April 11, 2012

Memorandum

To: Members of the Board

From: Julia E. Ranagan, Assistant Director

Monica R. Valentine, Assistant Director

Through: Wendy M. Payne, Executive Director

Subject: Risk Assumed Informational Update – Tab H-1

MEETING OBJECTIVES

To provide an update on activities undertaken by staff on the risk assumed project. This material is being provided for informational purposes only and will not be discussed at the April meeting unless specifically requested by one or more board members.

BRIEFING MATERIAL

☐ Staff Memo
☐ Attachment 1 – Commitments and Obligations Task Force Invitation
☐ Appendix 1 – Risk Assumed Project Plan

BACKGROUND

At the August 24, 2011, board meeting, members discussed and subsequently approved a risk assumed project plan proposal from staff (see Appendix 1). Following that meeting, staff began preliminary research on the risk assumed project by developing an inventory of risk assumed by the federal government, a detailed task force plan, and a list of potential task force members.

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1 The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.
STAFF ANALYSIS AND RECOMMENDATIONS

Staff plans to address two particular groups of risk assumed first: (a) insurance and guarantees and (b) commitments and obligations (e.g., grants, contracts, treaties, and other undelivered orders beyond grants and contracts). Staff has developed a task force plan for each and plans to hold its first task force meeting for commitments and obligations on Wednesday, May 9, 2012, and for insurance and guarantees on Tuesday, May 22, 2012. Staff has attached a copy of the task force invitation it plans to send to participants of the Commitments and Obligations Task Force next week (see Attachment 1). A similarly structured invitation will be sent out to the Insurance and Guarantee Task Force members within the next couple of weeks. Staff plans to present the task forces' recommendations and suggestions to the board at a subsequent meeting.

QUESTION

Would you like to discuss this material at the April board meeting? If yes, please contact Wendy Payne at paynew@fasab.gov or 202.512.7357 immediately.
Reply Requested by April 25, 2012

April 18, 2012

Memorandum

To: [Insert Name, Title, and Organization]

From: Wendy M. Payne
FASAB Executive Director

Subject: Task Force on Risks Assumed by the U.S. Government – *Commitments and Obligations*

[You are invited/Thank you for agreeing] to participate in the Federal Accounting Standards Advisory Board (FASAB) *Commitments and Obligations Task Force*. The objective of the *FASAB Commitments and Obligations Task Force* is to obtain insights from the perspective of preparers, auditors, and program personnel in the following three areas related to accounting and reporting for commitments and obligations of the U.S. government:

- grants;
- contracts; and,
- other undelivered orders, commitments, and obligations beyond grants and contracts

The first and second meetings of the *Commitments and Obligations Task Force* will be held on *Wednesday, May 9, 2012*, and *Tuesday, June 5, 2012*.

To help participants prepare for the roundtable, I have attached an agenda with some administrative information, a brief background of the project, and a list of questions to consider (questions begin on page 10). Detailed attachments provide context to the questions being asked. Also, you may access the Risk Assumed active project page on our Web site at [http://www.fasab.gov/projects/active-projects/risk-assumed/](http://www.fasab.gov/projects/active-projects/risk-assumed/).

We appreciate your interest in continuing to improve federal financial reporting and we look forward to participation from federal preparer, auditor, and program representatives in this important endeavor. If you need any additional information [or are interested in volunteering for this task force], please contact Ms. Julia Ranagan at 202.512.7377 or ranaganj@fasab.gov.

*Background on Risk Assumed Project*

FASAB has undertaken a project to enhance federal financial reporting related to the various risks assumed by the U.S. government (“risk assumed”) because existing FASAB standards on risk assumed are limited to insurance contracts and explicit guarantees (other than loan guarantees). Because the U.S. government has a variety of responsibilities and consequently assumes a range of risks, it is important that FASAB revisit its existing standards.

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1 Treaties and long-term leases are also considered part of the Commitments and Obligations category of risk assumed but are being researched through other efforts.
In order to better achieve the stewardship and operating performance objectives of federal financial reporting with regards to these various risks assumed by the U.S. government, it is important that the U.S. government appropriately reports on all significant risks it assumes, not just risks related to insurance contracts and explicit guarantees.

The feedback received from task force members will be utilized by FASAB to determine what additional reporting should be required for commitments and obligations assumed by the U.S. government in order to better achieve the stewardship and operating performance objectives of federal financial reporting.

The standards on risk assumed that will be developed as a result of this effort will affect virtually all federal agencies. In an effort to involve the federal financial community in this process, we are inviting interested participants to join one of various limited-scope task forces to assist us in more efficiently and effectively developing new risk assumed reporting standards. We believe that federal preparer and auditor participation on these task forces will provide valuable insights.

Attachments

ABOUT FASAB

Accounting and financial reporting standards are essential for public accountability and for an efficient and effective functioning of our democratic system of government. Thus, federal accounting standards and financial reporting play a major role in fulfilling the government’s duty to be publicly accountable and can be used to assess (1) the government’s accountability and its efficiency and effectiveness, and (2) the economic, political, and social consequences of the allocation and various uses of federal resources. The FASAB issues federal accounting standards after following a due process consistent with the Memorandum of Understanding under which it operates. Due process includes consideration of the financial and budgetary information needs of citizens, congressional oversight groups, executive agencies, and the needs of other users of federal financial information.

For more information on FASAB, please visit our website: www.fasab.gov.
Federal Accounting Standards Advisory Board
Task Force on Risks Assumed by the U.S. Government – COMMITMENTS AND OBLIGATIONS
441 G St NW – Room 7B16 (Warren Room)
Wednesday, May 9, 2012
9 AM – 12 NOON

Agenda

9:00 – 9:15   Introductions and Overview of Objectives
9:15 – 10:30  Group Discussion
              • Draft definition of risk assumed
              • Risks assumed through grants
              • Current accounting and reporting of awarded grants
10:30 – 10:45 Break
10:45 – 11:45 Group Discussion
              • Risks assumed through contracts
              • Current accounting and reporting of awarded contracts
              • Other commitments and obligations (e.g., accounts payable undelivered orders)
11:45 – 12:00 Wrap-Up / Next Steps
Federal Accounting Standards Advisory Board
Task Force on Risks Assumed by the U.S. Government –
COMMITMENTS AND OBLIGATIONS
441 G St NW – Room 7B16 (Warren Room)
Tuesday, June 5, 2012
9 AM – 12 NOON

Agenda

9:00 – 9:30  Introductions and Summary of Comments from May Meeting
9:30 – 10:30  Group Discussion
  • Revised definition of risk assumed
  • Draft language on risks assumed through grants
10:30 – 10:45  Break
10:45 – 11:45  Group Discussion
  • Draft language on risks assumed through contracts
  • Draft language on risks assumed through other commitments and obligations (e.g., accounts payable undelivered orders)
11:45 – 12:00  Wrap-Up / Next Steps
Federal Accounting Standards Advisory Board
Task Force on Risks Assumed by the U.S. Government –
COMMITMENTS AND OBLIGATIONS
May 9, 2012 / June 5, 2012

Administrative Information

Task Force Location
Government Accountability Office (GAO)
7th Floor, Room 7B16 (Warren Room)
441 G St, NW
Washington DC 20548

General Information
The meeting will begin promptly at 9:00 a.m. and conclude at 12:00 p.m. Participants are asked to arrive prior to 8:45 a.m. to allow extra time to process through GAO security. All visitors to the GAO building must enter and exit through the G Street entrance (see star labeled “A” in the map below). The GAO building is located near the Judiciary Square and Gallery Place metro stops.
Introduction

The Federal Accounting Standards Advisory Board (FASAB) is the source of generally accepted accounting principles (GAAP) for financial reporting in the federal government. The board issues GAAP guidance through a range of vehicles such as Statements of Federal Financial Accounting Concepts and Standards (SFFAC and SFFAS), Interpretations, Technical Bulletins, Technical Releases of the Accounting and Auditing Policy Committee, and Implementation Guides published by FASAB staff.

In August 2011, FASAB began a project on risks assumed by the federal government because existing FASAB standards on the reporting of risk assumed information is limited to federal insurance and guarantee programs, except social insurance and loan guarantee programs (see text box at left).

This project is expected to result in additional guidance for the preparation of general purpose federal financial reports that will better achieve the objectives of federal financial reporting laid out in Statement of Federal Financial Accounting Concepts (SFFAC) 1, Objectives of Federal Financial Reporting, especially the Operating Performance and Stewardship objectives (see text boxes on the next page).

For the federal government, there is no single number that corresponds to the bottom line in a business balance sheet. The government is judged by how its actions affect the country’s well-being over time, and that cannot easily be summed up with a single statistic. Furthermore, the government is not expected to earn a profit, so its financial performance cannot be directly compared to that of a business.

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2 The word “assume” or “assumed” is used in the generic sense of “to take to, or upon oneself.” See page X for a draft definition of “risk assumed” developed by staff for discussion by the task force.


However, federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity’s assets and liabilities. In addition, federal financial reporting should assist report users in assessing whether the government’s financial position improved or deteriorated over the period and if future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due. Understanding the additional obligations incurred and risks assumed by the nation’s government beyond what is reported in traditional federal financial statements is crucial to obtaining a more complete picture of the nation’s finances.

Today, many central governments are reexamining their fiscal risks in the wake of significant intervention efforts designed to stabilize financial markets and their economies. The U.S. implemented some major intervention programs as well; for example, when implementing policy initiatives to stabilize financial markets and the economy, the federal government explicitly assumed risks previously considered by some to have implied backing of the federal government. It provided financial support to government-sponsored enterprises (GSE) and private sector institutions and purchased or guaranteed troubled assets.

The types of risks assumed may be explicit, such as in the case of providing insurance and guarantees, while others may be implied. Risks may be implied in contractual agreements and in relationships with other entities like states who administer federal programs. Both explicit and implied risks may need to be identified and reported as part of efforts to demonstrate stewardship over resources, help determine the cost of programs, and plan risk mitigation strategies.

In 2003, the Government Accountability Office (GAO) issued a report on fiscal exposures that discusses the range of federal responsibilities that obligate the government to future spending or create an expectation of future spending. GAO uses the term fiscal exposure (risk) to “provide a framework to consider these long-term costs and uncertainties,” and GAO believes it is useful to

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think of the variety of fiscal exposures in terms of “a spectrum extending from explicit liabilities to implicit promises embedded in current policy or public expectations.” Many of the fiscal exposures presented along the spectrum of fiscal exposures are currently reported in basic financial statements. For example, explicit liabilities are recognized on the balance sheet; undelivered orders and contingencies are reported in the disclosures; and the entities with social insurance programs present a statement of social insurance. The GAO spectrum of fiscal exposures is presented below (see Figure 1).

![Figure 1 - FOR REFERENCE PURPOSES ONLY—Source: GAO D-03-213; available online at http://www.gao.gov/new.items/d03213.pdf; last accessed April 4, 2012](http://www.gao.gov/new.items/d03213.pdf)

<table>
<thead>
<tr>
<th>Explicit liabilities*</th>
<th>Financial commitmentsb</th>
<th>Financial contingenciesc</th>
<th>Implicit exposuresd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Publicly-held debt $3,320</td>
<td>Undelivered orders $415</td>
<td>Insurance programs $16</td>
<td>Net future benefit payments under Social Security $4,207</td>
</tr>
<tr>
<td>Civilian and military pensions payable $1,821</td>
<td>Long-term leases $49</td>
<td>Unaudited claims $2</td>
<td>Net future benefit payments under Medicare Part A $4,730 and Medicare Part B $9,994</td>
</tr>
<tr>
<td>Post-retirement health benefits $786</td>
<td></td>
<td></td>
<td>Life cycle costs for fixed assets (i.e., including, deferred future maintenance and operating costs)</td>
</tr>
<tr>
<td>Veteran benefits payable $692</td>
<td></td>
<td></td>
<td>Unfunded portion of incrementally funded capital projects</td>
</tr>
<tr>
<td>Environmental and disposal liabilities $307</td>
<td></td>
<td></td>
<td>Risk assumed by insurance programs</td>
</tr>
<tr>
<td>Accounts payable $588</td>
<td></td>
<td></td>
<td>Federal disaster relief</td>
</tr>
<tr>
<td>Insurance programs $33</td>
<td></td>
<td></td>
<td>Potential financial bailout of significant public and private institutions</td>
</tr>
<tr>
<td>Loan guarantees $29</td>
<td></td>
<td></td>
<td>Net future benefit payments for other social insurance programs</td>
</tr>
<tr>
<td>Social Security due and payable $42</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other benefits due and payable $44</td>
<td></td>
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</tr>
</tbody>
</table>


**Figure 1 – FOR REFERENCE PURPOSES ONLY—Source: GAO D-03-213; available online at http://www.gao.gov/new.items/d03213.pdf; last accessed April 4, 2012**

* A liability represents a probable and measurable future outflow of resources arising from past transactions and events. A liability is recorded on the face of the balance sheet only when an item is identifiable, its occurrence is probable, and its cost can be reasonably estimated.

* Commitments refer to contractual obligations that require the future use of resources. For example, although a liability generally is not recognized on the balance sheet when a contract is signed because the contracted goods or services have not been delivered, the transaction may be recognized as a commitment in the notes. In contrast, budgetary accounting would record obligations at the time the government enters into a contract and allows for deferral if the contract is not fulfilled. Budgetary accounting records obligations when an order is placed, contract awarded, service rendered, or similar transaction takes place that will require payment.

* A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gains or losses. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. Contingencies are disclosed in the notes of the financial statements if any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss may have been incurred. Contingencies that are classified as remote are not required to be disclosed.

* In this report, the term implicit exposures refers to exposures that stem not from a legal obligation of the federal government but rather from implied commitments embedded in the government’s current policies or in the public’s expectations about the role of government.

* Due and payable amounts are the benefits owed to program recipients as of the fiscal year end that have not yet been paid.
Task Force Objectives

Task forces play an important role in the accounting standards-setting process. Task force members provide expert views and recommend solutions to accounting issues or problems. Task force members can also be instrumental in proactively raising potential issues before a standard gets too far in the standards-setting process. As part of the board’s project to revisit existing standards on risks assumed by the U.S. government, it has authorized staff to use task forces to assist in developing new risk assumed reporting standards. Relevant insights from representatives of the federal financial management community are critically important in the development of standards that cover the broad range of government programs.

The objective of the Commitments and Obligations Task Force is to provide feedback from the perspective of preparers and auditors in the following four areas:

1. A draft definition of risk assumed and how it might be applied to various commitments and obligations of the U.S. government to better meet federal financial reporting objectives of operating performance and stewardship.

2. Current budgetary and GAAP accounting and reporting for grants and how GAAP accounting and reporting might be improved to better meet federal financial reporting objectives of operating performance and stewardship.

3. Current budgetary and GAAP accounting and reporting for contracts and other agreements and how GAAP accounting and reporting might be improved to better meet federal financial reporting objectives of operating performance and stewardship.

4. Current budgetary and GAAP accounting and reporting for other commitments and obligations (e.g., accounts payable undelivered orders) and how GAAP accounting and reporting might be improved to better meet federal financial reporting objectives of operating performance and stewardship.

The feedback received from task force members will be utilized by FASAB staff to develop new federal risk assumed standards.
Specific Questions to be Addressed by Task Force

I. Definition and Explanation of Risk Assumed (see Attachment A)

a) Does the definition of risk assumed make sense to you (see bottom of page 15 of Attachment A)? Why or why not? Do you have any suggested edits?

b) Does the explanation of the difference between a liability, contingency, risk assumed, and long-term fiscal projections make sense to you (see page 13 of Attachment A)? Do you have any suggested edits?

c) Do you believe reporting risk assumed information in the GAAP financial reports would help to better meet federal financial reporting objectives of operating performance and stewardship? Why or why not?

II. Grants (see Attachment B)

a) How does the award information that is reported at USAspending.gov tie to the information that is reported in budget reports? How does the award information that is reported at USAspending.gov tie to the information that is reported in agency financial statements?

b) Grants are recorded as budgetary obligations when they are awarded to the grantees. However, they are not recorded as a payable for GAAP reporting until the grantee has reported expenses under the grant or a grant accrual is estimated based on grantee expenses incurred but not yet reported. Since there are hundreds of billions of dollars in grant awards outstanding at any point in time, how should this information be communicated in GAAP reports?

c) Some agencies report on cooperative agreements with grants (see page 17 of Attachment B for definition of cooperative agreements). How are cooperative agreements similar to grants and should they be included with grants for reporting risk assumed? Why or why not?

d) The consolidated financial report of the U.S. Government (CFR) reports grants and subsidies together (FY 2011 CFR, Note 19, pages 105-107; see excerpted note at pages 25 and 26 of Attachment B; see page 17 of Attachment B for definition of subsidy). Would it be desirable to consider subsidies together with grants for reporting risk assumed? Why or why not?

e) The CFR Note 23. Commitments (FY 2011 CFR, Note 23, pages 116 – 118; see excerpted note on pages 27 - 29 of Attachment B) lists “Undelivered Orders and Other Commitments as of September 30, 2011, and 2010.” What does this note include (all obligations for grant awards, contract awards, other commitments and obligations beyond contracts and grants (e.g., accounts payable undelivered orders), etc.)? Would narrative information that explains this note provide helpful context? What does this information not include?

f) The Department of Transportation includes a detailed discussion of its grants programs in its note to the financial statements on commitments (see excerpt from note on page 24 of Attachment B). Do you think this information addresses the type of risk assumed information that should be reported in agency financial statements? Should additional information be provided? Why or why not?
g) The Department of Education includes a discussion about disallowed grant expenses in its note to the financial statements on contingencies (see excerpt from note on page 24 of Attachment B). This effectively reports on a possible reduction in total risk assumed by the agency but does not mention the population of grant awards that have been made for which expenses have not yet been incurred. Would the reporting of grant expense information be more balanced and complete if it included contingencies for disallowed expenses as well as obligations for total grants awarded? Why or why not?

III. Contracts and Other Agreements (see Attachment C)

a) How does the award information that is reported at USAspending.gov tie to the information that is reported in budget reports? How does the award information that is reported at USAspending.gov tie to the information that is reported in agency financial statements?

b) Contracts are recorded as budgetary obligations when they are awarded to the contractors. However, they are not recorded as a payable for GAAP reporting until goods and/or services are actually delivered or, in the case of construction in progress, amounts recorded as payable are based on an estimate of work completed under the contract or the agreement. Since there are hundreds of billions of dollars in grant awards outstanding at any point in time, how should this information be communicated in GAAP reports?

c) OMB Circular A-136, Section II.4.9.20, requires that the note on commitments and contingencies disclose amounts for contractual arrangements which may require future financial obligations. What do you interpret this requirement to mean?

d) [Same as Grants question c) above.] The CFR Note 23. Commitments (FY 2011 CFR, Note 23, pages 116 - 118; see excerpted note on pages 27 - 29 of Attachment B) lists “Undelivered Orders and Other Commitments as of September 30, 2011, and 2010.” What does this note include (all obligations for grant awards, contract awards, other commitments and obligations beyond contracts and grants (e.g., accounts payable undelivered orders), etc.)? Would narrative information that explains this note provide helpful context? What does this information not include?

e) The Department of Defense includes a discussion of the agency’s obligation for contracts in its note to the financial statements on commitments (see excerpt from note on page 39 of Attachment C). Do you think this information helps to address the type of risk assumed information that should be reported in agency financial statements? Why or why not?

f) Are contracts that have a cancellation clause obligated for differently than contracts that do not have a cancellation clause? Are contracts obligated for differently by type?

IV. Other Commitments and Obligations

a) [Same as Grants question c) and Contracts question d) above.] The CFR Note 23. Commitments (FY 2011 CFR, Note 23, pages 116 - 118; see excerpted note on pages 27 - 29 of Attachment B) lists “Undelivered Orders and Other Commitments as of September 30, 2011, and 2010.” What does this note include (all obligations for grant awards, contract awards, other commitments and obligations beyond contracts and grants (e.g., accounts payable undelivered orders), etc.)? Would narrative information that explains this note provide helpful context? What does this information not include?
b) The Department of Health and Human Services includes a discussion of the agency’s obligation for canceled appropriations in its note to the financial statements on commitments (see excerpt from note on page 39 of Attachment C). Do you think this information helps to address the type of risk assumed information that should be reported in agency financial statements? Why or why not?

c) The Department of Energy includes a discussion of the agency’s obligations for future purchase power and transmission commitments and irrigation assistance (see excerpt from note on page 40 of Attachment C). Do you think this information helps to address the type of risk assumed information that should be reported in agency financial statements? Why or why not?
STAFF EXPLANATION OF DIFFERENCE BETWEEN LIABILITIES, CONTINGENCIES, RISK ASSUMED, AND LONG-TERM FISCAL PROJECTIONS

To Be Considered by Task Force

At the reporting date, a liability is a present obligation to provide assets or services to another entity (e.g., goods and/or services have been accepted by an agency or unpaid insurance claims based on insured events that have already occurred). A contingency may be an obligation to provide assets or services to another entity in the future, but there is uncertainty about the possibility of loss; the uncertainty will ultimately be resolved when one or more future events occur or fail to occur (e.g., pending or threatened litigation). Risk assumed is the possible or probable risk that the entity will assume or has assumed a present or future obligation based on current facts and circumstances known at the reporting date (e.g., total contracted amount for goods and/or services or total estimated future claims on a current insurance contract). Long-term fiscal projections are projected future cash flows over a number of years assuming current policy without change. The projections assume not only that present obligations are met but also that cash flows for new obligations will occur consistent with current policy without change.

Risk assumed information complements traditional financial statement reporting of liabilities and contingencies and provides different information than the user would obtain from information about long-term fiscal projections. Long-term fiscal projections provide information to assist readers of the consolidated financial report of the U.S. Government in assessing whether future budgetary resources of the U.S. Government will likely be sufficient to sustain public services and to meet obligations as they come due, assuming that current policy for federal government public services and taxation is continued without change. Risk assumed information is intended to provide a more in-depth current picture of federal obligations incurred while long-term fiscal projections provide a long-term look at fiscal sustainability. Risk assumed information would incorporate other known and estimable information beyond current policy without change (e.g., projected increase in natural disasters, economic projections that would lead to an increase in the population eligible for means-tested programs, etc). In addition, risk assumed information does not involve long-term projections and would not be projected over a number of years.

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Liabilities – A liability is a present obligation\textsuperscript{5} of the federal government to provide assets or services to another entity at a determinable date, when a specified event occurs, or on demand.

\textsuperscript{5} The term obligation is used in this Statement with its general meaning of a duty or responsibility to act in a certain way. It does not mean that an obligation of budgetary resources is required for a liability to exist in accounting or financial reporting or that a liability in accounting or financial reporting is required to exist for budgetary resources to be obligated.

Similar to the definition of an asset, the definition of a liability is derived from the nature of liabilities—that is, the essential characteristics without which a liability would not exist. A liability of the federal government has two essential characteristics, which are discussed in paragraphs 42 through 48. First, a liability constitutes a present obligation to provide assets or services to another entity. Second, either a law or an agreement or understanding between the government and another entity identifies conditions or events that will determine when the obligation will be settled.

Basic recognition criteria are the conditions an item should meet in order to be a candidate for recognition in the financial statements. The basic recognition criteria established in this Statement are (a) the item meets the definition of an element of financial statements and (b) the item is measurable. As used in this Statement, the term measurable means that a monetary amount can be determined with reasonable certainty or is reasonably estimable.

(Source: SFFAC 5, Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements, pars. 39, 41, and 5)

Contingencies – 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 (i.e., acquisition of an asset or reduction of a liability) or a loss (i.e., loss or impairment of an asset or the incurrence of a liability).\textsuperscript{17}

\textsuperscript{17} Contingencies are different from “subsequent events.” Subsequent events are events or transactions that affect the basic information or required supplementary information (RSI) and occur subsequent to the end of the reporting period but before the financial report is issued. Some of those transactions and events (referred to as recognized events) require adjustments to the basic information or RSI while others (referred to as nonrecognized events) may require disclosure in the basic information or RSI. A subsequent event may affect a contingency by providing information that resolves an uncertainty related to a contingent liability and confirm the impairment of an asset or incurrence of a liability as of the end of the reporting period.

A contingent liability should be recognized when all of these three conditions are met:\textsuperscript{[footnote deleted]}

- A past event or exchange transaction has occurred (e.g., a federal entity has breached a contract with a nonfederal entity).\textsuperscript{19}

- A future outflow or other sacrifice of resources is probable (e.g., the nonfederal entity has filed a legal claim against a federal entity for

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breach of contract and the federal entity’s management believes the claim is likely to be settled in favor of the claimant).

- The future outflow or sacrifice of resources is measurable (e.g., the federal entity’s management determines an estimated settlement amount). [See SFFAS 12.]

(Source: SFFAS 5, Accounting for Liabilities of the Federal Government, pars. 35 and 38)

**Long-Term Fiscal Projections**

“Fiscal Sustainability Reporting” is the short term for the basic financial statement, disclosures, and Required Supplementary Information (RSI) required in the consolidated financial report of the U.S. Government (CFR). Fiscal Sustainability Reporting should provide information to assist readers of the CFR in assessing whether future budgetary resources of the U.S. Government will likely be sufficient to sustain public services and to meet obligations as they come due, assuming that current policy for federal government public services and taxation is continued without change (hereafter referred to as “current policy without change”).

(Source: SFFAS 36, Comprehensive Long-Term Projections for the U.S. Government, par. 7)

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**Staff Draft Definition of Risk Assumed**

**Risk Assumed** – The possible or probable risk of future outflows that the federal government is expected to incur, in the judgment of a reasonable person, as a result of its mission, operations, and current or past actions. The population of risk assumed may be determined through a review of varied information, including, but not limited to, obligations incurred, commitments undertaken, contracts signed, agency policy, legislative history, economic projections, programmatic responsibility, and risk analysis.

Risk assumed is generally measured by the present value of unpaid expected outflows net of associated inflows (e.g., premiums), if any, based on management’s best estimate of the total risk assumed.

(Source: Staff Draft, April 2012)

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**FASAB Approach to RISK ASSUMED**

Risk assumed information is important for all federal insurance and guarantee programs (except social insurance, life insurance and loan guarantee programs) and will be considered in the context of the Stewardship reporting. Risk assumed is generally measured by the present value of unpaid expected losses net of associated premiums, based on the risk inherent in the insurance or guarantee coverage in force. [See SFFAS 25, par. 4.]


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**Dictionary Definition of RISK**

*Noun*

1. possibility of loss or injury: *peril*
2. someone or something that creates or suggests a hazard
3. a: the chance of loss or the perils to the subject matter of an insurance contract; *also*: the degree of probability of such loss
   b: a person or thing that is a specified hazard to an insurer
   c: an insurance hazard from a specified cause or source <war risk>
4. the chance that an investment (as a stock or commodity) will lose value

Source: [www.m-w.com](http://www.m-w.com); last accessed November 1, 2011.

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**Dictionary Definition of ASSUME**

*Transitive Verb*

1. a: to take up or in: *receive*
   b: to take into partnership, *employment*, or use
2. a: to take to or upon oneself: *undertake* <assume responsibility>
   b: *put on*, *don*
   c: to place oneself in <assume a position>
3. *seize*, *usurp* <assume control>
4. to pretend to have or be: *feign* <assumed an air of *confidence* in spite of her dismay>
5. to take as granted or true: *suppose* <assume he'll be there>
6. to take over (the debts of another) as one's own

Source: [www.m-w.com](http://www.m-w.com); last accessed November 1, 2011.

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**Disclaimer:** This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.
Grants

DEFINITIONS

A grant is an award of financial assistance, including cooperative agreements, in the form of money, or property in lieu of money, by the federal government to an eligible grantee. The term does not include technical assistance which provides services instead of money, or other assistance in the form of revenue sharing, loans, loan guarantees, interest subsidies, insurance, or direct appropriations. Also, the term does not include assistance, such as a fellowship or other lump sum award, which the grantee is not required to account for (15 CFR Part 24).

31 USC Sec. 6304 defines grants as follows: An executive agency shall use a grant agreement as the legal instrument reflecting a relationship between the United States Government and a State, a local government, or other recipient when (1) the principal purpose of the relationship is to transfer a thing of value to the State or local government or other recipient to carry out a public purpose of support or stimulation authorized by a law of the United States instead of acquiring (by purchase, lease, or barter) property or services for the direct benefit or use of the United States Government; and (2) substantial involvement is not expected between the executive agency and the State, local government, or other recipient when carrying out the activity contemplated in the agreement (FASAB Handbook, Appendix E, Consolidated Glossary).

Grants.gov defines grant as an award of financial assistance, the principal purpose of which is to transfer a thing of value from a federal agency to a recipient to carry out a public purpose of support or stimulation authorized by a law of the United States (see 31 U.S.C. 6101(3)). A grant is distinguished from a contract, which is used to acquire property or services for the federal government's direct benefit or use.\(^6\)

Also, to help in responding to question II.c) and II.d):

Cooperative Agreement – the legal instrument reflecting a relationship between the federal government and a State cooperative institution, State department of agriculture, college, university, other research or educational institution or organization, federal or private agency or organization, individual, or any other party, if the federal government determines that—

(A) the objectives of the agreement will serve a mutual interest of the parties to the agreement; and

(B) all parties will contribute resources to the accomplishment of those objectives.\(^7\)

Grants.gov defines cooperative agreement as an award of financial assistance that is used to enter into the same kind of relationship as a grant; and is distinguished from a grant in that it provides for substantial involvement between the federal agency and the recipient in carrying out the activity contemplated by the award.\(^8\)

Subsidy – A subsidy is generally a payment by the government or another benefit for which no current service is rendered and which is designed to support the conduct of an economic enterprise or activity. It may also refer to provisions of the tax system that provide certain tax benefits and to the public provisions of loans, goods, services, etc., at a lower price than the recipients would have to pay in the market, such as interest subsidy.

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\(^7\) Definition adapted from 7 U.S.C. § 3318.

\(^8\) Grants.gov glossary.
The Government supports the public good through a wide variety of subsidy and grant programs in such areas as agriculture, medical and scientific research, education, and transportation. USDA programs such as the Conservation Reserve, Tobacco Transition Payment, and Direct and Counter-Cyclical Payment programs account for the majority of the subsidies due, about $8.9 billion, and $9.9 billion as of September 30, 2011, and 2010, respectively.

The Government awards hundreds of billions of dollars in grants annually. These include project grants that are competitively awarded for agency-specific projects, such as HHS grants to fund projects to “enhance the independence, productivity, integration and inclusion into the community of people with developmental disabilities.” Other grants are formula grants, such as matching grants. Formula grants go to State governments for such things as education and transportation programs. These grants are paid in accordance with distribution formulas that have been provided by law or administrative regulations. Of the total liability reported for grants as of September 30, 2011, and 2010, DOT, Education, and HHS collectively owed their grantees about $15.0 billion and $14.9 billion, respectively. Refer to the financial statements and footnotes of the respective agencies for additional information.9

According to Grants.gov, grants are categorized as one of the following:

- **Discretionary Grant** – A grant (or cooperative agreement) for which the federal awarding agency generally may select the recipient from among all eligible recipients, may decide to make or not make an award based on the programmatic, technical, or scientific content of an application, and can decide the amount of funding to be awarded.10

- **Mandatory Grant** – A grant (or cooperative agreement) awarded under a program where the authorizing statute requires the head of the agency or designee to make an award to each eligible entity under the conditions and in the amount (or based on the formula) specified in the statute.11

- **Earmark Grant** – A grant that is appropriated by Congress prior to a peer review. The term "earmark" is a reference to the Congressional Record where the awards are written into the legislation specifically with the grant applicant's name, activity and dollar amounts.12

According to agency reports, types of grants include the following:

- **Discretionary Grant** – A grant (or cooperative agreement) for which the federal awarding agency generally may select the recipient from among all eligible recipients, may decide to make or not make an award based on the programmatic, technical, or scientific content of an application, and can decide the amount of funding to be awarded.13

- **Formula Grants** – Allocations of money to States or their subdivisions in accordance with distribution formulas prescribed by law or administrative regulation, for activities of a continuing nature.

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10 Grants.gov Glossary.
11 Ibid.
12 Ibid.
13 Grants.gov Glossary.
**Attachment B – Grants**

**Block Grants** – Block grant funding is distributed on a formula basis. Block grants have a broad range of eligible activities, typically addressing a general, rather than a specific problem area. For example, a block grant may address a broad purpose such as public health, rather than more specific problems like lead poisoning or flu vaccinations. With their broad range of eligible activities, block grants give more discretion to recipients in identifying problems and designing programs to address those problems. They also minimize administrative requirements.

**Entitlement Grants** – Entitlement refers to a program in which the federal government is legally obligated to make payments or provide aid to any person who, or State or local government that, meets the legal criteria for eligibility. Entitlements are generally provided by an authorizing statute; examples include grants to States for the Children’s Health Insurance Program (CHIP) and Temporary Assistance for Needy Families (TANF).

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**GUIDANCE/INFORMATIONAL RESOURCES**

**FASAB**

Advances are cash outlays made by a federal entity to its employees, contractors, grantees, or others to cover a part or all of the recipients’ anticipated expenses or as advance payments for the cost of goods and services the entity acquires. Examples include travel advances disbursed to employees prior to business trips, and cash or other assets disbursed under a contract, grant, or cooperative agreement before services or goods are provided by the contractor or grantee (SFFAS 1, par. 57).

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 federal entity’s engineering and management evaluation of actual performance progress and incurred costs (SFFAS 1, par. 79).

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**GAO Title 2 Standards Not Superceded by FASAB**

**G10 Grants and Cooperative Agreements**

**Introduction**

Except as otherwise expressly authorized by law, federal grants and cooperative agreements are federal assistance agreements under which payments in cash or in kind are made to provide assistance for specified purposes. Grants and Cooperative Agreements are accounted for similarly. Entitlements are covered by SFFAS 17, *Accounting for Social Insurance*.

The acceptance of an assistance award from the federal government creates a legal duty on the part of the recipient to use the available funds or property in accordance with the terms and conditions of the assistance agreement. Assistance payments may be made in advance or as reimbursement either for work performed or for costs incurred by recipients. The award recipients are generally required to return to the federal government (1) the unused balances of advance payment awards (plus earned interest unless recovery is prohibited by statute), (2) any funds improperly applied, whether received as an advance or a reimbursement, and (3) property or facilities purchased or otherwise made available under the conditions of the awards (or the
appropriate federal share, relative to the disposition or sale of property acquired with federal funds), unless legal title thereto is vested unconditionally in the recipient by the terms of the award.

**Accounting Standard**

Accounting for a federal assistance award begins with the execution of an agreement or the approval of an application or similar document in which the amount and purposes of the grant, the performance periods, the obligations of the parties to the award, and other terms are set out. A legal obligation to disburse the assistance funds, in accordance with the terms of the agreement, generally occurs with an executed agreement or an approved application or similar document.

Advance payments to award recipients (including amounts drawn against letters of credit) shall be accounted for as advances of the assisting agency until the recipient has performed under the award or contract.

Once the recipient has performed under the grant or agreement, the assisting agency shall record an expense in an amount equal to the cost of the services performed or costs incurred and reduce the advance account by a like amount.

Payments to award recipients as reimbursement for work performed or costs incurred shall be accounted for as expenditures and as expenses incurred or as reductions of liabilities if the expenses were recorded previously.

Amounts of assistance awards to be made in future periods shall be disclosed in the footnotes to the financial statements. (See also OMB Bulletin 01 – 09, pp. 85 and 86, section 9.19) [note: reference is outdated].

When title to assets acquired by award recipients vests in the government, appropriate property records shall be established, and the capital assets should be included in the financial statements of the federal agency that has the title. Such assets shall be recorded at their cost to the award recipient, and the agency’s Invested Capital account shall be increased by a like amount. The agency shall follow its normal depreciation policy.

At the termination of a grant or cooperative agreement, funds unused and/or improperly applied by the recipient shall be established as a receivable by the assisting agency (GAO-02-248G, Title 2 Standards Not Superceded by FASAB (11/01)\(^{14}\)).

**OMB**

II.4.3.3. Assets – Advances are cash outlays made by a Federal entity to its employees, contractors, grantees or others to cover a part or all of the recipients' anticipated expenses or as advance payments for the costs of goods and services the entity receives (OMB Circular A-136, Section II.4.3.3)\(^{15}\).

Obligation means a legally binding agreement that will result in outlays, immediately or in the future. When you place an order, sign a contract, award a grant, purchase a service, or take


other actions that require the Government to make payments to the public or from one
Government account to another, you incur an obligation.\textsuperscript{16}

Discretionary grants will be obligated after the amounts are determined administratively and
recorded at the time the grant award is signed. The grant award is normally the documentary
evidence that the grant has been awarded. For grants and fixed charges with formulas in law
that automatically fix the amount of the charges, record the amount determined by the formula
or, if there is an appropriation, then record the amount appropriated, whichever is smaller. The
obligation is reported at the time the grantee is awarded the grant and is liquidated when the
payment is made to the grantee. To the extent that a grant awarded in a previous year is no
longer valid, you will record a recovery of prior year obligations.\textsuperscript{17}

**USSGL**

Grants are only briefly mentioned in the U.S. Standard General Ledger (USSGL) Account
Transactions in the following two transactions:

**B402**

To record the delivery of goods or services and to accrue a liability.

Comment: If funded by a direct appropriation, also post USSGL TC-B134. Assume a title has
been passed when the goods are received. Also post USSGL TCs G120, G122, and G124 to
track purchases. For payroll and benefits, see USSGL TC-E102. For "in-process type"
accounts, see USSGL TC-D514. Due to the reconciliation of interagency expenses and
revenues, agencies first must record all direct costs to a USSGL account 6000 expense series
account and then offset those amounts using USSGL account 6610 when the costs are
capitalized to the appropriate "in-process type" account. For other payroll related transactions,
see USSGL TCs-E104 through E117. \textbf{Record USSGL account 2190 for grants payable.}

**Budgetary Entry**

Debit 4801 Undelivered Orders - Obligations, Unpaid
Credit 4901 Delivered Orders - Obligations, Unpaid

**Proprietary Entry**

Debit 1511 Operating Materials and Supplies Held for Use
Debit 1512 Operating Materials and Supplies Held in Reserve for Future Use
Debit 1521 Inventory Purchased for Resale
Debit 1522 Inventory Held in Reserve for Future Sale
Debit 1525 Inventory - Raw Materials
Debit 1527 Inventory - Finished Goods
Debit 1561 Commodities Held Under Price Support and Stabilization Support Programs
Debit 1571 Stockpile Materials Held in Reserve
Debit 1572 Stockpile Materials Held for Sale
Debit 1591 Other Related Property
Debit 1711 Land and Land Rights
Debit 1712 Improvements to Land

Debit 1720 Construction-in-Progress

\textsuperscript{16} OMB Circular A-11, Preparation, Submission, and Execution of the Budget, Section 20.5a; available online at
\textsuperscript{17} Ibid, Section 20.5f.
Debit 1730 Buildings, Improvements, and Renovations
Debit 1740 Other Structures and Facilities
Debit 1750 Equipment
Debit 1820 Leasehold Improvements
Debit 1830 Internal-Use Software
Debit 1832 Internal-Use Software in Development
Debit 1840 Other Natural Resources
Debit 1890 Other General Property, Plant, and Equipment
Debit 1990 Other Assets
Debit 6100 Operating Expenses/Program Costs
Debit 6400 Benefit Expense
Debit 6900 Nonproduction Costs
  Credit 2110 Accounts Payable
  Credit 2130 Contract Holdbacks
  Credit 2190 Other Liabilities With Related Budgetary Obligations
  Credit 2191 Employee Health Care Liability Incurred but Not Reported
  Credit 2210 Accrued Funded Payroll and Leave
  Credit 2211 Withholdings Payable
  Credit 2213 Employer Contributions and Payroll Taxes Payable

E102
To record the accrued payroll at the end of the accounting period for unpaid estimated costs incurred. This includes funded expenses such as payroll and grantee expenses.

Comment: If funded by a direct appropriation, also post USSGL TC-B134. Reverse accruals at the beginning of the next accounting period. See USSGL TC-E104 for benefit expenses. Due to the reconciliation of interagency expenses and revenues, agencies must first record all direct costs to a USSGL account 6000 expense series account and then offset those amounts using the USSGL account 6610 when the costs are capitalized to the appropriate "in-process type" account.

Budgetary Entry
Debit 4610 Allotments - Realized Resources
Debit 4620 Unobligated Funds Exempt From Apportionment
Debit 4801 Undelivered Orders - Obligations, Unpaid
  Credit 4901 Delivered Orders - Obligations, Unpaid

Proprietary Entry
Debit 6100 Operating Expenses/Program Costs
Debit 6500 Cost of Goods Sold
Debit 6900 Nonproduction Costs
  Credit 2190 Other Liabilities With Related Budgetary Obligations
  Credit 2191 Employee Health Care Liability Incurred but Not Reported
  Credit 2210 Accrued Funded Payroll and Leave
  Credit 2211 Withholdings Payable
Budgetary:

**Obligations** – Grants will be recorded as obligations on the basis of an approved, signed, and accepted application. Under 31 U.S.C. Sec. 1501, “Documentary Evidence Requirement for Government Obligations,” an amount shall be recorded as an obligation of the U.S. Government only when supported by documentary evidence of a grant or subsidy payable:

1. From appropriations made for payment of, or contributions to, amounts required to be paid in specific amount fixed by law or under formulas prescribed by law;
2. Under an agreement authorized by law; or
3. Under plans approved consistent with and authorized by law.

**Costs** – Grants will be recorded as costs:

1. At the time payment is made where the grantee does not have to provide for a specific performance in order to be eligible for the grant; or
2. Each accounting period (month) when periodic performance reports are required. If payments are made prior to submission of performance reports, such payments will be recorded as advances until performance occurs.

USAspending.gov reports the following top five agency grant awards in fiscal year 2011, as follows:

<table>
<thead>
<tr>
<th>Agency</th>
<th>FY 2011 Dollars (in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HHS</td>
<td>$372</td>
</tr>
<tr>
<td>DOT</td>
<td>56</td>
</tr>
<tr>
<td>USDA</td>
<td>31</td>
</tr>
<tr>
<td>Education</td>
<td>22</td>
</tr>
<tr>
<td>HUD</td>
<td>16</td>
</tr>
</tbody>
</table>

The SF-133, *Report on Budget Execution and Budgetary Resources*, is a quarterly and annual budget report that is submitted by agencies electronically through the Treasury's Federal Agencies' Centralized Trial-balance System II (FACTS II). The SF-133 reports each agency's budgetary resources, whether those budgetary resources are available for obligation, total obligations incurred by the agency, and total outlays made. Obligations incurred is not reported by type (e.g., grants, contracts, etc) but can be obtained from each agency’s financial system.

**GAAP:**

The statement of budgetary resources (based on the SF-133) reports obligations incurred under the heading of status of budgetary resources. However, detailed information on the total risk assumed through grants is not reported consistently within federal financial statements.

**Summary:**

Grants are recorded as budgetary obligations when they are awarded to the grantees. However, they are not recorded as a payable for GAAP reporting until the grantee has reported actual expenses under the grant or a grant accrual is estimated based on grantee expenses incurred but not yet reported. Additional reporting of grant commitments and obligations in GAAP reports varies (see next page for example of note disclosure from the Department of Transportation).
Excerpt from Dept. of Transportation 2011 Agency Financial Report, Note 17: Commitments and Contingencies.\textsuperscript{18}

Grant Programs:

FHWA pre-authorizes states to establish construction budgets without having received appropriations from Congress for such projects. FHWA does not guarantee the ultimate funding to the states for these “Advance Construction” projects and, accordingly, does not obligate any funds for these projects. When funding becomes available to FHWA, the states can then apply for reimbursement of costs that they have incurred on such projects, at which time FHWA can accept or reject such requests. For the fiscal year ended September 30, 2011 and 2010 FHWA has pre-authorized $41.4 billion and $40.2 billion, respectively, under these arrangements. These commitments have not been recognized in the DOT consolidated financial statements at September 30, 2011 and 2010.

FTA executes Full Funding Grant Agreements (FFGAs) under its Capital Investment program (New Starts) authorizing transit authorities to establish project budgets and incur costs with their own funds in advance of Congress appropriating New Starts funds to the project. As of September 30, 2011 and September 30, 2010, FTA had approximately $1.6 billion and $1.87 billion respectively, in funding commitments under FFGAs, which Congress had not yet appropriated. Congress must first provide the budget authority (appropriations) to allow FTA to incur obligations for these programs. Until Congress appropriates funds, FTA is not liable to grantees for any costs incurred. There is no liability related to these commitments reflected in the DOT consolidated financial statements at September 30, 2011 and 2010.

FAA’s Airport Improvement Program provides grants for the planning and development of public-use airports that are included in the National Plan of Integrated Airport Systems. Eligible projects generally include improvements related to enhancing airport safety, capacity, security and environmental concerns. FAA’s share of eligible costs for large and medium primary hub airports is 75 percent with the exception of noise program implementation, which is 80 percent of the eligible costs. For remaining airports (small primary, reliever, and general aviation airports), FAA’s share is 95 percent of the eligible costs.

FAA has authority under 49 U.S.C. 47110(e) to issue letters of intent to enter into Airport Improvement Program grant agreements. FAA records an obligation when a grant is awarded. Through September 30, 2011, FAA issued letters of intent covering FY 1988 through FY 2026 totaling $7.5 billion. As of September 30, 2011, FAA had obligated $5.5 billion of this total amount leaving $2 billion unobligated. Through September 30, 2010, FAA issued letters of intent covering FY 1988 through FY 2026 totaling $6.5 billion. As of September 30, 2010, FAA had obligated $5.2 billion of this total amount, leaving $1.3 billion unobligated.

Excerpt from Dept. of Education 2011 Agency Financial Report, Note 21: Contingencies:

Other Matters

Some portion of the current-year financial assistance expenses (grants) may include funded recipient expenditures that are subsequently disallowed through program review or audit processes. In the opinion of management, the ultimate disposition of these matters will not have a material effect on the Department’s financial position.\textsuperscript{19}


### Other Liabilities as of September 30, 2011, and 2010

<table>
<thead>
<tr>
<th>Identity</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unearned revenue and assets held for others:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unearned fees for nuclear waste disposal (DOE) and other unearned revenue</td>
<td>64.4</td>
<td>74.2</td>
</tr>
<tr>
<td>Assets held on behalf of others</td>
<td>69.8</td>
<td>64.9</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>134.2</td>
<td>139.1</td>
</tr>
<tr>
<td><strong>Employee-related liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued Federal employees wages and benefits</td>
<td>35.2</td>
<td>42.7</td>
</tr>
<tr>
<td>Selected DOE contractors’ and D.C. employees’ pension benefits</td>
<td>55.0</td>
<td>50.2</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>90.2</td>
<td>92.9</td>
</tr>
<tr>
<td><strong>International monetary liabilities and gold certificates:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange Stabilization Fund</td>
<td>60.3</td>
<td>60.1</td>
</tr>
<tr>
<td>Gold Certificates (Note 2)</td>
<td>11.0</td>
<td>11.0</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>71.3</td>
<td>71.1</td>
</tr>
<tr>
<td><strong>Subsidies and grants:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farm and other subsidies</td>
<td>12.5</td>
<td>13.2</td>
</tr>
<tr>
<td>Grant payments due to State and local governments and others</td>
<td>18.1</td>
<td>18.1</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>30.6</td>
<td>31.3</td>
</tr>
<tr>
<td><strong>Miscellaneous liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal and other contingencies</td>
<td>38.0</td>
<td>31.4</td>
</tr>
<tr>
<td>Bonneville Power Administration non-Federal power projects and capital lease liabilities, and disposal liabilities</td>
<td>13.5</td>
<td>9.4</td>
</tr>
<tr>
<td>Other miscellaneous</td>
<td>49.2</td>
<td>41.3</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>100.7</td>
<td>82.1</td>
</tr>
<tr>
<td><strong>Total other liabilities</strong></td>
<td>427.0</td>
<td>416.5</td>
</tr>
</tbody>
</table>

Other liabilities represent liabilities that are not separately identified on the Balance Sheets and are presented on a comparative basis by major category.
Excerpt from FY 2011 CFR Note 19. Other Liabilities, pages 105-107 (contd.):

**Subsidies and Grants**

The Government supports the public good through a wide variety of subsidy and grant programs in such areas as agriculture, medical and scientific research, education, and transportation. USDA programs such as the Conservation Reserve, Tobacco Transition Payment, and Direct and Counter-Cyclical Payment programs account for the majority of the subsidies due, about $8.9 billion, and $9.9 billion as of September 30, 2011, and 2010, respectively.

The Government awards hundreds of billions of dollars in grants annually. These include project grants that are competitively awarded for agency-specific projects, such as HHS grants to fund projects to “enhance the independence, productivity, integration and inclusion into the community of people with developmental disabilities.” Other grants are formula grants, such as matching grants. Formula grants go to State governments for such things as education and transportation programs. These grants are paid in accordance with distribution formulas that have been provided by law or administrative regulations. Of the total liability reported for grants as of September 30, 2011, and 2010, DOT, Education, and HHS collectively owed their grantees about $15.0 billion and $14.9 billion, respectively. Refer to the financial statements and footnotes of the respective agencies for additional information.
Excerpt from FY 2011 CFR Note 23. Commitments, pages 116-118:

**Long-Term Operating Leases as of September 30, 2011, and 2010**

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Services Administration</td>
<td>26.7</td>
<td>26.1</td>
</tr>
<tr>
<td>U.S. Postal Service</td>
<td>7.3</td>
<td>7.8</td>
</tr>
<tr>
<td>Department of Health and Human Services</td>
<td>1.5</td>
<td>1.7</td>
</tr>
<tr>
<td>Department of State</td>
<td>1.4</td>
<td>1.3</td>
</tr>
<tr>
<td>Department of Defense</td>
<td>1.2</td>
<td>0.7</td>
</tr>
<tr>
<td>Securities and Exchange Commission</td>
<td>0.8</td>
<td>1.1</td>
</tr>
<tr>
<td>Department of Agriculture</td>
<td>0.8</td>
<td>1.0</td>
</tr>
<tr>
<td>Other Operating Leases</td>
<td>4.2</td>
<td>3.9</td>
</tr>
<tr>
<td>Total long-term operating leases</td>
<td>43.9</td>
<td>43.6</td>
</tr>
</tbody>
</table>

The Government has entered into contractual commitments that require future use of financial resources. It has significant amounts of long-term lease obligations and undelivered orders. Undelivered orders represent the value of goods and services ordered that have not yet been received.

The Government has other commitments that may require future use of financial resources. For example, the Government has callable subscriptions in certain Multilateral Development Banks (MDBs), which are international financial institutions that finance economic and social development projects in developing countries. Callable capital stock shares in the MDBs serve as a supplemental pool of resources that may be called, and converted into ordinary paid in shares, if the MDB cannot otherwise meet certain obligations through its other available resources. MDBs are able to use callable capital as backing to obtain very favorable financing terms when borrowing from world capital markets. To date, there has never been a call on this capital for any of the major MDBs and none is anticipated.
### Undelivered Orders and Other Commitments as of September 30, 2011, and 2010

<table>
<thead>
<tr>
<th>Category</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Undelivered Orders:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Defense</td>
<td>315.9</td>
<td>348.6</td>
</tr>
<tr>
<td>Department of Education</td>
<td>229.2</td>
<td>237.5</td>
</tr>
<tr>
<td>Department of the Treasury</td>
<td>207.1</td>
<td>144.8</td>
</tr>
<tr>
<td>EOP Foreign Military Sales Program</td>
<td>121.4</td>
<td>112.4</td>
</tr>
<tr>
<td>Department of Transportation</td>
<td>104.7</td>
<td>102.1</td>
</tr>
<tr>
<td>Department of Health and Human Services</td>
<td>90.3</td>
<td>92.9</td>
</tr>
<tr>
<td>Department of Housing and Urban Development</td>
<td>56.9</td>
<td>64.8</td>
</tr>
<tr>
<td>Department of Agriculture</td>
<td>51.7</td>
<td>54.8</td>
</tr>
<tr>
<td>Department of Energy</td>
<td>45.7</td>
<td>49.2</td>
</tr>
<tr>
<td>Department of Homeland Security</td>
<td>36.3</td>
<td>37.7</td>
</tr>
<tr>
<td>Department of State</td>
<td>20.9</td>
<td>19.2</td>
</tr>
<tr>
<td>Agency for International Development</td>
<td>15.6</td>
<td>15.7</td>
</tr>
<tr>
<td>National Science Foundation</td>
<td>11.6</td>
<td>11.8</td>
</tr>
<tr>
<td>Environmental Protection Agency</td>
<td>10.8</td>
<td>11.4</td>
</tr>
<tr>
<td>Department of Justice</td>
<td>10.0</td>
<td>11.5</td>
</tr>
<tr>
<td>Export-Import Bank of the United States</td>
<td>9.7</td>
<td>5.6</td>
</tr>
<tr>
<td>All other agencies</td>
<td>62.1</td>
<td>63.8</td>
</tr>
<tr>
<td>Total undelivered orders</td>
<td>1,399.9</td>
<td>1,383.8</td>
</tr>
</tbody>
</table>

| Other Commitments:                                                      |          |          |
| Callable capital subscriptions for multilateral development banks      | 72.0     | 63.9     |
| Fuel Purchase Obligations                                              | 8.5      | 7.9      |
| Agriculture Direct Loans and Guarantees                                 | 5.9      | 4.8      |
| Power Purchase Obligations                                             | 5.1      | 5.5      |
| Long-term Satellite and Systems                                        | 3.2      | 3.9      |
| Conservation Reserve Program                                           | 1.8      | 1.8      |
| Contract Options and Negotiations                                      | 0.0      | 10.2     |
| All other commitments                                                  | 6.8      | 6.0      |
| Total other commitments                                                | 103.3    | 104.0    |
Excerpt from FY 2011 CFR Note 23. Commitments, pages 116-118 (contd.):

Other Commitments and Risks

The U. S. Government has entered into agreements that could potentially require claims on Government resources in the future. For example, the Terrorism Risk Insurance Act of 2002 (TRIA or the Act) was signed into law on November 26, 2002. This law was enacted to address market disruptions resulting from terrorist attacks on September 11, 2001. On December 26, 2007, the Terrorism Risk Insurance Program Reauthorization Act of 2007 (Reauthorization Act) was enacted extending the Program through December 31, 2014. The Act helps to ensure available and affordable commercial property and casualty insurance for terrorism risk, and simultaneously allows private markets to stabilize. The Terrorism Risk Insurance Program is activated upon the certification of an “act of terrorism” by the Secretary of the Treasury in concurrence with the Secretary of State and the Attorney General. If a certified act of terrorism occurs, insurers may be eligible to receive reimbursement from the Government for insured losses above a designated deductible amount. Insured losses above this amount will be shared between insurance companies and the Government. The Act also gives Treasury authority to recoup Federal payments made under the Program through policyholder surcharges under certain circumstances and contains provisions designed to manage litigation arising from or relating to a certified act of terrorism. There were no claims under TRIA as of September 30, 2011, or September 30, 2010.
Contracts and Other Agreements

**DEFINITION FROM THE FEDERAL ACQUISITION REGULATION (FAR)**

“Contract” means a mutually binding legal relationship obligating the seller to furnish the supplies or services (including construction) and the buyer to pay for them. It includes all types of commitments that obligate the Government to an expenditure of appropriated funds and that, except as otherwise authorized, are in writing. In addition to bilateral instruments, contracts include (but are not limited to) awards and notices of awards; job orders or task letters issued under basic ordering agreements; letter contracts; orders, such as purchase orders, under which the contract becomes effective by written acceptance or performance; and bilateral contract modifications. Contracts do not include grants and cooperative agreements covered by 31 U.S.C. 6301, et seq. (FAR, Volume 1, Part 2, Subpart 2.1).20

**TYPES OF CONTRACTS AND AGREEMENTS CONTAINED IN THE FAR**

16.101 General.

(a) A wide selection of contract types is available to the Government and contractors in order to provide needed flexibility in acquiring the large variety and volume of supplies and services required by agencies. Contract types vary according to—

(1) The degree and timing of the responsibility assumed by the contractor for the costs of performance; and

(2) The amount and nature of the profit incentive offered to the contractor for achieving or exceeding specified standards or goals.

(b) The contract types are grouped into two broad categories: fixed-price contracts (see Subpart 16.2) and cost-reimbursement contracts (see Subpart 16.3). The specific contract types range from firm-fixed-price, in which the contractor has full responsibility for the performance costs and resulting profit (or loss), to cost-plus-fixed-fee, in which the contractor has minimal responsibility for the performance costs and the negotiated fee (profit) is fixed. In between are the various incentive contracts (see Subpart 16.4), in which the contractor’s responsibility for the performance costs and the profit or fee incentives offered are tailored to the uncertainties involved in contract performance (FAR Volume 1, Part 16, Subpart 16.101).21

Types of contracts and other agreements that are used include:22

(1) A **fixed-price contract** provides for a firm price or, in appropriate cases, an adjustable price. Fixed-price contracts providing for an adjustable price may include a ceiling price, a target price (including target cost), or both. Unless otherwise specified in the contract, the ceiling price or target price is subject to adjustment only by operation of contract clauses providing for equitable adjustment or other revision of the contract price under stated circumstances.

   a. A **firm-fixed-price contract** provides for a price that is not subject to any adjustment on the basis of the contractor’s cost experience in performing the contract. This contract type places upon the contractor maximum risk and full responsibility for all costs and resulting profit or loss. It provides maximum

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21 Ibid.
22 FAR Volume 1, Part 16, Subparts 16.1 to 16.7 (for numbers 1-9) and Subpart 13.3 (for number 10); available online at https://www.acquisition.gov/far/current/pdf/FAR.pdf; last accessed April 10, 2012.
incentive for the contractor to control costs and perform effectively and imposes a minimum administrative burden upon the contracting parties.

b. A fixed-price contract with economic price adjustment provides for upward and downward revision of the stated contract price upon the occurrence of specified contingencies. Economic price adjustments are of three general types:

i. Adjustments based on established prices. These price adjustments are based on increases or decreases from an agreed-upon level in published or otherwise established prices of specific items or the contract end items.

ii. Adjustments based on actual costs of labor or material. These price adjustments are based on increases or decreases in specified costs of labor or material that the contractor actually experiences during contract performance.

iii. Adjustments based on cost indexes of labor or material. These price adjustments are based on increases or decreases in labor or material cost standards or indexes that are specifically identified in the contract.

c. A fixed-price incentive contract is a fixed-price contract that provides for adjusting profit and establishing the final contract price by a formula based on the relationship of final negotiated total cost to total target cost.

d. A fixed-price contract with prospective price redetermination provides for (1) a firm fixed price for an initial period of contract deliveries or performance; and (2) prospective redetermination, at a stated time or times during performance, of the price for subsequent periods of performance.

e. A fixed-ceiling-price contract with retroactive price redetermination provides for (1) a fixed ceiling price; and (2) Retroactive price redetermination within the ceiling after completion of the contract.

f. A firm-fixed-price, level-of-effort term contract requires (1) the contractor to provide a specified level of effort, over a stated period of time, on work that can be stated only in general terms; and (2) the Government to pay the contractor a fixed dollar amount.

(2) A cost-reimbursement contract provides for payment of allowable incurred costs, to the extent prescribed in the contract. These contracts establish an estimate of total cost for the purpose of obligating funds and establishing a ceiling that the contractor may not exceed (except at its own risk) without the approval of the contracting officer.

a. A cost contract is a cost-reimbursement contract in which the contractor receives no fee.

b. A cost-sharing contract is a cost-reimbursement contract in which the contractor receives no fee and is reimbursed only for an agreed-upon portion of its allowable costs.

c. A cost-plus-incentive-fee contract is a cost-reimbursement contract that provides for an initially negotiated fee to be adjusted later by a formula based on the relationship of total allowable costs to total target costs.

d. A cost-plus-award-fee contract is a cost-reimbursement contract that provides for a fee consisting of (1) a base amount (which may be zero) fixed at inception of the contract and (2) an award amount, based upon a judgmental evaluation by the Government, sufficient to provide motivation for excellence in contract performance.
e. A **cost-plus-fixed-fee contract** is a cost-reimbursement contract that provides for payment to the contractor of a negotiated fee that is fixed at the inception of the contract. The fixed fee does not vary with actual cost, but may be adjusted as a result of changes in the work to be performed under the contract. This contract type permits contracting for efforts that might otherwise present too great a risk to contractors, but it provides the contractor only a minimum incentive to control costs.

(3) An **incentive contract** is used when a firm-fixed-price contract is not appropriate and the required supplies or services can be acquired at lower costs and, in certain instances, with improved delivery or technical performance, by relating the amount of profit or fee payable under the contract to the contractor’s performance. Incentive contracts are designed to obtain specific acquisition objectives by (a) Establishing reasonable and attainable targets that are clearly communicated to the contractor; and (b) Including appropriate incentive arrangements designed to (i) motivate contractor efforts that might not otherwise be emphasized; and (ii) discourage contractor inefficiency and waste.

a. A **cost incentive contract** includes only cost incentives, which take the form of a profit or fee adjustment formula and are intended to motivate the contractor to effectively manage costs. No incentive contract may provide for other incentives without also providing a cost incentive (or constraint).

b. A **performance incentive contract** is designed to relate profit or fee to results achieved by the contractor, compared with specified targets.

c. A **delivery incentive contract** is considered when improvement from a required delivery schedule is a significant Government objective. It is important to determine the Government’s primary objectives in a given contract (e.g., earliest possible delivery or earliest quantity production).

d. A **fixed-price incentive contract** is a fixed-price contract that provides for adjusting profit and establishing the final contract price by application of a formula based on the relationship of total final negotiated cost to total target cost.

e. A **fixed-price incentive (firm target) contract** specifies a target cost, a target profit, a price ceiling (but not a profit ceiling or floor), and a profit adjustment formula. These elements are all negotiated at the outset. The price ceiling is the maximum that may be paid to the contractor, except for any adjustment under other contract clauses. When the contractor completes performance, the parties negotiate the final cost, and the final price is established by applying the formula. When the final cost is less than the target cost, application of the formula results in a final profit greater than the target profit; conversely, when final cost is more than target cost, application of the formula results in a final profit less than the target profit, or even a net loss. If the final negotiated cost exceeds the price ceiling, the contractor absorbs the difference as a loss. Because the profit varies inversely with the cost, this contract type provides a positive, calculable profit incentive for the contractor to control costs.

f. A **fixed-price incentive (successive targets) contract** specifies the following elements, all of which are negotiated at the outset: (i) An initial target cost. (ii) An initial target profit. (iii) An initial profit adjustment formula to be used for establishing the firm target profit, including a ceiling and floor for the firm target profit. (This formula normally provides for a lesser degree of contractor cost responsibility than would a formula for establishing final profit and price.) (iv) The production point at which the firm target cost and firm target profit will be
negotiated (usually before delivery or shop completion of the first item). (v) A ceiling price that is the maximum that may be paid to the contractor, except for any adjustment under other contract clauses providing for equitable adjustment or other revision of the contract price under stated circumstances. When the production point specified in the contract is reached, the parties negotiate the firm target cost, giving consideration to cost experience under the contract and other pertinent factors. The firm target profit is established by the formula. At this point, the parties have two alternatives, as follows: (i) They may negotiate a firm fixed price, using the firm target cost plus the firm target profit as a guide. (ii) If negotiation of a firm fixed price is inappropriate, they may negotiate a formula for establishing the final price using the firm target cost and firm target profit. The final cost is then negotiated at completion, and the final profit is established by formula, as under the fixed-price incentive (firm target) contract.

g. A **fixed-price contract with award fee** may be used when the Government wishes to motivate a contractor and other incentives cannot be used because contractor performance cannot be measured objectively. Such contracts shall establish a fixed price (including normal profit) for the effort. This price will be paid for satisfactory contract performance. Award fee earned (if any) will be paid in addition to that fixed price.

h. A **cost-plus-incentive-fee contract** is a cost-reimbursement contract that provides for the initially negotiated fee to be adjusted later by a formula based on the relationship of total allowable costs to total target costs. This contract type specifies a target cost, a target fee, minimum and maximum fees, and a fee adjustment formula. After contract performance, the fee payable to the contractor is determined in accordance with the formula. The formula provides, within limits, for increases in fee above target fee when total allowable costs are less than target costs, and decreases in fee below target fee when total allowable costs exceed target costs. This increase or decrease is intended to provide an incentive for the contractor to manage the contract effectively. When total allowable cost is greater than or less than the range of costs within which the fee-adjustment formula operates, the contractor is paid total allowable costs, plus the minimum or maximum fee.

i. A **cost-plus-award-fee contract** is a cost-reimbursement contract that provides for a fee consisting of (1) a base amount fixed at inception of the contract, if applicable and at the discretion of the contracting officer, and (2) an award amount that the contractor may earn in whole or in part during performance and that is sufficient to provide motivation for excellence in the areas of cost, schedule, and technical performance.

(4) An **indefinite-delivery contract** is used to acquire supplies and/or services when the exact times and/or exact quantities of future deliveries are not known at the time of contract award.

a. A **definite-quantity contract** provides for delivery of a definite quantity of specific supplies or services for a fixed period, with deliveries or performance to be scheduled at designated locations upon order.

b. A **requirements contract** provides for filling all actual purchase requirements of designated Government activities for supplies or services during a specified contract period (from one contractor), with deliveries or performance to be scheduled by placing orders with the contractor.
c. An **indefinite-quantity contract** provides for an indefinite quantity, within stated limits, of supplies or services during a fixed period. The Government places orders for individual requirements. Quantity limits may be stated as number of units or as dollar values. Indefinite-quantity contracts limit the Government’s obligation to the minimum quantity specified in the contract.

(5) A **time-and-materials contract** provides for acquiring supplies or services on the basis of (a) Direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative expenses, and profit; and (b) Actual cost for materials.

(6) A **labor-hour contract** is a variation of the time-and-materials contract, differing only in that materials are not supplied by the contractor.

(7) A **letter contract** is a written preliminary contractual instrument that authorizes the contractor to begin immediately manufacturing supplies or performing services. A letter contract may be used when (a) the Government’s interests demand that the contractor be given a binding commitment so that work can start immediately and (b) negotiating a definitive contract is not possible in sufficient time to meet the requirement.

(8) A **basic agreement** is a written instrument of understanding, negotiated between an agency or contracting activity and a contractor that (1) contains contract clauses applying to future contracts between the parties during its term and (2) contemplates separate future contracts that will incorporate by reference or attachment the required and applicable clauses agreed upon in the basic agreement. A basic agreement is not a contract.

(9) A **basic ordering agreement** is a written instrument of understanding, negotiated between an agency, contracting activity, or contracting office and a contractor, that contains (1) terms and clauses applying to future contracts (orders) between the parties during its term, (2) a description, as specific as practicable, of supplies or services to be provided, and (3) methods for pricing, issuing, and delivering future orders under the basic ordering agreement. A basic ordering agreement is not a contract.

(10) A **blanket purchase agreement (BPA)** is a simplified method of filling anticipated repetitive needs for supplies or services by establishing “charge accounts” with qualified sources of supply. BPAs should be established for use by an organization responsible for providing supplies for its own operations or for other offices, installations, projects, or functions. Such organizations, for example, may be organized supply points, separate independent or detached field parties, or one-person posts or activities. The use of BPAs does not exempt an agency from the responsibility for keeping obligations and expenditures within available funds.

### GUIDANCE/INFORMATIONAL RESOURCES

**FASAB**

Advances are cash outlays made by a federal entity to its employees, contractors, grantees, or others to cover a part or all of the recipients’ anticipated expenses or as advance payments for the cost of goods and services the entity acquires. Examples include travel advances disbursed to employees prior to business trips, and cash or other assets disbursed under a contract, grant, or cooperative agreement before services or goods are provided by the contractor or grantee (SFFAS 1, par. 57).

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 (SFFAS 1, par. 74).
When a contractor provides the government with goods that are also suitable for sale to others, the liability usually arises when the contractor physically delivers the goods and the government receives them and takes formal title. However, when a contractor builds or manufactures facilities or equipment to the government’s specifications, formal acceptance of the products by the government is not the determining factor for accounting recognition. Constructive or de facto receipt occurs in each accounting period, in accordance with the following paragraph (SFFAS 1, par. 78).

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 federal entity’s engineering and management evaluation of actual performance progress and incurred costs (SFFAS 1, par. 79).

Some respondents question whether a liability should be recognized for multi-year contracts that are to be financed through appropriations over a number of years. As has been discussed earlier, when a contract is entered, an obligation is recognized in budgetary accounting. However, until goods or services are received or work progress is made, the Board does not believe that an obligation should be recognized as a liability. When goods or services are received or work progress is made under either a short or long-term contract, a liability for unpaid amounts should be recognized (SFFAS 1, BfC par. 156).

One respondent argued that purchase agreements constitute a contingent liability. The proposed standard would require recognizing a liability and a loss if the contract price exceeded the expected net realizable value of the commodities. It is clear that at any given time the market price may be lower than the contract price but that due to cycles in the harvest and post-harvest market this may not be an indication that the contract will be executed and a loss realized. The Board revised the standard to provide for loss recognition in connection with purchase agreements if the loss is both probable and measurable (SFFAS 3, BfC par. 162).

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 of 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.11 (Footnote 11: Executory contracts where goods and services have not been received are not generally recognized as liabilities in financial accounting, although they are generally recognized as obligations in governmental budgetary accounting.) (SFFAS 5, par. 22)

GAO Glossary of Terms Used in the Federal Budget Process

**Contract authority** – Budget authority that permits an agency to incur obligations in advance of appropriations, including collections sufficient to liquidate the obligation or receipts. Contract authority is unfunded, and a subsequent appropriation or offsetting collection is needed to liquidate the obligations (GAO-05-734SP – A Glossary of Terms Used in the Federal Budget Process).23

**Liability** – Defined differently for obligational (or budgetary) and proprietary (or financial) accounting purposes (see Appendix III).

— Obligational (or budgetary) accounting, designed to ensure compliance with fiscal laws, is based on the concept of legal liability. A legal liability is a claim that may be legally enforced

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against the government. It may be created in a variety of ways, such as by signing a contract, grant, or cooperative agreement or by operation of law. (See also Obligation.)

Proprietary (or financial) accounting, designed to generate data for financial statement purposes, is based on the concept of accounting liability. For federal financial accounting purposes, a liability is a probable future outflow or other sacrifice of resources as a result of past transactions or events. Generally, liabilities are thought of as amounts owed for items or services received, assets acquired, construction performed (regardless of whether invoices have been received), an amount received but not yet earned, or other expenses incurred. (See also Contingent Liability.)

Obligation – A definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received, or a legal duty on the part of the United States that could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the United States. Payment may be made immediately or in the future. An agency incurs an obligation, for example, when it places an order, signs a contract, awards a grant, purchases a service, or takes other actions that require the government to make payments to the public or from one government account to another. The standards for the proper reporting of obligations are found in section 1501(a) of title 31 of the United States Code. See also OMB Circular No. A-11.

Contingent Liability – An existing condition, situation, or set of circumstances that poses the possibility of a loss to an agency that will ultimately be resolved when one or more events occur or fail to occur. Contingent liabilities may lead to outlays. Contingent liabilities may arise, for example, with respect to unadjudicated claims, assessments, loan guarantee programs, and federal insurance programs. Contingent liabilities are normally not covered by budget authority in advance. However, credit reform changed the normal budgetary treatment of loans and loan guarantees by establishing that for most programs, loan guarantee commitments cannot be made unless Congress has made appropriations of budget authority to cover the credit subsidy cost in advance in annual appropriations acts.

Excerpt from Appendix III – In its simplest form obligational accounting means that an obligation must be recorded when an agency enters into a contract for goods or services. In contrast, under proprietary or financial accounting no transaction is recorded until the entity accepts the goods or services when an “accounts payable” is recorded.

OMB

II.4.3.3. Assets – Advances are cash outlays made by a Federal entity to its employees, contractors, grantees or others to cover a part or all of the recipients’ anticipated expenses or as advance payments for the costs of goods and services the entity receives (OMB Circular A-136, Section II.4.3.3).

II.4.3.4 Liabilities

Accounts Payable. The amounts owed by the reporting entity for goods and services received from other entities, progress in contract performance made by other entities, and rents due to other entities.

24 Ibid.
25 Ibid.
26 Ibid.
27 Ibid.
Commitments and Contingencies. In addition to the contingent liabilities required by SFFAS No. 5, the following commitments will also be disclosed: (1) an estimate of obligations related to canceled appropriations for which the reporting entity has a contractual commitment for payment, and (2) amounts for contractual arrangements which may require future financial obligations (Note 20) (OMB Circular A-136, Section II.4.3.4).\(^{28}\)

II.4.9.20 Note 20 Commitments and Contingencies

Contingencies where any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or an additional loss may have been incurred should be disclosed. SFFAS No. 5, as amended by SFFAS No.12, contains the criteria for recognition and disclosure of contingent liabilities. In addition to the contingent liabilities required by SFFAS No. 5, the following commitments will also be disclosed: (1) an estimate of obligations related to canceled appropriations for which the reporting entity has a contractual commitment for payment and (2) amounts for contractual arrangements, which may require future financial obligations (OMB Circular A-136, Section II.4.9.20).\(^{30}\)

Obligation means a legally binding agreement that will result in outlays, immediately or in the future. When you place an order, sign a contract, award a grant, purchase a service, or take other actions that require the Government to make payments to the public or from one Government account to another, you incur an obligation.\(^{31}\)

### CURRENT ACCOUNTING AND REPORTING

Budgetary:

USAspending.gov reports the following top five agency contract awards in fiscal year 2011, as follows:

<table>
<thead>
<tr>
<th>Agency</th>
<th>FY 2011 Dollars (in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DOD</td>
<td>$374</td>
</tr>
<tr>
<td>DOE</td>
<td>25</td>
</tr>
<tr>
<td>HHS</td>
<td>20</td>
</tr>
<tr>
<td>VA</td>
<td>18</td>
</tr>
<tr>
<td>NASA</td>
<td>15</td>
</tr>
</tbody>
</table>

The SF-133, *Report on Budget Execution and Budgetary Resources*, is a quarterly and annual budget report that is submitted by agencies electronically through the Treasury's Federal Agencies' Centralized Trial-balance System II (FACTS II). The SF-133 reports each agency's budgetary resources, whether those budgetary resources are available for obligation by the agency, total obligations incurred by the agency, and total outlays made. Obligations incurred is not reported by type (e.g., grants, contracts, etc) but can be obtained from each agency's financial system.

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\(^{28}\) Ibid.

\(^{30}\) Ibid.

GAAP:
The statement of budgetary resources (based on the SF-133) reports contract authority under the heading of budgetary resources and the obligations incurred under the heading of status of budgetary resources. However, detailed information on the total risk assumed through contracts is not reported consistently within federal financial statements.

Summary:
Contracts are recorded as budgetary obligations when they are awarded to the contractors. However, they are not recorded as a payable for GAAP reporting until goods and/or services are actually delivered or, in the case of construction in progress, amounts recorded as payable are based on an estimate of work completed under the contract or the agreement. Detailed information on the total risk assumed through agency contracts is not reported consistently within federal financial statements.
Excerpt from Dept. of Health and Human Services 2011 Agency Financial Report, Note 14: Contingencies and Commitments:

Obligations Related to Canceled Appropriations

Payments may be required of up to one percent of current year appropriations for valid obligations incurred against prior year appropriations that have been canceled pursuant to the National Defense Authorization Act of 1991 (P.L. 101-150). The total payments related to canceled appropriations are estimated at $1.1 billion and $1.3 billion as of September 30, 2011, and 2010, respectively.32

Excerpt from Dept. of Defense 2011 Agency Financial Report, Note 16: Commitments and Contingencies:

Other Commitments and Contingencies

The Department is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of expenditures. Currently, the Department has limited automated system processes by which it captures or assesses these potential contingent liabilities, therefore, the amounts reported may not fairly present the Department’s contingent liabilities. Contingencies considered both measurable and probable have been recognized as liabilities. Refer to Note 15, Other Liabilities, for further information.33


Excerpt from Dept. of Energy 2011 Agency Financial Report, Note 18: Contingencies and Commitments:

**PURCHASE POWER AND TRANSMISSION COMMITMENTS AND IRRIGATION ASSISTANCE**

The PMAs have entered into commitments to sell expected generation for future dates. When the PMAs forecast a resource shortage based on expected obligations and the historical record, they take a variety of steps to cover the shortage. If appropriate, the PMAs will enter into long-term commitments to purchase power for future delivery. The PMAs record expenses associated with these purchases in the periods that power is received.

As directed by legislation, BPA is required to make cash distributions to Treasury for original construction costs of certain Pacific Northwest irrigation projects that have been determined to be beyond the irrigators' ability to pay. These irrigation distributions do not specifically relate to power generation. In establishing power rates, particular statutory provisions guide the assumptions that BPA makes as to the amount and timing of such distributions. Accordingly, these distributions are recorded as program costs when paid. Future irrigation assistance payments are scheduled over a maximum of 66 years since the time the irrigation facilities were completed and placed in service. BPA is required by the Grand Coulee Dam - Third Power Plant Act to demonstrate that reimbursable costs will be returned to the Treasury from BPA within the period prescribed by law. BPA is required to make a similar demonstration for the costs of irrigation projects to the extent the costs have been determined to be beyond the irrigators' ability to repay. These requirements are met by conducting power repayment studies including schedules of distributions at the proposed rates to demonstrate repayment of principal within the allowable repayment period. Irrigation assistance excludes $40.3 million for Teton Dam, which failed prior to completion and for which BPA has no obligation to recover these costs.

The following table summarizes future purchase power and transmission commitments and irrigation assistance. The table includes firm purchase power agreements of known cost that are currently in place to assist in meeting expected future obligations under long-term power sales contracts.

<table>
<thead>
<tr>
<th>FISCAL YEAR ($ IN MILLIONS)</th>
<th>PURCHASE POWER AND TRANSMISSION</th>
<th>IRRIGATION ASSISTANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>258</td>
<td>1</td>
</tr>
<tr>
<td>2013</td>
<td>236</td>
<td>139</td>
</tr>
<tr>
<td>2014</td>
<td>159</td>
<td>62</td>
</tr>
<tr>
<td>2015</td>
<td>101</td>
<td>85</td>
</tr>
<tr>
<td>2016</td>
<td>86</td>
<td>117</td>
</tr>
<tr>
<td>2017+</td>
<td>219</td>
<td>2,599</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,059</strong></td>
<td><strong>$3,003</strong></td>
</tr>
</tbody>
</table>

RISK ASSUMED

PROJECT PLAN

Purpose: This project is being undertaken by the Federal Accounting Standards Advisory Board (FASAB) because existing FASAB standards on risk assumed are limited to insurance contracts and explicit guarantees (other than loan guarantees). Because the federal government has a variety of responsibilities and consequently assumes a range of risks, it is important that FASAB revisit its existing standards. For example, when implementing policy initiatives to stabilize financial markets and the economy, the federal government explicitly assumed risks previously considered by some to have implied backing of the federal government. It provided financial support to government-sponsored enterprises (GSE) and private sector institutions and purchased or guaranteed troubled assets.

In order to meet the stewardship and operating performance objectives of federal financial reporting,\(^1\) it is important that the federal government reports all significant risks assumed, not just risks related to insurance contracts and explicit guarantees.

For additional information on the project, you may read the Background section in the Appendix to Tab D.\(^2\)

Applicability: This project applies to the federal government as a whole and all component entities that present general purpose federal financial reports in conformance with Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles (GAAP), Including the Application of Standards Issued by the Financial Accounting Standards Board (FASB).*

Objectives: The primary objective of this project is to study the significant risks assumed by the federal government and develop (a) definitions of risk assumed, (b) related recognition and measurement criteria, and (c) disclosure and/or required supplementary information (RSI) guidance that federal agencies can apply consistently in accordance with GAAP.

Assigned staff: Julia Ranagan
Ross Simms
Monica Valentine

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\(^2\) Progress made in this project could help inform the Reporting Model Project. As part of the Reporting Model project, staff seeks to determine how to present information so that users better understand the distinctions among items of information such as liabilities, risk assumed presented as RSI, and sustainability reporting.
Other resources: After a brief initial research phase, staff plans to utilize a multi-disciplinary task force, including sub-groups to address specific topics.

Timeline: September – November 2011
- Develop a preliminary inventory and groupings of risk assumed
- Conduct limited research on groupings
- Develop task force plan and organize task force

December 2011 – January 2013
- Utilizing task force input, as appropriate, develop risk assumed definitions, measurement and recognition criteria, and disclosure and/or RSI guidance
- Consider whether a phased approach may be more appropriate
- Report to the board as issues are developed that require board decisions

February – August 2013
- Develop exposure draft (ED)

September 2013
- Issue ED for comment
- Conduct pilot testing

February 2014
- Hold public hearing

March - May 2014
- Finalize standard

June 2014
- Transmit final SFFAS to sponsors for 90-day review

September 2014
- Issue SFFAS

October 2014 – February 2015
- Develop implementation guidance, if necessary