



***Federal Accounting Standards Advisory Board***

***FASAB's Role, Concepts and Standards  
&  
Our Nation's Current Unsustainable Course***

***Association of Government Accountants (AGA)  
Fall Seminar  
Northern New Jersey Chapter***

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# Disclaimer

- Views expressed are those of the speaker. The Board expresses its views in official publications.



## ***FASAB's Role, Concepts and Standards***

The FASAB **serves the public** interest by **improving federal financial reporting** through **issuing federal financial accounting standards** and **providing guidance** after considering the needs of external and internal users of federal financial information.

# House Committee on Government Oversight and Reform

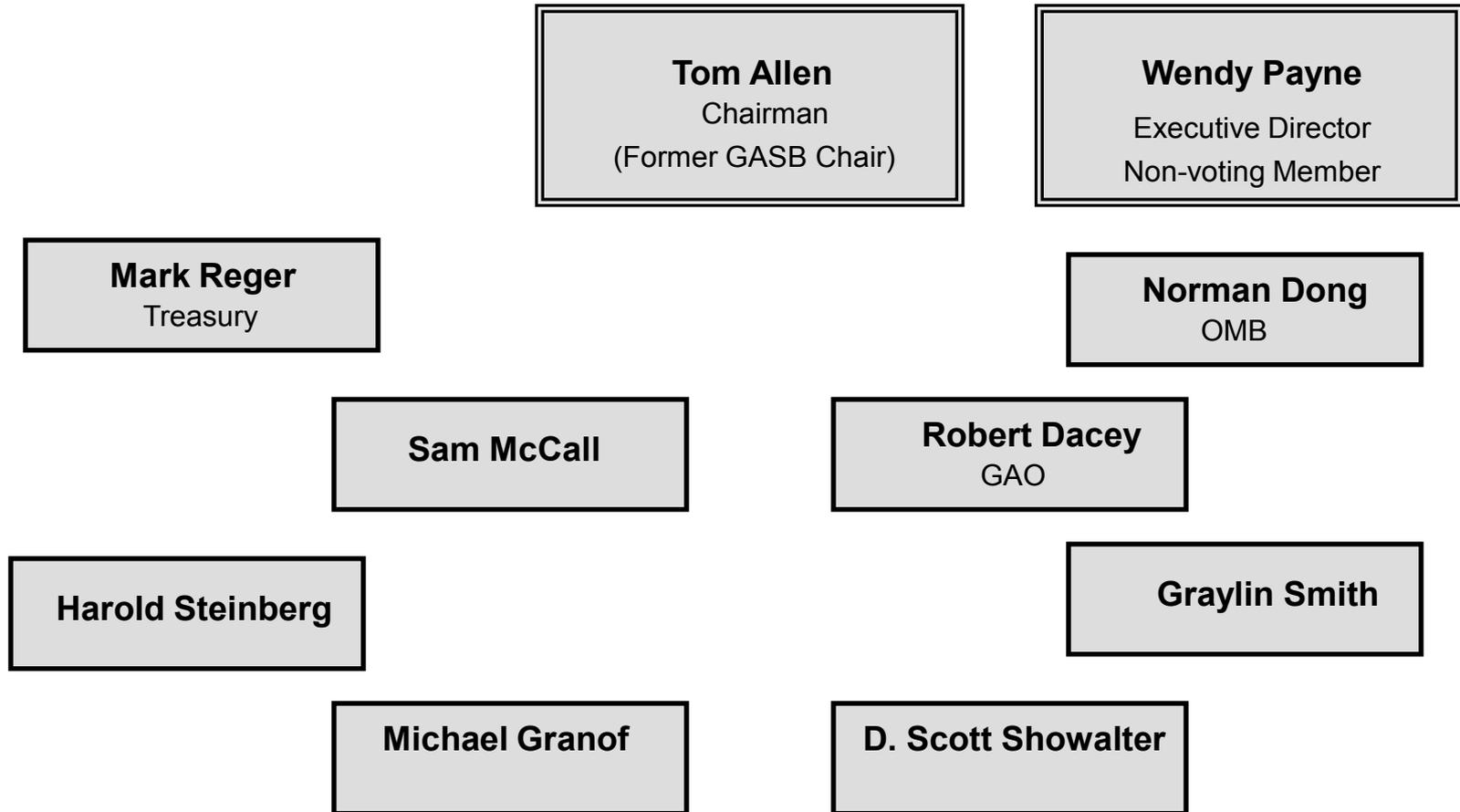
- [http://www.youtube.com/watch?v=EbWRu\\_8MkbA](http://www.youtube.com/watch?v=EbWRu_8MkbA)
- *Making Sense Of The Numbers: Improving The Federal Financial Reporting Model* - House Oversight Committee, February 16, 2011
- Please see this clip beginning at the 48 minute mark to first hear Mr. Cooper, followed by Mr. Connolly at about 49:30 seconds.
- Listen carefully at 50:45 seconds; requirement for governments to disclose unfunded liabilities.
- What did Mr. Connolly ask? What was Mr. Allen's reply? What was Mr. Connolly saying or implying?
- What is a standard-setter's proper role? What is your role as an accountant or auditor? What is management responsible for? To whom are each accountable?

# What is FASAB?

## One of three U.S. Accounting Standards-Setting Organizations



# Who is FASAB? We currently have 9 board members supported by 8 staff.



# Federal Accounting Prior to 1990

- Fragmented approach
- 3 Central Agencies
  - Treasury = financial reporting
  - Office of Management and Budget (OMB) = budgetary reporting
  - General Accounting Office (GAO) = accounting standards, principles and auditing

# Federal Accounting After 1990

- Chief Financial Officers Act of 1990
  - Agencies & Government produce financial statements
  - Agency & Government financial statements audited
  - Federal Accounting Standards Advisory Board (FASAB) created to set-up Standards for Accounting and Reporting

# Federal GAAP

- Level A
  - FASAB Statements and Interpretations
    - FASAB Standards and Interpretations will be periodically incorporated in a publication by the FASAB.
- Level B
  - FASAB Technical Bulletins
  - If specifically made applicable to federal reporting entities by the AICPA and cleared by the FASAB, AICPA Industry Audit and Accounting Guides.

# Federal GAAP

- Level C
  - Technical Releases of the Accounting and Auditing Policy Committee of the FASAB.
- Level D
  - Implementation guides published by the FASAB staff, as well as practices that are widely recognized and prevalent in the federal government.

# FASAB Concepts Statements



# Statements of Federal Financial Accounting Concepts (SFFACs)

- SFFAC 1 - Objectives
- SFFAC 2 - Entity & Display
- SFFAC 3 - Management's Discussion & Analysis
- SFFAC 4 - Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government
- SFFAC 5 - Definitions of Elements of Accrual Basis Financial Statements
- SFFAC 6 - Distinguishing Basic Information, RSI, and OAI
- SFFAC 7 - Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording

# SFFAC 1 – Objectives of Federal Financial Reporting

Uncle Sam is the **BOSS!!**

- **B**udgetary integrity
  - support of budget process; linking accounting and budgeting
- **O**perating performance
  - more meaningful data; cost/benefit and performance data
- **S**tewardship
  - improved accountability of resources
- **S**ystems and Control
  - cost effective systems and controls

# SFFAC 2 – Entity and Display

- Guidance on what should be on an entity's financial reports
- Types of entities that should have financial reports
- Establishes types of financial reports
- Suggests types of information for each type of report
- **Current project status** - questions continue whether certain activities should be included with an entity; i.e., Core, non-core, and related party.
  - Federal Reserve, AIG, etc.
  - Bail-out entities; GM, Chrysler, etc.
  - Freddie/Fannie

# SFFAC 2 – Entity and Display

- Stock statement - Balance Sheet
- Flow statements
  - Statement of Net Cost
  - Statement of Changes in Net Position
  - Statement of Custodial Activities
- Budget statement - Statement of Budgetary Resources
- Performance Measures Statement - Statement of Program Performance Measures
- Other information - RSI, MD&A, Notes

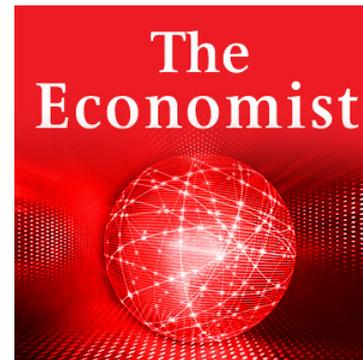
# SFFAC 3 – Management Discussion and Analysis

- Provides for a discussion of:
  - Performance measures
  - Financial statements
  - Systems and controls
  - Compliance w/ laws & regulations
  - Actions or plans to address problems
  - Significant events
  - Conditions
  - Trends
  - Contingencies



# SFFAC 4 – Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government

- **Citizens** and **citizen intermediaries** are the primary intended audience for the CFR.
- Understandability and timeliness are key qualitative characteristics for the CFR.



# SFFAC 5 - Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements

- *Asset* - a resource that embodies economic benefits or services that the federal government controls.
- *Liability* - a present obligation of the federal government to provide assets or services to another entity at a determinable date, when a specified event occurs, or on demand.
- *Revenue* - an inflow of or other increase in assets, a decrease in liabilities, or a combination of both that results in an increase in the government's net position during the reporting period.
- *Expense* - an outflow of or other decrease in assets, an increase in liabilities, or a combination of both that results in a decrease in the government's net position during the reporting period.

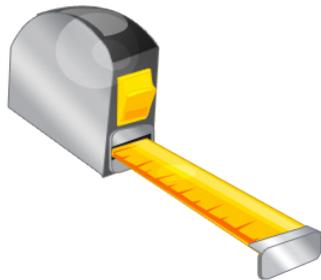
# SFFAC 6 – Distinguishing Basic Information, RSI, and OAI

- Provides guidance for determining classification of information.
- Clarifies differences between the classes of information.
  - Basic information is essential for the F/S and notes to be presented in conformity with GAAP.
  - RSI is information that a GAAP body requires to accompany basic information.
  - OAI is information that accompanies basic & RSI, but is not required by a body that establishes GAAP.



# SFFAC 7 - Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording

- Defines terms used in measuring assets, liabilities, and other elements
- Discusses areas for consideration by the Board when it deliberates measurement standards in the future
- Does not change existing standards



# FASAB Standards



# Statements of Federal Financial Accounting Standards (SFFASs)

- SFFAS 1 - Selected Asset & Liabilities
- SFFAS 2 - Direct Loans & Guarantees
- SFFAS 3 - Inventory & Related Property
- SFFAS 4 - Managerial Cost Accounting
- SFFAS 5 - Liabilities
- SFFAS 6 - Property, Plant & Equipment
- SFFAS 7 - Revenue
- SFFAS 8 - Stewardship
- SFFAS 9 - Deferral of Managerial Cost
- SFFAS 10 - Internal Use Software

# Statements of Federal Financial Accounting Standards (SFFASs)

- SFFAS 11 - Amendments to PP&E
- SFFAS 12 - Contingent Liabilities from Litigation
- SFFAS 13 - Deferral of Material Revenue - Related Transactions Disclosures (re: collection of taxes and duties)
- SFFAS 14 - Deferred Maintenance Reporting
- SFFAS 15 - Management's Discussion and Analysis
- SFFAS 16 – Amendments to Multi-use Heritage Assets
- SFFAS 17 - Social Insurance
- SFFAS 18 - Amendments to Direct & Guaranteed Loans

# Statements of Federal Financial Accounting Standards (SFFASs)

- SFFAS 19 - Technical Amendments - Direct & Guaranteed Loans
- SFFAS 20 – Eliminating Certain Tax Disclosures
- SFFAS 21 – Corrections of Errors and Changes in Accounting Principles
- SFFAS 22 – Reconciling Obligations and Net Cost
- SFFAS 23 – Eliminating the Category National Defense PP&E
- SFFAS 24 – Selected Standards for the Consolidated Financial Report of the US Government (CFR)
- SFFAS 25 – Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment

# Statements of Federal Financial Accounting Standards (SFFASs)

- SFFAS 26 – Presentation of Significant Assumptions for the Statement of Social Insurance
- SFFAS 27 – Identifying and Reporting Earmarked Funds
- SFFAS 28 – Deferral of the Effective Date of Reclassification of the Statement of Social Insurance
- SFFAS 29 – Heritage Assets and Stewardship Land
- SFFAS 30 – Inter-entity Cost Implementation
- SFFAS 31 – Accounting for Fiduciary Activities
- SFFAS 32 – CFR Requirements
- SFFAS 33 - Pensions, Other Retirement Benefits, and Other Post-employment benefits

# Statements of Federal Financial Accounting Standards (SFFASs)

- SFFAS 34 - Hierarchy of GAAP
- SFFAS 35 - Estimating the Historical Cost of General Property, Plant, and Equipment
- SFFAS 36 - Comprehensive Long-Term Projections for the U.S. Government
- SFFAS 37 - Social Insurance: Additional Requirements for MD&A and Basic Financial Statements
- SFFAS 38 - Accounting for Federal Oil and Gas Resources
- SFFAS 39 - Subsequent Events

# Statements of Federal Financial Accounting Standards (SFFASs)

- SFFAS 40 - Definitional Changes Related to Deferred Maintenance and Repairs
- SFFAS 41 - Deferral of the Effective Date of SFFAS 38, Accounting for Federal Oil and Gas Resources
- SFFAS 42 - Deferred Maintenance and Repairs
- SFFAS 43 - Funds from Dedicated Collections
- SFFAS 44 - Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use  
(Pending Congressional/Sponsor Review)

# SFFAS 1 – Selected Assets and Liabilities

- Asset Standards
  - Cash
  - Fund Balance with Treasury
  - Accounts Receivable
  - Interest Receivable
  - Advances and Prepayments
  - Investment in Treasury Securities
- Liability Standards
  - Accounts Payable
  - Interest Payable
  - Other Current Liabilities



# SFFAS 2 – Loans and Loan Guarantees

**Credit Reform Act of 1990 changed from a budgetary scoring approach to an accrual approach:**

- Direct loans - total outlay in first year
- Guaranteed loans - not reflected until in default
- **...to:**
  - Total estimated cost to Government (subsidy) reflected "up front"
- **Standards developed to support budget change**
  - Present value measurement of expected cash flows
  - Subsidy cost components
    - Interest
    - Default
    - Fees and other collections
    - Other subsidy cost
    - Periodic re-estimates



# SFFAS 3 – Inventory and Related Property

- Inventory Held for Sale
- Operating Material and Supplies
- Stockpile Materials
- Seized and Forfeited Property
- Foreclosed Property
- Goods Held Under Price Support and Stabilization Programs



# U.S. DEPARTMENT OF THE TREASURY

SEIZED & FORFEITED GENERAL PROPERTY PROGRAM

Sale No: 12-55- 069/373/754/857

## PUBLIC ONLINE AUCTION SEPTEMBER 25, 2012

ONLINE AUCTION BIDDING:  
WWW.RICKLEVIN.COM

ONLINE AUCTION OPENS:  
SEPTEMBER 21, 2012

ONLINE AUCTION CLOSES 11:00 AM CST:  
TUESDAY, SEPTEMBER 25, 2012

FULL PAYMENT\* BY 4PM EST:  
FRIDAY, SEPTEMBER 28, 2012

PROPERTY REMOVAL BY 4PM EST:

VSE will notify winners when they can schedule  
an appointment to pick up their vehicle.

*THIS WILL BE AT LEAST ONE WEEK  
FROM PAYMENT RECEIPT!*

**MUST Have an APPOINTMENT to Pick Up!**

Title Documents will be mailed to the winning bidder.

**Questions?**

Contact VSE M&S: 1-888-534-2828

VSE OFFICES CLOSED:

MONDAY, OCTOBER 8, 2012

MONDAY, NOVEMBER 12, 2012

THURSDAY, NOVEMBER 22, 2012

FRIDAY, NOVEMBER 23, 2012



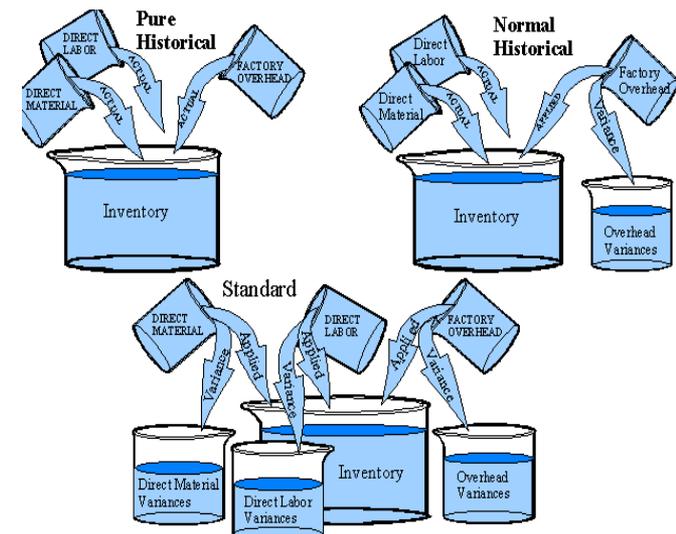
**\*PAYMENTS MUST BE MADE  
BY  
BANK WIRE OR CASHIER'S CHECK**



FOR MORE INFORMATION:  
WWW.TREAS.GOV/AUCTIONS/TREASURY/GP  
PUBLIC AUCTION LINE: 1-888-534-2828  
FOLLOW US ON TWITTER: @TREASAUCIONVSE

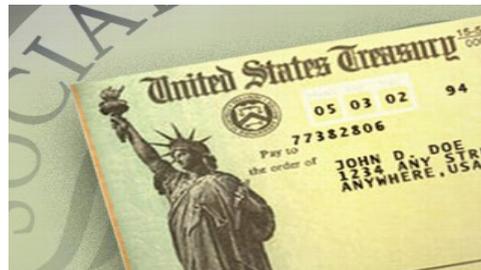
# SFFAS 4 – Managerial Cost Accounting

- Concepts Cover
  - Common data source
  - Relationship of cost accounting to financial management
  - Reconciliation of information
- Standards Address
  - Requirement for cost accounting
  - Responsibility segments
  - Full cost
  - Inter-entity costs
  - Costing methodology



# SFFAS 5 - Liabilities

- Probable future outflow or other sacrifice of resources
- Based on past transaction or event
  - Exchange transactions
  - Non-exchange transactions
  - Government-related events
  - Government-acknowledged events



# SFFAS 6 – Property, Plant, and Equipment

- **Tangible assets**
  - Useful life of 2 or more years
  - Not for sale in ordinary course of business
  - To be used or available for use by the entity
  - Includes
    - Land and buildings
    - Weapons systems
    - Assets acquired through capital leases
    - PP&E owned by reporting entity but held by others
    - Internally-developed software (SFFAS 10 modified and expanded this)
- **Categories of PP&E**
  - General PP&E
  - Heritage Assets
  - Stewardship Land
- **Other Areas Addressed**
  - Deferred Maintenance (SFFAS' 14, 40 and 42 modified this) and Cleanup Costs

# Big Picture

2011 Financial Report of the United States Government, Note 8 page 79.

## Note 8. Property, Plant, and Equipment, Net

### Property, Plant, and Equipment as of September 30, 2011

(In billions of dollars)	<u>Cost</u>		<u>Accumulated Depreciation/Amortization</u>		<u>Net</u>	
	Defense	All Others	Defense	All Others	Defense	All Others
Buildings, structures, and facilities.....	230.2	220.6	118.6	115.5	111.6	105.1
Furniture, fixtures, and equipment.....	945.1	161.6	511.1	98.3	434.0	63.3
Construction in progress.....	46.5	47.5	N/A	N/A	46.5	47.5
Land.....	10.6	11.9	N/A	N/A	10.6	11.9
Internal use software.....	10.0	19.9	6.9	10.7	3.1	9.2
Assets under capital lease.....	1.2	2.9	0.7	1.5	0.5	1.4
Leasehold improvements.....	1.0	6.9	0.5	3.6	0.5	3.3
Other property, plant, and equipment.....	1.2	6.2	-	3.1	1.2	3.1
Subtotal.....	<u>1,245.8</u>	<u>477.5</u>	<u>637.8</u>	<u>232.7</u>	<u>608.0</u>	<u>244.8</u>
Total property, plant, and equipment, net.....		<u>1,723.3</u>		<u>870.5</u>		<u>852.8</u>

# SFFAS 7 – Revenue and Other Financing Sources

- Exchange - entity has earned; each party sacrifices and receives value
- Non-exchange - inflow of resources that Government demands or receives by donation
  - Taxes and duties
  - Fines and penalties
  - Donations
- Other financing sources - inflows of resources that increase net position
  - Appropriations
  - Transfers of assets
  - Financing imputed for cost subsidies

# SFFAS 7 – Revenue and Other Financing Sources

- Created ‘Statement of Financing’
  - Relates budgetary obligations to costs
  - Starts with "Obligations Incurred" from the Statement of Budgetary Resources
  - Concludes with "Net Cost of Operations" as shown on the Statement of Net Cost
  - Reconciliation provides budget-basis equivalent of the net resources consumed.
- Now presented as a note.

**United States Government  
Statements of Operations and Changes in Net Position  
for the Years Ended September 30, 2011, and 2010**

	Non-	Earmarked	Consolidated	Non-	Earmarked	Consolidated
	Funds	Funds		Funds	Funds	
(In billions of dollars)	2011			2010		
<b>Revenue:</b>						
Individual income tax and tax withholdings .....	1,092.9	772.9	1,865.8	902.6	830.3	1,732.9
Corporation income taxes .....	175.1		175.1	179.6		179.6
Unemployment taxes .....		56.1	56.1		45.2	45.2
Excise taxes .....	21.3	52.2	73.5	22.6	49.0	71.6
Estate and gift taxes .....	7.3		7.3	18.8		18.8
Customs duties .....	28.5		28.5	25.1		25.1
Other taxes and receipts .....	120.4	20.9	141.3	96.9	30.6	127.5
Miscellaneous earned revenues .....	11.3	4.9	16.2	11.3	4.5	15.8
Intragovernmental interest .....		202.0	202.0		195.0	195.0
Total revenue .....	<u>1,456.8</u>	<u>1,109.0</u>	<u>2,565.8</u>	<u>1,256.9</u>	<u>1,154.6</u>	<u>2,411.5</u>
Eliminations .....			(202.0)			(195.0)
Consolidated revenue .....			<u>2,363.8</u>			<u>2,216.5</u>

# SFFAS 8 – Supplementary Stewardship Information

- This category is being phased-out
- Stewardship Property, Plant and Equipment – amended SFFAS 29
  - Heritage Assets
  - Federal Mission (National Defense) PP&E
  - Stewardship Land
- Stewardship Investments
  - Non-federal Physical Property
  - Human Capital
  - Research and Development
- Stewardship Responsibilities
  - Current Services Assessment (Rescinded by SFFAS 25)

# Stewardship Reporting Today

## Stewardship Objective

**Basic Financial Statements/Notes**

**Examples:**

1. Stewardship Land & Heritage Assets
2. Statements of Social Insurance

**Required Supplementary Information**

**Examples:**

1. Statement of LT Fiscal Projections
2. Deferred Maintenance & Repairs

**Required Supplementary Stewardship Information**

**Examples:**

1. Non-Federal Physical Property
2. Human Capital
3. R&D costs

# Basic Financial Statements/Notes

<b>Balance Sheet</b>			
as of September 30, 2011 and 2010			
<i>(dollars in thousands)</i>		FY 2011	FY 2010
<b>ASSETS</b>			
<b>Intragovernmental Assets:</b>			
Fund Balance with Treasury (Note 2)		\$ 43,662,297	\$ 42,361,746
Investments, Net (Note 3)		6,748,299	7,290,284
Accounts and Interest Receivable (Note 4)		1,940,799	1,864,132
Loans and Interest Receivable, Net (Note 5)		3,209,638	3,234,340
Other		2,076	2,989
<b>Total Intragovernmental Assets</b>		<b>\$ 55,563,109</b>	<b>\$ 54,753,491</b>
Cash		449	457
Investments, Net (Note 3)		20	21
Accounts and Interest Receivable, Net (Note 4)		1,521,541	1,285,003
Loans and Interest Receivable, Net (Note 6)		79,605	101,860
Inventory and Related Property, Net (Note 7)		168,894	205,674
General Property, Plant and Equipment, Net (Note 8)		20,414,677	19,691,226
Other		254,009	297,350
<b>TOTAL ASSETS (Note 10)</b>		<b>\$ 78,002,304</b>	<b>\$ 76,335,082</b>
<b>Stewardship Assets (Note 9)</b>			
<b>LIABILITIES</b>			
<b>Intragovernmental Liabilities:</b>			
Accounts Payable		\$ 631,777	\$ 616,958
Debt (Note 11)		277,325	490,410
Other			
Liability for Capital Transfers to the General Fund of the Treasury (Note 21)		1,828,365	1,820,533
Advances and Deferred Revenue		427,440	485,879

# Required Supplementary Information

FY2011 Department of the Interior

## REQUIRED SUPPLEMENTARY INFORMATION

FY 2011 Deferred Maintenance as of September 30, 2011						
Type of Deferred Maintenance <i>(dollars in thousands)</i>	General PP&E		Stewardship PP&E		Total	
	Low End of Range	High End of Range	Low End of Range	High End of Range	Low End of Range	High End of Range
Roads Bridges and Trails	\$ 5,594,177	\$ 8,243,213	\$ 1,128,096	\$ 1,599,514	\$ 6,722,273	\$ 9,842,727
Irrigation, Dams, and Other Water Structures	1,152,203	1,772,376	772,969	1,160,538	1,925,172	2,932,914
Buildings (e.g. Administration, Education, Housing, Historic Buildings, etc.)	1,749,814	2,562,234	1,181,777	1,737,907	2,931,591	4,300,141
Other Structures (e.g. Recreation sites, Hatcheries, etc.)	1,512,863	2,214,894	469,199	689,998	1,982,062	2,904,892
<b>Total</b>	<b>\$ 10,009,057</b>	<b>\$ 14,792,717</b>	<b>\$ 3,552,041</b>	<b>\$ 5,187,957</b>	<b>\$ 13,561,098</b>	<b>\$ 19,980,674</b>

# Required Supplementary Stewardship Information

FY2011 Department of the Interior

## REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

*Unaudited, see accompanying Auditors' Report*

Investment in Research and Development						(dollars in thousands)
Category	FY 2007	FY 2008	FY 2009	FY2010	FY2011	Total
Basic Research	\$ 63,000	\$ 65,000	\$ 69,000	\$ 73,000	\$ 60,000	\$ 330,000
Applied Research	728,000	746,000	755,000	967,000	796,000	3,992,000
Developmental Research	76,000	74,000	77,000	83,000	83,000	393,000
<b>TOTAL</b>	<b>\$ 867,000</b>	<b>\$ 885,000</b>	<b>\$ 901,000</b>	<b>\$ 1,123,000</b>	<b>\$ 939,000</b>	<b>\$ 4,715,000</b>

### Investment in Research and Development

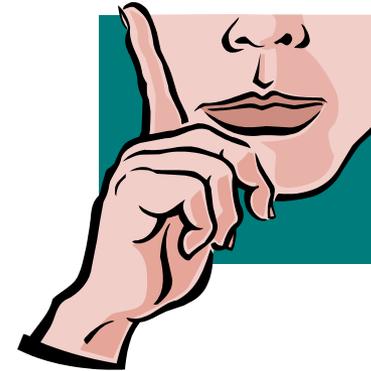
# SFFAS 9 – Deferral of SFFAS 4

- Deferred effective date of Managerial Cost Accounting Standards
- Implementation period deemed too short
- SFFAS 4 is currently effective



# SFFAS 10 – Internal Use Software

- Capitalize and depreciate
  - Commercial-off-the-shelf
  - Contractor-developed
  - Internally-developed
- Capitalize “full cost” after feasibility is established.
- Expands and revises software treatment in SFFAS 6



# SFFAS 11 – Amendments to SFFAS 6

- Rescinded by SFFAS 23
- Eliminates “Federal mission PP&E”
  - Excludes space exploration equipment
- Created “National defense PP&E”
  - Defense weapons systems
  - Maritime Administration’s National Defense Reserve Fleet
- Revised and expanded one category in SFFAS 6 and 8

# SFFAS 12 – Contingent Liabilities from Litigation

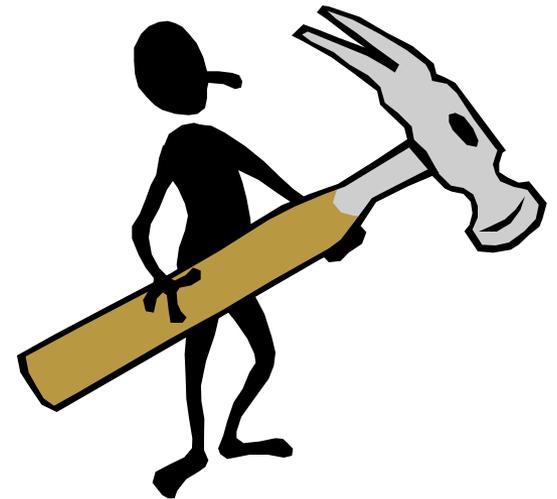
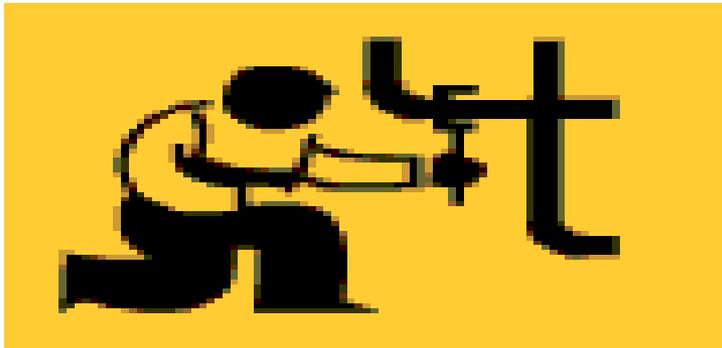
- Scope
  - Pending or threatened litigation
  - Unasserted claims
- Recognition when future outflow
  - Likely to occur (>85%) vs.
  - More likely than not (>50%)
- Revises a selected portion of SFFAS 5 because the “more likely than not” threshold could not be applied

# SFFAS 13 – Deferral of Paragraph 65.2 SFFAS 7

- Defers disclosures by entities that collect taxes and duties (reconciliation of beginning and ending taxes receivable)
- Reconciliation not possible
- (Paragraph 65.2 was subsequently rescinded.)

# SFFAS 14 – Amendments to SFFAS 6 and 8

- Deferred maintenance reporting change
  - No longer in notes to financial statements
  - Now Required Supplemental Information (RSI)
- Rescinded by SFFAS 42



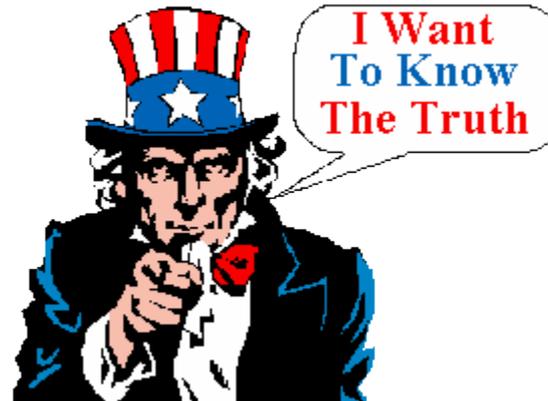
# SFFAS 15 – Management’s Discussion and Analysis

- Management’s Discussion & Analysis (MD&A) is Required Supplemental Information (RSI)
- MD&A should address
  - Mission & organizational structure
  - Performance goals and results
  - Financial statements



# SFFAS 15 – Management’s Discussion and Analysis

- (continued) MD&A should address
  - Systems, controls, and legal compliance
  - Future effects of existing, currently known
    - Demands
    - Risks
    - Uncertainties
    - Events
    - Conditions
    - Trends



# SFFAS 16 – Amendments to SFFAS 6 & 8

- Re-defined Multi-use Heritage Assets
  - No longer split operational (capitalized) from the heritage portion (expensed)
  - If predominant use is general governmental operations
    - Capitalize acquisition, reconstruction, betterment costs
    - Depreciate



# SFFAS 17 – Social Insurance

- Covers
  - Social Security
  - OASDI
  - Medicare Parts A & B
  - Railroad Retirement benefits
  - Black Lung benefits
  - Unemployment Insurance
- Liability - benefits due & payable
- Expense - benefits paid
- Other reports, e.g., actuarial PV of future expenditures & contributions, cash flow, contributor to beneficiary ratios
- Required Supplemental Stewardship Information (RSSI)  
[SFFAS 26 reclassified most RSSI as RSI]
- Refer to SFFAS 37 for additional requirements



# SFFAS 18: Direct Loans & Loan Guarantees – Amends SFFAS 2

- Subsidy re-estimates reported as:
  - Interest rate re-estimates
  - Technical/default re-estimates
- Note reconciling beginning & ending subsidy allowance & loan guarantee liability
- Disclosing changes in risk factors affecting subsidy costs



# SFFAS 19 – Direct Loans & Loan Guarantees: Amends SFFAS 2

- Cash flow discount method should be consistent with Federal Credit Reform Act of 1990, amended July 1997
- Effective cohort interest rate should be adjusted for interest rate re-estimate
- Default cost measurement should reflect certain cash flow elements

# SFFAS 20 – Elimination of Certain Disclosures Related to Tax Revenue

- Affecting transactions by the Internal Revenue Service, Customs, and Others
- Rescinded paragraph 65.2 of SFFAS 7 (which required certain disclosures that could have resulted in reader misinterpretations)



# SFFAS 21 – Correction of Errors and Changes in Accounting Principles

- Prior period financial statements should only be restated for corrections of errors that would have caused any statements presented to be materially misstated.
- The nature of the changes in accounting principle and its effect on relevant balances should be disclosed in the current period. Prior period financial statements presented for comparative purposes should be presented as previously reported.



# SFFAS 22 – Reconciling Obligations and Net Costs (See SFFAS 7)

- Deletes certain requirements regarding an element of the reconciliation between:
  - Budgetary resources obligated
  - Net cost of operations



# SFFAS 23 – Eliminating the Category National Defense PP&E (SFFAS 11)

- Eliminates the category “national defense PP&E”
- This category was exempt from capitalization and depreciation
- National defense assets now subject to SFFAS 6



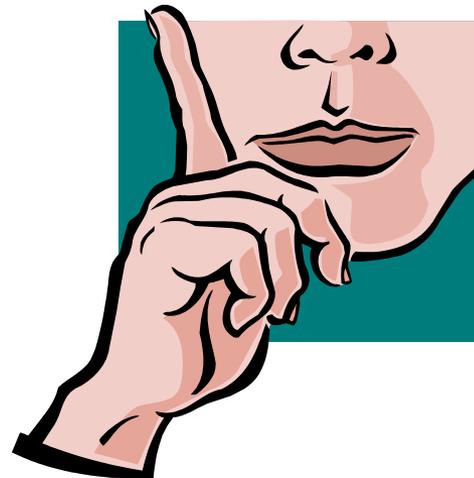
# SFFAS 24 – Selected Standards for the CFS of the U.S. Government

- Applies to the Consolidated Financial Report (CFR) of the U.S. Government
- Requires that the CFR present two financial statements that **reconcile the budget deficit with net operating cost and the change in operating cash.**



# SFFAS 25 – Reclassification of Stewardship Responsibilities

- Reclassifies the Statement of Social Insurance as a basic financial statement
- Eliminates current services assessment
- Additional information classified as RSI
  - Stewardship land



# SFFAS 26 – Presentation of Significant Assumptions for the SOSI

- Amends SFFAS 25
- Applies to the Statement of Social Insurance (SOSI)
- Requires that significant assumptions be presented as a note to the SOSI

**Table 1A**  
**Social Security – Demographic and Economic Assumptions**

Demographic Assumptions						
Year	Total Fertility Rate <sup>1</sup>	Age-Sex Adjusted Death Rate <sup>2</sup> (per 100,000)	Net Immigration <sup>3</sup> (persons)	Period Life Expectancy at Birth <sup>4</sup>		
				Male	Female	
2011	2.07	766.5	895,000	75.9	80.6	
2020	2.05	707.8	1,195,000	77.1	81.4	
2030	2.02	648.7	1,115,000	78.2	82.4	
2040	2.00	596.6	1,070,000	79.3	83.3	
2050	2.00	550.8	1,050,000	80.3	84.1	
2060	2.00	510.5	1,040,000	81.3	84.9	
2070	2.00	474.9	1,030,000	82.1	85.7	
2080	2.00	443.2	1,030,000	82.9	86.4	

Economic Assumptions						
Year	Real Wage Differential <sup>5</sup> (percent)	Average Annual Wage in Covered Employment <sup>6</sup> (percent change)	CPI <sup>7</sup> (percent change)	Real GDP <sup>8</sup> (percent change)	Total Employment <sup>9</sup> (percent change)	Average Annual Interest Rate <sup>10</sup> (percent)
2020	1.1	3.9	2.8	2.1	0.5	5.7
2030	1.2	4.0	2.8	2.2	0.5	5.7
2040	1.2	4.0	2.8	2.2	0.5	5.7
2050	1.2	4.0	2.8	2.2	0.5	5.7
2060	1.1	3.9	2.8	2.1	0.5	5.7
2070	1.1	3.9	2.8	2.1	0.4	5.7
2080	1.2	4.0	2.8	2.1	0.4	5.7

# SFFAS 27 – Identifying and Reporting Earmarked Funds

- Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time.
- Requires separate reporting beginning in fiscal year 2006.
- Amended by SFFAS 43.



# SFFAS 28 – Deferral of Effective Date of SOSI Reclassification

- Deferral to FY 2006



# SFFAS 29 – Heritage Assets and Stewardship Land

- Reclassified information regarding heritage assets and stewardship land from Required Supplementary Stewardship Information to basic and RSI.
- Effective for fiscal year 2009. Implementation was phased with some requirements in place in FY2006.

# SFFAS 30 – Inter-entity Costs

## Implementation: Amends SFFAS 4

- Provided that material inter-entity costs should be recognized by receiving entities
  - Implements major provision of SFFAS 4
  - Excludes broad and general support costs

# SFFAS 31 – Accounting for Fiduciary Activities

- “Fiduciary activities” are those Federal Government activities that relate to the collection or receipt, and the subsequent management, protection, accounting, investment and disposition of cash or other assets in which non-Federal individuals or entities (“non-Federal parties”) have an ownership interest that the Federal Government must uphold.
- The note that discloses significant accounting policies must include a statement that fiduciary assets are not assets of the Federal reporting entity, and are not recognized on the balance sheet.
- Information about fiduciary activities must be provided in a note reporting a schedule of net assets and changes in net assets.

# SFFAS 32 – CFR Requirements

- Implementing Statement of Federal Financial Accounting Concepts 4 *“Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government”*
- Identified disclosure requirements that were not applicable at the government-wide reporting level.
- Requires that the CFR direct readers to agency reports in some instances

# SFFAS 33 – Pensions, ORB, OPB

## Title:

*Pensions, Other Retirement Benefits, and Other Post-employment benefits: Reporting Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*

- Established guidance for selection of discount rates and valuation dates.
- Requires below the line presentation of gains and losses from changes in assumptions.
- Effective for fiscal year 2010

## SFFAS 34: Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board

- Incorporates the hierarchy of generally accepted accounting principles (GAAP) into the FASAB's authoritative literature.
- Allows federal entities that have issued general purpose financial reports prior to October 19, 1999, in conformance with accounting and reporting principles issued by the FASB, to continue to do so.
- Provides guidance for federal entities that are preparing GAAP-based general purpose financial reports for the first time.

# SFFAS 35: Estimating the Historical Cost of General Property, Plant, and Equipment – Amends SFFAS 6 and 23

- Amends SFFAS 6 and 23 to clarify that reasonable estimates of original transaction data historical cost may be used to value general property, plant, and equipment.
- Primary objective is a cost effective method for attaining compliance with SFFAS 6 as amended.



# SFFAS 36: Comprehensive Long-Term Projections for the U.S. Government

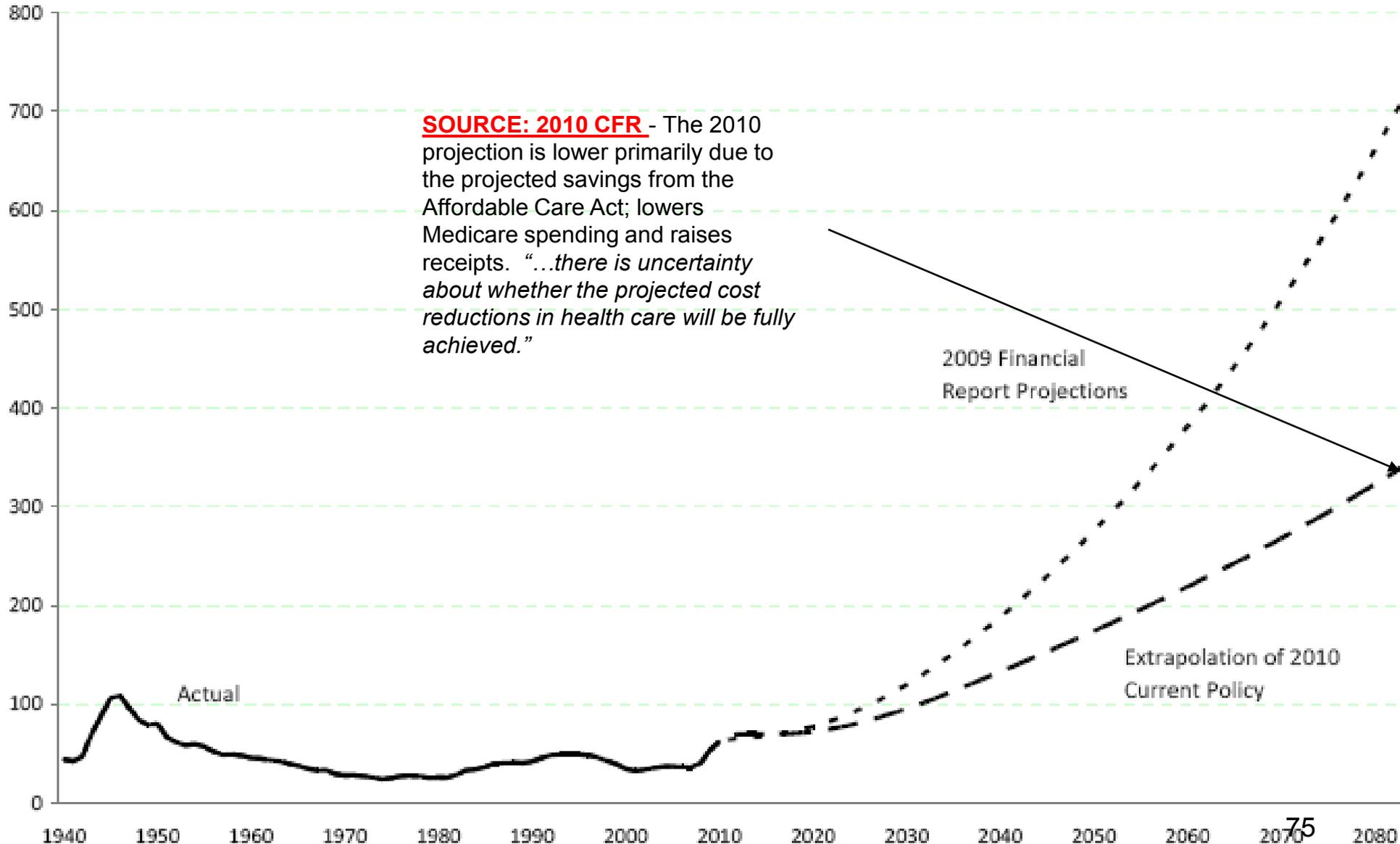
- A basic financial statement in the consolidated financial report of the U.S. Government (CFR) presenting for all the activities of the federal government:
  - a. the present value of projected receipts and non-interest spending under current policy without change,
  - b. the relationship of these amounts to projected Gross Domestic Product (GDP), and
  - c. changes in the present value of projected receipts and non-interest spending from the prior year

# SFFAS 36: Comprehensive Long-Term Projections for the U.S. Government

- Required Supplementary Information (RSI) that explains and illustrates
  - a. the projected trends in:
    - the relationship between receipts and spending,
    - deficits or surpluses,
    - Treasury debt held by the public as a share of GDP,
  - b. possible results using alternative scenarios, and
  - c. the likely impact of delaying corrective action when a fiscal gap exists
- Disclosures that explain and illustrate:
  - a. the assumptions underlying the projections,
  - b. factors influencing trends, and
  - c. significant changes in the projections from period to period

# Chart 3: Historical and Current Policy Projections for Debt Held By the Public, 1940-2085

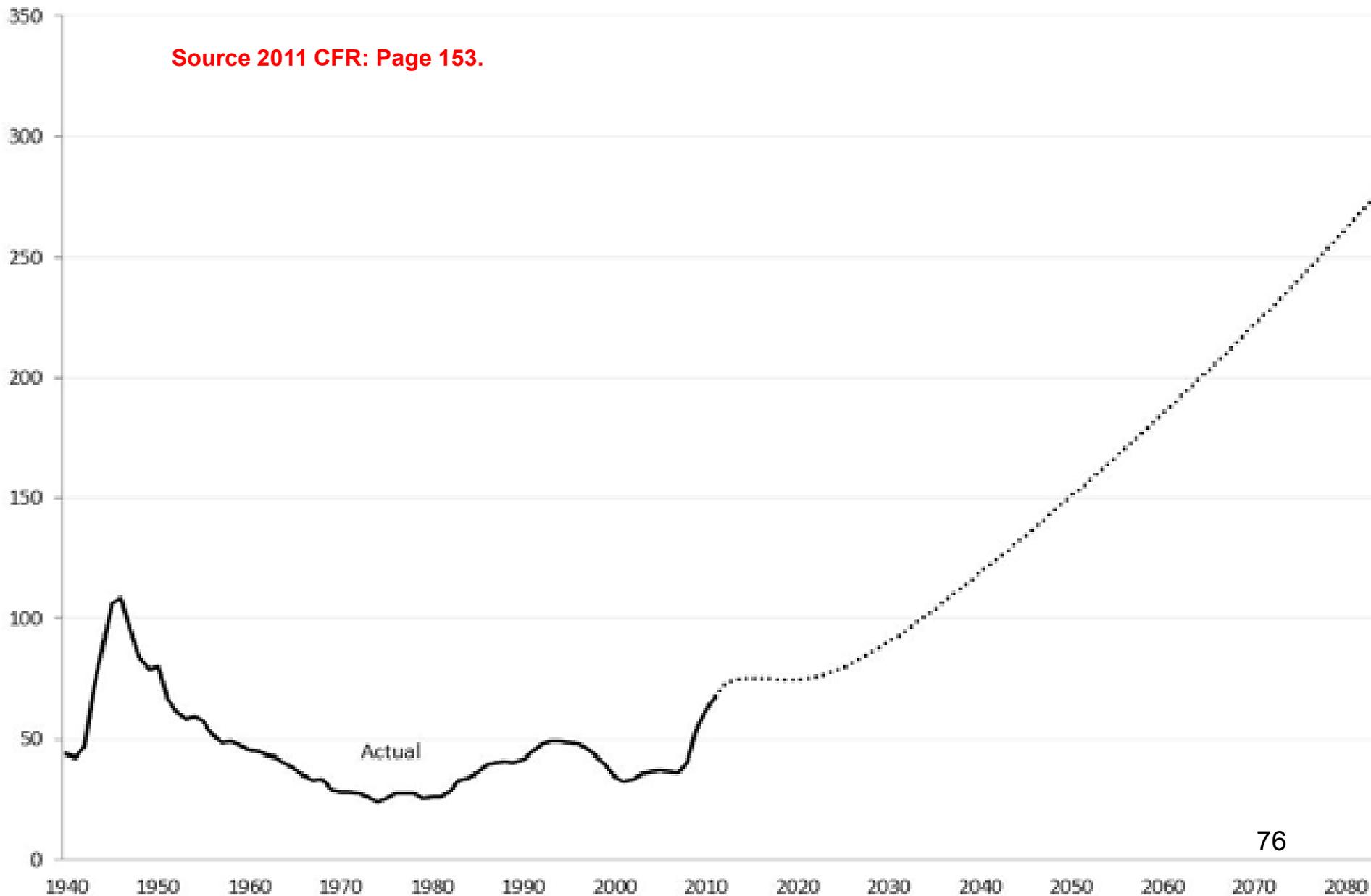
Percent of GDP



### Chart 3: History and Current Policy Projections for Debt Held By the Public, 1940-2086

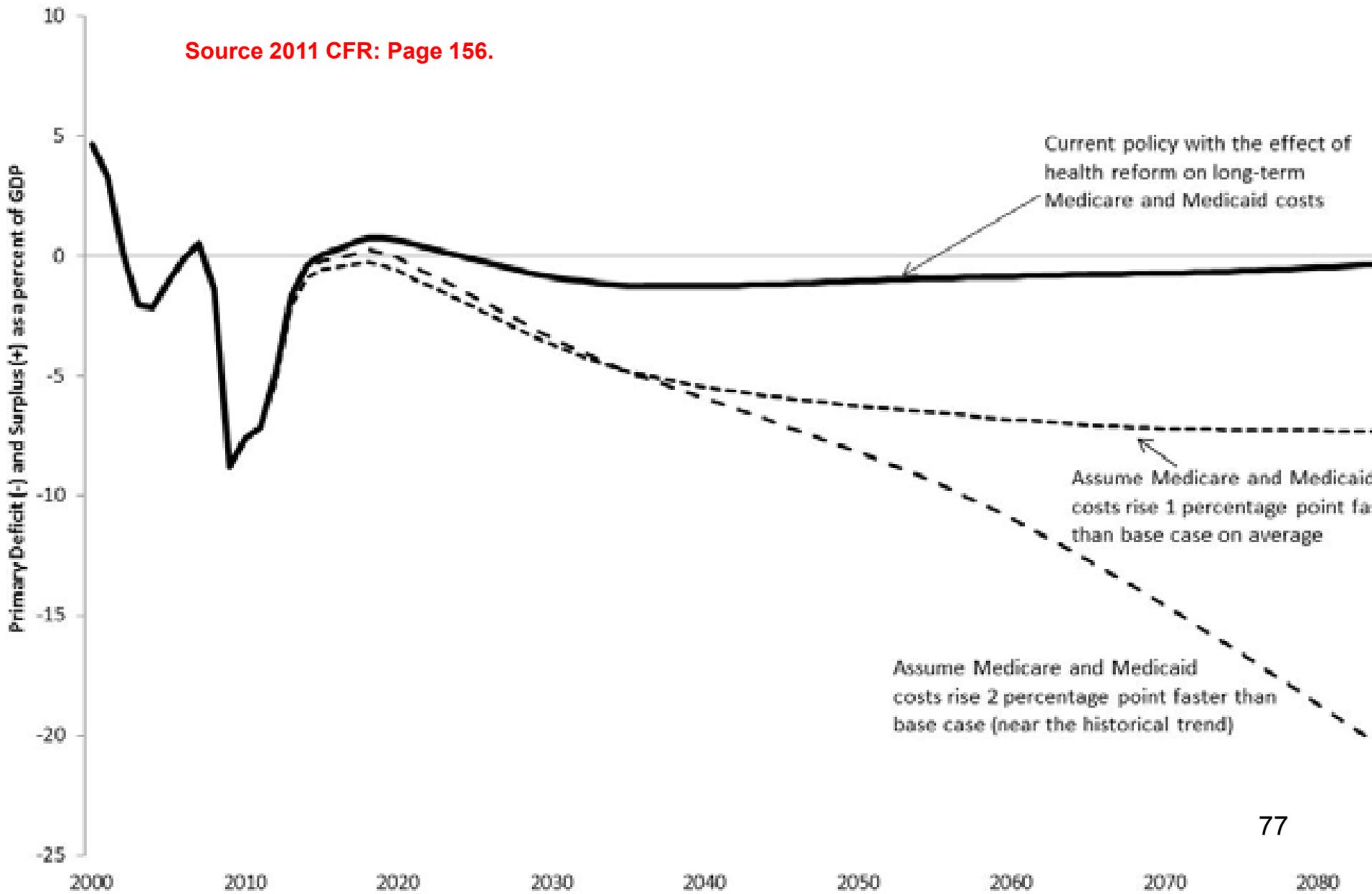
Percent of GDP

Source 2011 CFR: Page 153.



**Chart 5: The projected primary deficit becomes far deeper if health care costs grow more rapidly than projected under current policy.**

Source 2011 CFR: Page 156.



# SFFAS 37: Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements

- Additional reporting in the MD&A:
  - Critical information about costs, assets and liabilities, social insurance commitments, budget flows, and long-term fiscal projections together in one section
  - a table or other singular presentation of key measures
- A new summary section for the statement of social insurance.
- A new basic financial statement to present the reasons for changes during the reporting period in the open group measure reported on the statement of social insurance.

**United States Government**  
**Statement of Changes in Social Insurance Amounts**  
**for the Year Ended September 30, 2011 (Note 26)**

(In billions of dollars)	Social Security	Medicare HI	Medicare SMI	Other (e.g. Railroad Retirement)	Total
Net present value (NPV) of future revenue less future expenditures for current and future participants (the "open group") over the next 75 years, beginning of the year .....	(7,947)	(2,683)	(20,130)	(97)	(30,857)
Reasons for changes in the NPV during the year:					
Changes in valuation period .....	(436)	(112)	(968)	(2)	(1,518)
Changes in demographic data and assumptions .....	(688)	(112)	(59)	(0)	(859)
Changes in economic data and assumptions .....	(143)	0	-	(2)	(145)
Changes in law or policy .....	-	-	(14)	-	(14)
Changes in methodology and programmatic data .....	56	-	-	-	56
Changes in economic and other healthcare assumptions .....	-	185	(648)	-	(463)
Change in projection base .....	-	(531)	500	-	(31)
Net change in open group measure .....	(1,211)	(570)	(1,189)	(4)	(2,974)
Open group measure, end of year.....	(9,157)	(3,252)	(21,320)	(101)	(33,830)

# SFFAS 38: Accounting for Federal Oil and Gas Resources

- A schedule of estimated federal oil and gas petroleum royalties:
  - the present value of future federal royalty receipts on proved reserves known to exist as of the reporting date
  - the amounts to be distributed to others (state governments)
- RSI Beginning in FY2012



## SFFAS 39: Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards

- Does not establish new reporting standards
- Codifies American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards (SAS) AU section 560, Subsequent Events, into FASAB requirements
- Provides guidance on events or transactions that affect the basic information or RSI that occur subsequent to the end of the reporting period but before the financial report is issued.
  - Some transactions and events (referred to as recognized events) require adjustments
  - Other transactions and events (referred to as non-recognized events) may require disclosure in the basic information or RSI.

# SFFAS 40: Definitional Changes Related to Deferred Maintenance and Repairs

## Amendments to SFFAS 6:

- clarify that “deferred maintenance” reporting includes deferred repairs,
- revise the examples of maintenance and repair activities to better reflect current practices and include activities associated with heritage assets, multi-use heritage assets and stewardship land, and
- address issues related to the distinction between maintenance, repairs, and new capital expenditures.

# Big Picture

2011 Financial Report of the United States Government, RSI page 191.

## Deferred Maintenance as of September 30, 2011, and 2010

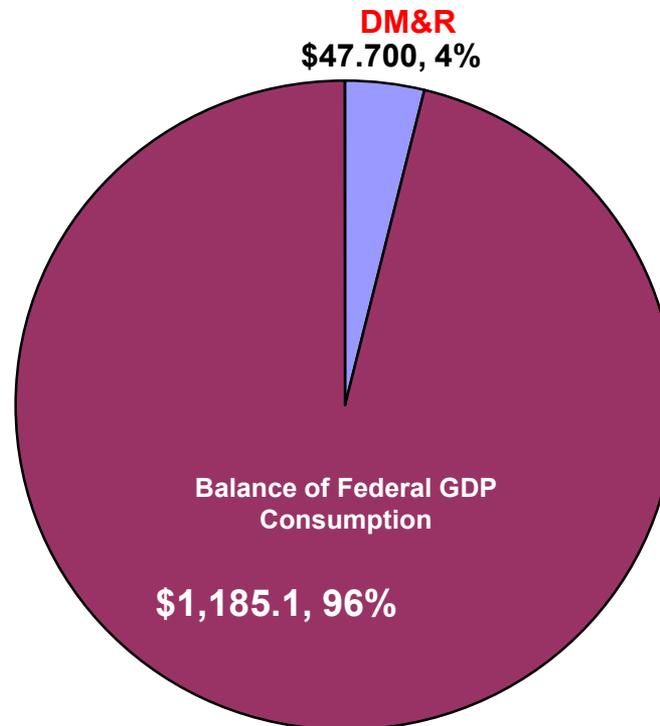
	Deferred Maintenance Cost Range				Critical Maintenance	
	Low Estimate		High Estimate		2011	2010
	2011	2010	2011	2010		
(In billions of dollars)						
<b>Asset category:</b>						
Buildings, structures and facilities .....	31.3	129.7	36.4	134.8	97.6	95.0
Furniture, fixtures and equipment .....	0.1	4.7	0.1	4.7	2.5	4.5
Other general property, plant, and equipment .....	5.1	5.3	5.1	5.3	0.8	4.9
Heritage assets.....	0.9	1.9	0.9	1.9	1.2	1.6
Stewardship land .....	3.6	3.5	5.2	5.2	-	-
<b>Total deferred maintenance....</b>	<b>41.0</b>	<b>145.1</b>	<b>47.7</b>	<b>151.9</b>	<b>102.1</b>	<b>106.0</b>

The low and high estimate amounts for 2011 are significantly lower than 2010 due to agencies' incorrect reporting in 2010 that was not adjusted.

# Big Picture

## Impact on Federal Gross Domestic Product Table 1.1.5

FY2011 DM&R Compared to FY2011 Federal GDP  
DM&R is 4% the size of the 2011 Federal Expenditures



Source: FY2011  
Consolidated Financial  
Report of the U.S., page 191

Note: 2011 Federal  
Expenditures is = 8.17% of  
Total GDP (\$1,232.8 /  
\$15,094.4) which amounts to  
DM&R being 0.3% of Total  
GDP.

Source: Bureau of Economic  
Analysis. Table 1.1.5, Line 22.

$\$1,232.8 \text{ minus } \$47.7 = \$1,185.1$

# SFFAS 41: Deferral of the Effective Date of SFFAS 38, Accounting for Federal Oil and Gas Resources

- The standards contained in SFFAS 38 will become effective as required supplementary information for periods beginning after September 30, 2012, with earlier implementation encouraged.

# SFFAS 42: Deferred Maintenance and Repairs Amending SFFAS 6, 14, 29 and 32

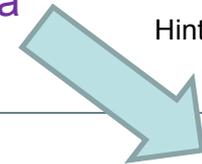
The amendments require entities to:

- describe their maintenance and repairs (M&R) policies and how they are applied,
- discuss how they rank and prioritize M&R activities among other activities,
- identify factors considered in determining acceptable condition standards,
- state whether DM&R relate solely to capitalized general property, plant and equipment (PP&E) and stewardship PP&E or also to non-capitalized or fully depreciated general PP&E,
- identify PP&E for which management does not measure and/or report DM&R and the rationale for the exclusion of other than non-capitalized or fully depreciated general PP&E,
- provide beginning and ending DM&R balances by category of PP&E, and
- explain significant changes from the prior year.

## SFFAS 42, *Deferred Maintenance and Repairs; Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32*

*“I always thought that record would stand until it was broken.”* Yogi Berra

Hint - Does this cross-foot?



<b>CATEGORY</b>	<i>2009 Ending Balance</i>	<i>2010 Scheduled Maintenance</i>	<i>2010 Actual Maintenance</i>	<i>Adjustment</i>	<i>2010 Ending Balance</i>
Infrastructure	\$ 838,000	\$ 5,657,636	\$ 1,556,434	\$ 2,224,581	\$ 1,876,621
Stewardship and Landscape	—	714,345	438,986	1,828	273,531
Golf Course	8,000	145,840	108,090	37,250	500
<b>Buildings:</b>					
Heritage	134,000	154,165	13,766	—	140,399
Multi-Use Heritage	4,951,000	6,664,952	1,670,193	3,869	4,990,890
Non-Historic	4,931,000	7,505,458	2,355,898	—	5,149,560
<b>Total Buildings</b>	<b>10,016,000</b>	<b>14,324,575</b>	<b>4,039,857</b>	<b>3,869</b>	<b>10,280,849</b>
<b>GRAND TOTAL</b>	<b>\$ 10,862,000</b>	<b>\$ 20,842,396</b>	<b>\$ 6,143,367</b>	<b>\$ 2,267,528</b>	<b>\$ 12,431,501</b>

As at 9/3//2011 - PP&E Net  
book value of ~\$249 million

## **SFFAS 42, Deferred Maintenance and Repairs; Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32**

- Actual agency narrative:
  - “As of the end of FY 20XX, **XYZ agency had no material amounts of deferred maintenance cost to report.**”
  - “XYZ agency expenses **normal** repair and maintenance costs as incurred. XYZ agency has no substantive backlog of deferred maintenance costs as defined by FASAB **SFFAS No. 6**, Accounting for Property, Plant, and Equipment, which **is intended to report only maintenance items that would be expensed through the normal course of business.**”
- Now, consider this agency fact:
  - **As at 9/30//20XX - PP&E Net book value equaled ~\$30 billion**
- The superseded definition referred to “normal” M&R which in practice led to some entities treating their “other-than-normal” M&R as capital-type expenditures excluded from RSI reporting.
- **What would Yogi say about this?**

# SFFAS 42, *Deferred Maintenance and Repairs; Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32*

## Appendix B: Sample Illustration

28

The following illustration presents information on major PP&E categories experiencing material amounts of deferred maintenance and repairs and meets the basic illustration requirements of this Standard:

### ILLUSTRATION 1 - GENERAL PURPOSE DISPLAY

#### Deferred Maintenance and Repair Costs (Dollars in Millions)

<u>Asset Category</u>	20x2 Ending Balance <u>DM&amp;R</u>	20x2 Beginning Balance <u>DM&amp;R</u>
General PP&E	\$33,500	\$30,500
Heritage Assets	5,000	6,000
Stewardship Land	2,500	2,500
Total	\$41,000	\$39,000

**ILLUSTRATION 3 - EMPHASIS ON ACTIVE vs. INACTIVE and EXCESS BY ASSET CLASS**

**Deferred Maintenance and Repair Costs**

(Dollars in Millions)

<u>Asset Category / Class</u>	20x2 Ending Balance <u>DM&amp;R</u>	20x2 Beginning Balance <u>DM&amp;R</u>
<b><u>Active:</u></b>		
General PP&E:		
Structures	\$14,375	\$14,000
Aircraft	53	5
Missiles	139	58
Ships	1,058	937
subtotal - general PP&E active	15,625	15,000
Stewardship Land	500	500
Heritage Assets	0	500
subtotal - all active	16,125	16,000
<b><u>Inactive and Excess:</u></b>		
General PP&E		
Buildings	2,500	2,500
Structures	1,875	1,000
subtotal - general PP&E - inactive and excess	4,375	3,500
Total	<b>\$20,500</b>	<b>\$19,500</b>

# SFFAS 43: Funds from Dedicated Collections

This Statement amends SFFAS 27, *Identifying and Reporting Earmarked Funds*, by:

- changing the term “earmarked funds” to “funds from dedicated collections.”
- modifying the definition of a fund from dedicated collections by:
  - clarifying that at least one source of funds external to the federal government must exist for a fund to qualify as a fund from dedicated collections, and
  - adding an explicit exclusion for any fund established to account for pensions, other retirement benefits, other postemployment or other benefits provided for federal employees (civilian and military).
- permitting either consolidated or combined data on funds from dedicated collections to be provided.
- permitting certain component entities to report on funds from dedicated collections for amounts related to the statement of changes in net position in a note rather than on the face of the statement.

# SFFAS 44, Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use

- **Pending Congressional and Sponsor Review**
- Requires entities to report the effects of General Property, Plant, and Equipment (G-PP&E) impairments in their financial statements when they occur.
- Provides numerous illustrations tailored to the nature and use of the PP&E and whether it is cash generating or not.
- This Statement does not require departments or agencies to specifically search for impaired assets.
- A presumption exists that processes and internal controls exist to identify and report material impairments to management.

# **SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use***

**Pending Congressional & Principal Review**

“The future ain't what it used to be.” Yogi Berra

- Asset impairment standards built mostly from GASB standards
  - Assets held in-use
  - Indicators of potential impairment
  - Techniques for measuring potential impairment
  - Recognition guidance vs. adjusting estimates or NBV
- Significant & permanent declines in service utility
- Should be limited & rare cases
  - Prominent events
  - Entities not required to “search or hunt”

**SFFAS 44, Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use**  
**Proposed effective date FY2015**

- Some common indicators of impairment include those listed below:
  - a. evidence of physical damage,
  - b. enactment or approval of laws or regulations which limit or restrict G-PP&E usage,
  - c. changes in environmental or economic factors,
  - d. technological changes or evidence of obsolescence,<sup>9</sup>
  - e. changes in the manner or duration of use of G-PP&E,
  - f. construction stoppage or contract termination, and
  - g. G-PP&E idled or unserviceable for excessively long periods.
  
- Widely recognized methods for measuring impairment include:
  - Replacement approach
  - Restoration approach
  - Service units method
  - Deflated depreciated current cost approach
  - Cash flow approach
  - Lower of (1) Net Book value or (2) Higher of Net Realizable Value or Value-in-Use Approach



# Current Projects

# Federal Entity – Draft Proposal

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- Include all entities budgeted for, controlled with potential for risk or reward, or owned
- Distinguish between core and non-core entities
  - Core entities are taxpayer supported and on-going decision making is more clearly linked to elected officials. Information for core entities is to be consolidated in financial statements.
  - Non-core entities are somewhat independent from elected officials and may be financial self-sustaining. Information regarding non-core entities is to be disclosed in notes.
    - Relationship explained
    - Relevant financial activity during the period revealed
    - Risks discussed and quantified if possible

# Federal Reporting Model

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- [http://www.youtube.com/watch?v=2jMdSQs3\\_WI](http://www.youtube.com/watch?v=2jMdSQs3_WI)
- Joe DioGuardi, CPA Former partner at Arthur Andersen & Co and former Member of Congress
- Concerns exist regarding the benefits of accrual basis financial statements relative to the cost of preparing them
- Input to the Board:
  - User needs surveys, focus groups, and roundtables
  - FASAB Task Force on Government-wide Financial Reports (Dec 2010)
  - CFO Act 20-Year Report
  - Statement of spending pilots
  - Study of other sovereign government practices

# Reporting Model – Next Steps

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- Task forces to focus on three areas:
  - Statement of Net Cost
  - Performance Reporting
  - Budgetary Reporting
  - COST ACCOUNTING.....
- Integration
- Understandability
  - Clarity of budgetary reporting
    - Budget to actual (feasibility questions)
    - Context and terminology
  - Potential streamlining to highlight most important items
  - Functions (education, health, defense) and programs

# New Projects

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- Risk Assumed
- Leases
- Investments in non-federal securities
- Public Private Partnerships

# Risk Assumed

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- Current reporting;
  - Risk assumed information (the present value of expected future cash flows for insurance in force) is required supplemental information with implementation inconsistent.
  - Commitments and contingencies disclosures vary and at the government-wide level there is uncertainty about comparability of component information and completeness.
- Objective:
  - Meaningful disclosures regarding risks assumed by the government. Challenges include
    - Implicit risk assumptions
    - Definition applicable across a diverse set of programs
    - Measurement

# Leases

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- Federal standards currently align with private sector and state/local government standards.
- FASB and IASB are developing a new approach which will limit the scope of “operating leases” dramatically.
- The FASAB project will consider:
  - Issues and practices in the federal domain
  - Merits of the revised FASB standards
  - A solution that meets federal financial reporting objectives
- FASB and IASB expect to issue a proposal (a revised ED) late this year or early next year.
- A FASAB task force has been formed to research current practice and identify issues.

# Investments in Non-federal Securities

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- Preparers and auditors applied the GAAP hierarchy to determine how to account for present intervention activities.
- The focus of this project will be on the intervention activities and providing standards for any future interventions of a similar nature.

# Public Private Partnerships

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- Governments increasingly use innovative approaches to partnering with non-governmental entities.
  - Benefits include:
    - Risk sharing
    - Enhanced performance incentives
    - Financing arrangements to avoid large up front investments of taxpayer funds
  - Arrangements may obscure costs and results.
- The project will consider how the lease and entity standards may be applied to such arrangements and fill any voids in the standards.

# Our Nation's Unsustainable Course

How social insurance projections weigh on our future. Or do they?

# 2011 Financial Report of the United States Government

## MD&A – Fiscal Sustainability

“While the Government’s immediate priority is to continue to foster economic recovery, there are longer term fiscal challenges that must ultimately be addressed. Persistent growth of health care costs and the aging of the population due to the retirement of the “baby boom” generation and increasing longevity will make it increasingly difficult to fund critical social programs, including Medicare, Medicaid, and Social Security.”

“Reducing deficits too abruptly would be counterproductive if it slows the economy’s recovery. In the near term, it is crucial to strike the proper balance between deficit reduction and economic growth.”

FY2011 Financial Report of the US Government, page 18.

# Is our Nation really on an unsustainable course?

- Today's "Doom-n-Gloom" witnesses:
  - David Walker, Former GAO Comptroller General
    - <http://www.youtube.com/watch?v=D6Q14HOBThM>
  - Rick Santelli, CNBC Analyst
    - <http://www.youtube.com/watch?v=bEZB4taSEoA>
  - Peter Orszag, Former OMB Director
    - <http://www.thedailyshow.com/watch/wed-april-1-2009/peter-orszag-pt--1>

**United States Government  
Statements of Social Insurance (Note 26), continued  
Present Value of Long-Range (75 Years, except Black Lung) Actuarial Projections**

(In billions of dollars)	2011	2010	2009	2008	2007
<b>Social Insurance Summary:</b> <sup>14</sup>					
<i>Participants who have attained eligibility age:</i>					
Revenue (e.g., Contributions and earmarked taxes) .....	1,737	1,628	1,427	1,333	1,260
Expenditures for scheduled future benefits .....	(14,688)	(13,661)	(13,262)	(12,369)	(11,608)
Present value of future expenditures in excess of future revenue .....	(12,951)	(12,033)	(11,835)	(11,036)	(10,348)
<i>Participants who have not attained eligibility age:</i>					
Revenue (e.g., Contributions and earmarked taxes) .....	33,620	32,263	30,621	29,851	28,342
Expenditures for scheduled future benefits .....	(66,942)	(63,287)	(70,931)	(67,950)	(63,056)
Present value of future expenditures in excess of future revenue .....	(33,322)	(31,024)	(40,310)	(38,099)	(34,714)
<b>Closed-group – Total present value of future expenditures in excess of future revenue</b> .....	<b>(46,272)</b>	<b>(43,057)</b>	<b>(52,145)</b>	<b>(49,135)</b>	<b>(45,062)</b>
<i>Future participants:</i>					
Revenue (e.g., Contributions and earmarked taxes) .....	29,037	28,075	25,491	24,743	22,828
Expenditures for scheduled future benefits .....	(16,594)	(15,875)	(19,224)	(18,578)	(18,714)
Present value of future revenue in excess of future expenditures .....	12,443	12,200	6,267	6,165	4,114
<b>Open-group – Total present value of future expenditures in excess of future revenue</b> .....	<b>(33,830)</b>	<b>(30,857)</b>	<b>(45,878)</b>	<b>(42,970)</b>	<b>(40,948)</b>

**United States Government**  
**Statement of Changes in Social Insurance Amounts**  
**for the Year Ended September 30, 2011 (Note 26)**

(In billions of dollars)	Social Security	Medicare HI	Medicare SMI	Other (e.g. Railroad Retirement)	Total
Net present value (NPV) of future revenue less future expenditures for current and future participants (the "open group") over the next 75 years, beginning of the year .....	(7,947)	(2,683)	(20,130)	(97)	(30,857)
Reasons for changes in the NPV during the year:					
Changes in valuation period .....	(436)	(112)	(968)	(2)	(1,518)
Changes in demographic data and assumptions .....	(688)	(112)	(59)	(0)	(859)
Changes in economic data and assumptions .....	(143)	0	-	(2)	(145)
Changes in law or policy .....	-	-	(14)	-	(14)
Changes in methodology and programmatic data .....	56	-	-	-	56
Changes in economic and other healthcare assumptions .....	-	185	(648)	-	(463)
Change in projection base .....	-	(531)	500	-	(31)
Net change in open group measure .....	(1,211)	(570)	(1,189)	(4)	(2,974)
Open group measure, end of year.....	(9,157)	(3,252)	(21,320)	(101)	(33,830)

# Is our Nation really on an unsustainable course?

- Today's "Pie-in-the-Sky" witnesses:
  - Mike Norman, John Thomas Financial Chief Economist
    - <http://www.youtube.com/watch?v=4HJ54RRB7OU>
  - Warren Mosler, University of Cambridge, Senior Associate Fellow
    - <http://www.youtube.com/watch?v=kb8Qv81dGSQ&feature=relmfu>
  - James Galbraith, University of Texas at Austin, Professor
    - <http://www.youtube.com/watch?v=YnKsgelpuHU>

# FASAB Public Hearing

## February 25, 2009

- Topics:
  - Reporting Comprehensive Long-Term Fiscal Projections for the U. S. Government
  - Accounting for Social Insurance, Revised
- Excerpted views of Mr. James K. Galbraith, University of Texas and Mr. Warren Mosler, University of Cambridge
- “The proposed “federal financial reporting” contains no mention of the assets that correspond to the liabilities. For example, it would treat the obligations of the Social Security system as a liability. But the same liability is, of course, an asset to the public. Nowhere is this Social Security wealth reported or even remarked on. The nation’s financial condition is a combination of the financial condition of the government and that of its citizens. Hence the Social Security wealth of the current population is just as real as the liabilities that support it. Put another way, a transfer program, from one group of citizens to another, merely transfers resources. It does not increase or diminish them.”

# FASAB Public Hearing

## February 25, 2009

- “The inference will therefore be drawn that the program necessarily involves costs – associated with the debt --without benefits, associated with higher growth or lower unemployment. This procedure is prima facie absurd.”
- “The government does not need tax revenue sufficient to match spending in order to “sustain public services and meet obligations as they come due.” This is obvious: the government almost never has sufficient tax revenue for that purpose. This is why we have a national debt to begin with. Yet the US federal government **has never, in 230 years of operation, lacked for “budgetary resources”** sufficient to “sustain public services and meet obligations as they come due.” This is also obvious, insofar as the government **has never defaulted** on its obligations.”
- “The proposed procedure betrays **a false supposition that there is some finite limit to the nominal value of the bonds that can be issued** by the U.S. Treasury. **No such limit exists. Nor does the government have to issue securities in order to spend.** As an operating matter, **it spends first and issues securities later**, transferring funds from interest-bearing reserve accounts at the Federal Reserve to interest-bearing Treasury securities.”

# FASAB Public Hearing

## February 25, 2009

- “So far **as transfer programs are concerned**, given that **both assets and liabilities should be reported**, a few exercises will demonstrate that the two necessarily balance. (**The government’s deficit is the private sector’s surplus.**)”
- “**The board has not established its competence in a basic matter of accounting.** It should certainly not embarrass itself by attempting to prescribe policy.”
- “**Inter-generational accounting**” is an **experimental and unsound concept**. It should not be included in any government document.”

# FASAB Public Hearing

## February 25, 2009

- Excerpted views of Jim Cooper, Blue Dog Democrat Congressman for Tennessee's 5th District
- “Yes. Again, I prefer a shift from “due and payable” to “fully insured” criteria for determining an expense and liability for social insurance. But, as FASAB has chosen to focus on net present value of future expenditures in excess of future revenue, I believe the closed group measure more accurately displays the current state of these programs for the purposes of financial reporting. The closed group measure more accurately encapsulates the broader social commitment and “sacred promise” political status of these programs, despite the lack of a legally irrevocable commitment.”

February 9, 2009

Wendy M. Payne  
Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street NW, suite 6814  
Washington, D.C., 20548

Dear Ms. Payne:

I write today to provide my comment to the Federal Accounting Standards Advisory Board (FASAB) on its Exposure Draft (ED) on *Accounting for Social Insurance, Revised*.

I would first like to express my admiration to FASAB for their leadership on this issue. The compelling case for an enormous, deficit-financed government response to our nation's current financial and economic woes adds a new urgency to the need to address our long-term social insurance imbalances. It is my belief that fully incorporating the scheduled benefits of Social Security and Medicare as liabilities during the working lives of the participants for purposes of the Financial Report of the United States Government will give policymakers – like myself – a better chance of facing up to, and ultimately overcoming, the challenge of putting these programs on a more sustainable footing.

Again, I commend FASAB for its work on this issue. Each day that goes by, the result of its deliberation becomes more important to the future viability of the American economy.

Attached is my expanded response to the request for comments contained in the ED.

Sincerely,

Jim Cooper  
Member of Congress

# Contact and Website Information

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- Phone: 202 512-7350
- [www.FASAB.gov](http://www.FASAB.gov)
  - Listserv
  - Exposure Drafts
  - Active Projects
- I can be reached at [savinid@fasab.gov](mailto:savinid@fasab.gov) or 202 512-6841

