulatory agencies; and accounting textbooks, handbooks, and articles. The appropriateness of other accounting literature depends on its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, FASAB Concepts Statements would normally be more influential than other sources in this category.

SFFAC 1	Objectives of Federal Financial Reporting
SFFAC 2	Entity and Display
SFFAC 3	Management's Discussion and Analysis – Concepts
SFFAC 4	Intended Target Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government
SFFAC 5	Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements, December 26, 2007
SFFAC 6	Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information
SFFAC 7	Measurement of the Elements of Accrual-basis Financial Statements in Periods After Initial Recording

Section 3.0 Definition and Classification

A liability for Federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events. General purpose Federal financial reports should recognize probable and measurable future outflows or other sacrifices of resources arising from (1) past exchange transactions, (2) government-related events, (3) government-acknowledged events, or (4) non-exchange transactions that, according to current law and applicable policy, are unpaid amounts due as of the reporting date. A transaction involves the transfer of something of value. Transactions may be either exchange transactions or nonexchange transactions. An event is defined as a happening

of financial consequence to an entity. For Federal financial reporting, some events may be other than transaction based and these events may be classified as government-related or government-acknowledged events. See Section 5.0, *Basis for Recording*, for an explanation of exchange and non-exchange transactions.

Intra-governmental liabilities arise from claims against the entity by other Federal entities. Intra-governmental liabilities are reported separately from claims against the entity by non-Federal entities. The term "non-federal entities" encompasses the Federal Reserve and Government-Sponsored Enterprises. Non-federal entities also include domestic and foreign persons or organizations.

Section 4.0 Requirements

The general ledger and/or subsidiary ledger accounts must be sufficiently detailed to provide the categories of liabilities needed for reports. Liability accounts must be reviewed and verified at least quarterly. For requirements regarding the review and verification of Undelivered Orders, please see the Departmental policy issued by the Department's Office of Financial Management.

Section 5.0 Basis for Recording

Exchange Transactions: An exchange transaction arises when each party to the transaction sacrifices value and receives value in return. There is a two-way flow of resources or promises to provide resources. In an exchange transaction, a liability is recognized when one party receives goods or services in return for a promise to provide money or other resources in the future.

An example of an exchange transaction occurs when a Federal employee performs services in exchange for compensation. The compensation includes current salary and future retirement benefits. The expense is recognized in the period that the exchange occurs. The compensation liability includes unpaid salary amounts earned and the cost of future retirement benefits related to current period services.

Non-exchange Transactions: A non-exchange transaction arises when one party to a transaction receives value without directly giving or promising value in return. There is a one-way flow of resources or promises. For Federal non-exchange transactions, a liability should be recognized for any unpaid amounts due as of the reporting date. Many grant and certain entitlement programs are non-exchange transactions.

Government-related Events: Government-related events are nontransaction-based events that involve interaction between the Federal Government and its environment. In general, a liability is recognized in connection with government-related events on the same basis as those that arise in exchange transactions. Government-related events include:

a. Cleanup from Federal operations resulting in hazardous waste that the Federal Government is required by statutes and/or regulations, which are in effect as of the financial statement date, to clean up;
b. Accidental damage to non-Federal property caused by Federal operations; and
c. Other damage to Federal property caused by such factors as Federal operations or natural forces.

Government-related events resulting in a liability should be recognized in the period the event occurs if the future outflow or other sacrifice of resources is probable and the liability can be measured, or as soon thereafter as it becomes probable and measurable.

Government-acknowledged Events: Government-acknowledged events are those nontransaction-based events that are of financial consequence to the Federal Government because it chooses to respond to the event. Bureaus should recognize the liability and expense when both of the following two criteria have been met (1) the Congress has appropriated or authorized (i.e., through authorization legislation) resources and (2) an exchange occurs (e.g., when a contractor performs repairs) or non-exchange amounts are unpaid as of the reporting date (e.g., direct payments to disaster victims), whichever applies.

Section 6.0 Selected Liabilities

.01 Accounts Payable

Accounts payable are amounts owed by a Federal entity for goods and services received from, progress in contract performance made by, and rents due to other entities. When an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods.

For facilities or equipment constructed or manufactured by contractors or grantees according to agreements or contract specifications, amounts recorded as payable should be based on an estimate of work completed under the contract or the agreement. The estimate of such amounts should be based primarily on the bureau's engineering and management evaluation of actual performance progress and incurred costs.

.02 Interest Payable

Interest payable represents liabilities for interest expense incurred but not yet paid. This includes interest expenses incurred under capital lease obligations and the Prompt Payment Act. (See the Department's Cash Management Policies and Procedures Handbook, Appendix F, Prompt Payment.)

Interest payable to Federal entities is an intra-governmental liability and should be accounted for separately from interest payable to the public.

.03 Environmental and Disposal Liabilities

SFFAS No. 5 provides criteria for recognizing a contingent liability, which shall be applied to determine if cleanup costs should be recognized as liabilities and/ or disclosed in the notes. SFFAS No. 6 supplements the liability standard by providing guidance for recording cleanup costs related to general PP&E and stewardship PP&E used in Federal Operations. Depending on the materiality of the amount, the liability for cleanup costs may be displayed separately or included with Other Liabilities. The note disclosures required for liabilities associated with cleanup costs are described in SFFAS No. 6.

.03 Accrued Payroll and Benefits

Accrued payroll and benefits include the total funded but unpaid personnel compensation and benefits that have been earned by employees as of the close of the period. Personnel compensation includes accrued employees' wages, bonuses, and salaries for services rendered in the current fiscal year, for which payment will be issued in the following fiscal year. Employee benefits include pensions and post-employment and retirement benefits other than pensions. The cost of payroll and benefits must be distributed to organizational cost centers, programs, activities, functions, and projects in the period they are incurred. For specific guidance on accrued benefits, see Section 8.0, *Pensions, Other Retirement Benefits, and Other Post-employment Benefits*.

.04 FECA Liabilities

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees for injuries on the job, work-related occupational disease, and to beneficiaries of covered employees. FECA liabilities consist of the following liabilities:

- FECA Actuarial Liability which includes the expected liability for death, disability, medical and other approved costs.

- Accrued Unfunded FECA Liability which is the difference between the FECA benefits paid by the FECA Special Benefits Fund and the agency's actual cash payment to the Fund.

.05 Accrued Unfunded Annual Leave

Unfunded annual leave accrued to employees is the amount of annual leave earned but not used at the end of the fiscal year. It is expected to be paid from future years' appropriations. Annual leave (including home leave) is an expense which accrues as it is earned by employees. Except for work under a revolving fund, no obligation is incurred for annual leave until it is used. The expense for unfunded annual leave must be recorded as an unfunded liability, and serves to bridge obligations to the total cost of personnel compensation.

Initially, a liability accruing annual leave will be recorded at the wage rate at which it is earned. A revised balance reflecting the annual leave liability should be computed at least annually to reflect current pay rates and leave balances. Any resulting increase should be charged to current year expenses. Unused sick leave, compensatory, or credit time may be tracked for budget or management purposes, but will not be recorded as a liability.

.06 Unearned Revenue (Advances Received)

Unearned revenue consists of advances received from other Federal agencies or the public prior to the requirement to provide goods or services. (See Chapter 11 of the Accounting Principles and Standards Handbook, Fees and Revenues, Section 3.01e, on accounting for unearned revenues.) Advances from sources outside the organization unit must be recorded and liquidated under terms of the agreements as services are performed.

.07 Deposit Funds

These represent the liabilities for amounts on deposit, covering such items as: (1) monies withheld from Government payments for goods and services received; (2) deposits received from outside sources for which the Government acts solely as a banker, fiscal agent or custodian; and (3) monies held by the Government awaiting distribution on the basis of a legal determination or investigation.

.08 Other Liabilities

The nature of any liability that comprises more than 25 percent of the total amount reported for this category, needs to be identified and properly disclosed. Liabilities related to accruals for loss contingencies should be reported in this category, as well as long-term agreements and contracts not reported elsewhere.

a. Property borrowed from sources outside the organization unit should be recorded and offset with a matching liability.

b. A liability must be recorded for amounts withheld from grantees or contractors pending completion of contracts, audits, or other assurances of proper performance.

c. The value of acquired collateral must be offset by a liability for any prior liens or other just claims against the collateral.

Section 7.0 Contingent Liabilities

A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. Resolution of the uncertainty may confirm a gain or a loss.[2] Contingencies that might result in gains should not be recorded until the gains are actually realized. This section will discuss contingencies arising from the likelihood that future events will confirm the loss or the incurrence of a liability that can range from probable to remote. The following are some examples of loss contingencies:

- Collectibility of receivables,
- Pending or threatened litigation, and
- Possible claims and assessments.

.01 Likelihood of Occurrence

When a loss contingency exists, the likelihood that future events will confirm the loss or impairment of an asset, or the occurrence of a liability, can range from probable to remote. This section uses the terms probable, reasonably possible, and remote to identify three (3) areas within that range.[3]

a. Probable: The future confirming event or events are more likely than not to occur, with the exception of pending or threatened litigation and unasserted claims. For pending or threatened litigation and unasserted claims, the future confirming event or events are likely to occur;

b. Reasonably possible: The chance of the future event or events occurring is more than remote but less than probable; and

[2] Contingencies are different from "subsequent events" as used in the accounting/audit literature. Subsequent events are events or transactions that occur subsequent to the financial statement date, but prior to the issuance of the financial statements and auditor's report that have a material effect on the financial statements and therefore require adjustment or disclosure in the statements.

[3] The concepts for the terms "probable" or "reasonably possible" or "remote" as provided here are for purposes of informing the judgments of management and financial officials responsible for recording contingent liabilities. Such concepts will not necessarily be controlling in other contexts, such as consultations with counsel, or responses by counsel to audit inquiries.

c. Remote: The chance of the future event or events occurring is slight.

.02 Accruals of Contingent Liabilities

A contingent liability should be recognized when all three of these criteria are met:

a. A past event or exchange transaction has occurred;[4]
b. A future outflow or other sacrifice of resources is probable; and
c. The future outflow or sacrifice of resources is measurable.

The estimated liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, that amount is recognized. If no amount within the range is a better estimate than any other amount, the minimum amount in the range is recognized and the range and a description of the nature of the contingency should be disclosed.

.03 Special Cases

a. Claims for price adjustments resulting from changed condition clauses in construction contracts which require claims to be in writing must be recorded as a contingent liability.

b. Department Administrative Order (DAO) 203-17, "Personal Property Claims of Department of Commerce Personnel," provides for the Department's settling of certain claims for the loss of personal property. A contingent liability must be established on the basis of the amount recorded on the CD-224, Employee Claim for Loss of or Damage to Personal Property.

c. A contingent liability must be recorded when a claim is received under DAO 203-24, "Claims Under the Federal Tort Claims Act." If appropriations of the primary bureau are not adequate to cover the contingent liability, the bureau should report the matter to the Chief Financial Officer so that other unexpired appropriations of the Department may be considered.

d. The total exposure of loan guarantees and commitments must be disclosed on supporting schedule SF 220-8, Direct and Guaranteed Loans Reported by Agency and Program Due from the Public. Additional notes should disclose the nature and period of loan guarantees and commitments, any collateral provisions, whether funds

[4] Government-acknowledged events do not meet the criteria necessary to be recognized as a contingent liability.

have been obligated, and any other relevant information which is material.

e. An entity's management must identify, evaluate and account for contingent liabilities resulting from litigation, claims, and assessments. The identification and evaluation should include consultation with staff counsel and the Office of General Counsel. Once the entity's management determines that a claim meets the criteria of a contingent liability, then the expense and liability recorded would be adjusted periodically, as appropriate, based on any changes in the estimated loss.

After the claim is either settled or a court judgment is assessed against the Federal entity and the Judgment Fund is determined to be the appropriate source for the payment of the claim, the liability should be removed from the financial statements of the entity that incurred the liability and an "other financing source" amount (which represents the amount to be paid by the Judgment Fund) would be recognized. If the Judgment Fund is responsible for only a portion of the claim or settlement, the imputed financing source amount would reflect only that amount to be paid by the Judgment Fund on behalf of the Federal entity. See the accounting illustration in SFFAS No. 2, Accounting for Treasury Judgment Fund Transactions, for an example of sample journal entries.

Section 8.0 Pensions, Other Retirement Benefits, and Other Post-employment Benefits

(For bureaus that administer a pension program, see SFFAS No. 5, Accounting for the Liabilities of the Federal Government for detailed guidance on accounting standards.)

Pension plans provide benefits upon retirement and may also provide benefits for death, disability, or other termination of employment before retirement. Pension plans may also include benefits to survivors and dependents, and they may contain early retirement or other special features. The actuarially determined liability and expense of the plan, including all its provisions, are part of the pension plan's liability and expense estimate.

In addition to or in lieu of pension benefits, a liability for post-employment and other retirement benefits may be incurred outside the pension plan. Post-employment benefits other than pensions (OPEB) include all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents.[5] Inactive employees are those who are not currently rendering services to their employers and who have not been terminated, but who are not eligible for an immediate annuity, including those temporarily laid off or disabled. OPEB includes salary continuation, severance benefits, counseling and training, continuation of health care or other benefits, and unemployment and workers' compensation benefits paid by the bureau.

Retirement benefits other than pensions (ORB) are all forms of benefits to retirees or their beneficiaries provided outside the pension plan. Examples include health and life insurance. Retirement health care benefits are the primary ORB expense.

Pension benefits, OPEB, and ORB are exchange transactions because the employee performs service in part to receive the deferred compensation provided by the plans (such as future pension and medical care benefits). For pension and other retirement benefits, the expense is recognized at the time the employees' services are rendered. For OPEB, the expense is recognized at the time the accountable event occurs. Any part of that cost that is unpaid at the end of the period is a liability.

[5] Special termination benefits (such as specially authorized separation incentive programs) are considered other post-employment benefits and should be recognized as such.

.01 Pensions

Pension benefits include all retirement, disability, and survivor benefits financed through a pension plan, including unfunded pension plans. Federal civilian and military employees are covered primarily under the following three defined benefit retirement plans: Civil Service Retirement System (CSRS), Federal Employees Retirement System (FERS), and Military Retirement System (MRS). To the extent that Federal employees are covered by social insurance programs (such as Social Security), the taxes they pay to the program are to be accounted for on the same basis used to account for other program participants. However, the payments to social insurance plans that agencies must make are operating costs. Similarly, to the extent that Federal employees are covered by defined contribution plans (i.e., the Thrift Savings Plan, which is like a 401(k) plan), Federal payments to the plan are expenses, but the plan itself is not covered under this standard.

Bureaus should recognize a pension expense in their financial statement that equals the service cost for its employees for the accounting period, less the amount contributed by the employees, if any. Service cost is defined as the actuarial present value of benefits attributed by the pension plan's benefit formula to services rendered by employees during an accounting period. The term is synonymous with "normal cost." The measurement of the service cost will require the use of the plan's actuarial cost method and assumptions, and therefore the factor to be applied by bureaus must be provided by the plan and/or the administrative entity.

The bureaus' pension expense should be balanced by: (a) a decrease to its "Fund Balance with Treasury" for the amount of its contribution to the pension plan, if any; and if this does not equal the full expense, by (b) an increase to an account representing an intra-governmental imputed financing source entitled, for example, "imputed financing - expenses paid by other agencies." The latter represents the amount being financed directly through the pension plan's administrative entity.

When bureau's total payment for FERS and CSRS exceeds the related total pension expense as defined in SFFAS No. 5, Accounting for the Liabilities of the Federal Government, the bureau should account for the excess payment as a transfer-out. The bureau should include the transfer-out when determining results of operations on its statement of changes in net position.

Any FERS-related payment that exceeds the FERS-related pension expense should be offset against any imputed financing resulting from a CSRS-related payment being less than CSRS-related pension expense in calculating the amount of the transfer out. Only when the total pension payment exceeds total pension expense would a transfer-out be recognized.

In special instances when a bureau is also the administrative entity (e.g., the Coast Guard), the bureau should report the liability and recognize the pension expense for all components of cost. For Commerce bureaus which fall under this exception, see SFFAS No. 5, Accounting for the Liabilities of the Federal Government for accounting guidance.

Pension and retirement health care liabilities in general purpose Federal financial reports prepared pursuant to SFFAS No. 5, Accounting for the Liabilities of the Federal Government shall be measured quarterly. 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.

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. See the accounting illustrations in SFFAS No. 5, Accounting for the Liabilities of the Federal Government, and SFFAS No. 4, Accounting for Pension Payments in Excess of Pension Expense, for examples of accounting for Pensions.

.02 Other Retirement Benefits (ORB)

ORBs include all retirement benefits other than pension plan benefits. ORBs are provided outside the pension plan by an employer to a former employee or the employee's beneficiary upon retirement. The predominant ORB in the Federal Government is retirement health care benefits, and they are the focus of this section.

Future health care benefits are more uncertain than pensions since they depend on the changing patterns of health care delivery and utilization, on the price trends for medical care, and on the benefits provided by social insurance programs like Medicare (Part A). Also, medical plans do not vest like pensions; to receive ORB benefits the employee must retire with health care benefits provided by the organization.

Bureaus should account for and report the ORB expense in their financial statement in a manner similar to that for pensions. The employer's ORB expense should be recognized in an amount equal to the total service cost for its employees for the accounting period, less the amount contributed by its employees, if any. The measurement of the service cost requires the use of the plan's actuarial cost method and assumptions. The cost factor should be provided to the agencies on a per employee basis by the administrative entity and/or the plan.

The bureau's ORB expense should be balanced by (a) a decrease to the bureau's "Fund Balance with Treasury" for the amount of its contributions to the ORB plan, if any; and, if this does not equal the full expense, (b) by an increase to an account representing an intragovernmental financing source entitled, for example, "imputed financing - expenses paid by other entities." The latter represents the amount being financed directly through the ORB plan.

In special instances when a bureau is also the administrative entity, the bureau should report the liability and recognize the ORB expense for all components of cost. For example, the bureau is paying its retirees' ORB on a pay-as-you-go basis. For Commerce bureaus which fall under this exception, see SFFAS No. 5, Accounting for the Liabilities of the Federal Government for accounting guidance. SFFAS No. 5 also provides an example of accounting for Other Retirement Benefits.

.03 Other Post-employment Benefits (OPEB)

OPEB are provided to former or inactive employees, their beneficiaries, and covered dependents outside pension or ORB plans. Inactive employees are those who are not currently rendering services to the employer but who have not been terminated, including those temporarily laid off or disabled. Post-employment benefits can include salary continuation, severance benefits, counseling and training, continuation of health care or other benefits, and unemployment, workers' compensation, and veterans' disability compensation benefits paid by the bureau.

The bureau should recognize an expense and a liability for OPEB when a future outflow or other sacrifice of resources is probable and measurable on the basis of events occurring on or before the reporting date. For example, a reduction in force may require a bureau to make severance payments, unemployment reimbursements, or other payments in future periods. Similarly, an injury on the job may require the bureau to make short- or long-term reimbursements to the Federal Workers' Compensation program. A long-term OPEB liability should be measured at the present value of future payments. This will require the bureau to estimate the amount and timing of future payments, and to discount the future outflow using the Treasury borrowing rate for securities of similar maturity to the period over which the payments are to be made.

Most OPEB liabilities should be short-term because the benefits will be paid in the near future. Some OPEB, however, could be longer term. For example, a liability for workers' compensation or veterans' disability compensation might be long-term for some injuries since bureaus might be required to reimburse the program for many years. Also, certain specially authorized separation incentive programs could provide for payments that extend over many future years.

An accrual must be established for Unemployment Compensation and Workers' Compensation in the event that actual bills have not been received in time for financial statement preparation. Actual costs for Unemployment Compensation are received from the Department of Labor through the Department of Commerce, Office of Human Resources Management (OHRM) on a quarterly basis. After review of the bills by OHRM, they are forwarded to the bureaus, generally within two months after the close of the quarter. Bureaus should ensure that four quarterly bills were received or an accrual established and recorded in the accounting system prior to completion of the financial statements. Quarterly bills should be paid in full to the Department of Labor and any disputed charges forwarded to OHRM for submission to the Department of Labor or the states for credit, as appropriate.

In the case of Workers' Compensation, an annual bill will be received by OHRM from the Department of Labor covering the annual period of July 1 - June 30. Bureaus should ensure that this billing is received and recorded. The bill should be paid in full to the Department of Labor. Disputed charges should be forwarded to OHRM for obtaining credits from the Department of Labor or the states, as appropriate. In addition, prior to completion of the financial statements, an accrual will need to be established and recorded in the accounting system for the final quarter of the fiscal year.

Section 9.0 Deposit Funds and Clearing Accounts

Deposit Funds and Clearing Accounts are accounts outside the budget that a Government entity is holding temporarily in trust for others, until ownership is determined, or until the transaction has been reclassified appropriately. They include:

a. Money withheld by the Government from payments for goods and services. This type of transaction may be treated as a deposit fund liability if a budget account has been charged and funds are being held pending payments, e.g., payroll deductions for savings bonds and state income tax withholdings.

b. Deposits received from outside sources and temporarily held in custody by the Government.

c. Money held by the Government awaiting distribution pending a legal determination or investigation.

d. Unidentified remittances (i.e. suspense items), which (for the Clearing Accounts applicable to the Department), effective April 28, 2006, will be redistributed to respective departments in the *Monthly Treasury Statement* (MTS) and the *Combined Statement of Receipts, Outlays, and Balances of the United States Government*.

   Treasury's Financial Management Service has grouped these suspense items into a special class called Clearing Accounts. There are several types of Clearing Accounts (please note that during FY 2008 suspense accounts will be discontinued unless a waiver is granted):

The most common Clearing Accounts are:

1. Budget Clearing Account (Suspense) (F3875): to temporarily credit unclassified transactions from the public when there is a reasonable presumption that the amounts belong to their agencies.

2. Undistributed Intergovernmental Payments Account (F3885): to temporarily credit unclassified transactions between Federal agencies, including Intra-governmental Payment and Collection (IPAC) transactions.

Other types of Clearing Accounts that may be applicable to the Department are:

3. Undistributed Proceeds from Sale of Foreign Currency (F3810)

4. Proceeds of Sales, Personal Property (F3845)

5. Unavailable Check Cancellations and Overpayments (F3880)

Each agency should review its Clearing Account practices periodically, or at least on a quarterly basis, and take whatever corrective action to minimize balances held in the Clearing Accounts, as applicable. Sizable balances in these accounts may be indications of weakness in internal control.

For more details on Deposit Funds, refer to Treasury's TFM Volume 1, Part 2, Chapter 1500.

Section 10.0: Bureau Evaluations of Material or Significant Possible or Actual Unusual Accounting Transactions

Bureaus are required to evaluate material or significant possible or actual unusual accounting transactions (e.g. a possible or actual accrued receivable/revenue or accrued payable/expense or asset, a possible, anticipated, or actual transfer, a possible, anticipated, or actual budgetary resource or reduction of budgetary resources, a possible or actual contingency), regardless of whether the item has been apportioned or not apportioned on the SF 132, *Apportionment and Reapportionment Schedule*, and research if a) a proprietary accounting transaction(s) should be recorded; b) a budgetary accounting transaction should be recorded; and c) if yes to either a) or b), the appropriate accounting transactions that should be recorded and when (month/year) the accounting transactions should be recorded.

For these material or significant possible or actual unusual accounting transactions, the bureau's evaluation is required to include consultation with a) the bureau's CFO or equivalent, of both the underlying bureau and that bureau's accounting service provider, if applicable, or his or her designee(s); and b) the Department's Office of Financial Management. As appropriate, consultations should also include c) other bureau or Departmental offices; d) the U.S. Department of the Treasury, the Office of Management and Budget, and/or the Federal Accounting Standards Advisory Board; e) any other federal agencies; and f) any other relevant or applicable sources.