



November 24, 2015

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Reporting Model Financial Condition Discussion – **TAB F**¹

MEETING OBJECTIVE

The objective is to discuss, with a panel of experts, what information is needed to assess the financial condition of the federal government.

BRIEFING MATERIALS

This memo provides background information and presents a brief biographical profile of each panel member.

BACKGROUND

Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, discusses the stewardship objective of federal financial reporting and states that financial reporting should

...assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future. (par. 134)

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

A key concept raised in the stewardship objective is financial condition. SFFAC 1 describes financial condition as follows:

As more environmental data are added to the core data, a concept that is broader and more forward-looking than “financial position” emerges. That concept is “financial condition.” For the U.S. government, the additional data could include financial and nonfinancial information about current conditions and reasonable expectations regarding the national and even the global society. For example, the expected implications of environmental degradation; the relative competitiveness and productivity of the U.S. economy; or expected changes in the population’s composition in terms of age, gender, longevity, education, health, and income all might affect judgments about the government’s financial condition. (par. 180)

Information about financial condition can be conveyed in a variety of schedules, notes, projections, and narrative disclosures. Among the most important of these is management’s “discussion and analysis” of known trends, demands, commitments, events, and uncertainties. For federal reporting entities, management’s discussion and analysis might address such topics as

- budgetary compliance;
- internal control systems;
- capital resources and investments;
- service efforts, accomplishments, and results of operations; and
- the reasonably possible future impact of known trends, risks, demands, commitments, events, or uncertainties that may affect future operations.[footnote omitted] (par. 181)

During the June 2015 meeting, some Board members believed that the definition of financial condition is too broad to help financial report users determine whether the government’s financial condition improved or deteriorated. Anecdotal evidence may be observed during government financial management training sessions. Mr. Allen noted that during training sessions, knowledgeable financial report users have been asked to review U.S. government financial statements and determine whether the government’s financial condition improved or deteriorated. However, the participants are often unsure how to respond.

Other Board members believed that a general understanding of multiple indicators is needed to assess financial condition. The financial condition of the government cannot be measured simply by analyzing changes in a single number. SFFAC 1 indicates that financial and non-financial information is needed.

PANEL PARTICIPANTS

The panel participants are as follows:

Barry Anderson, Independent Consultant on U.S. and international budget issues, former FASAB member

David Mosso, former Chairman, FASAB

Julie Topoleski, Chief, Long-Term Analysis Unit, Congressional Budget Office

Panelists will share their perspectives on the following:

- a. What information do you believe is important for assessing the financial condition of the federal government?
- b. FASAB Statement of Federal Financial Accounting Concepts (SFFAC) 1, Objectives of Federal Financial Reporting, currently describes financial condition as follows:

As more environmental data are added to the core data, a concept that is broader and more forward-looking than "financial position" emerges. That concept is "financial condition." For the U.S. government, the additional data could include financial and nonfinancial information about current conditions and reasonable expectations regarding the national and even the global society. For example, the expected implications of environmental degradation; the relative competitiveness and productivity of the U.S. economy; or expected changes in the population's composition in terms of age, gender, longevity, education, health, and income all might affect judgments about the government's financial condition. (par.180)

What, if anything, would you change about FASAB's definition to better convey the concept of financial condition of the federal government?

MEMBER FEEDBACK

If you have any questions or comments, please contact me by telephone at (202) 512-2512 or by email at simmsr@fasab.gov with a cc to paynew@fasab.gov .

Barry Anderson

Barry Anderson is currently an independent consultant on US and international budget issues. From 2011 to 2015 he was Deputy Director/Chief Operating Officer of the National Governors Association. From 2005 to 2010, he was Head of the Budgeting and Public Expenditures Division at the Organization for Economic Cooperation and Development (OECD) where he led staff in proposing, analyzing, and responding to the priorities of OECD's Working Party of Senior Budget Officials. Prior to joining OECD, Mr. Anderson was at the International Monetary Fund (IMF), where he advised senior government officials on issues such as fiscal rules, public-private partnerships, performance budgeting, and the organization and operation of central budget offices. From 1999 to 2003, he served as the Deputy Director and then the Acting Director of the Congressional Budget Office. From 1980 to 1998, he served as the senior career civil servant at the White House's Office of Management and Budget (OMB) where managed the largest division in OMB in the analysis leading to, and the preparation, publication, and presentation of the President's annual budget. In these positions, he helped draft and implement the Budget Enforcement Act, the Gramm-Rudman Act, and every other major budget control act enacted by Congress. He has also worked at the General Accounting Office, was a member of the Federal Accounting Standards Advisory Board, and a lecturer on Federal budgeting at the George Washington University. He currently is a Fellow of the National Academy of Public Administration and a board member of the Committee for a Responsible Federal Budget.

David Mosso

Mr. Mosso joined the FASAB in 1997 and served as its Chairman. Prior to joining FASAB, he retired from the Financial Accounting Standards Board (FASB). At the FASB, he served ten years as a Board member, including two years as Vice-Chairman of the Board. He also worked on the Board's major standard-setting projects and international activities following completion of his terms as a member of FASB. Prior to that, he was a senior executive for the US Department of the Treasury, culminating in appointment as Fiscal Assistant Secretary. He was an Adjunct Professor of Accounting at Fordham University's Graduate School of Business Administration. Mr. Mosso received a Bachelor of Business Administration and a Doctor of Commerce (Honorary) degree from Washburn University and a Master in Economics degree from the University of Minnesota. He is a Certified Public Accountant. He has lectured and written on a variety of financial accounting issues.

Julie Topoleski
Health, Retirement, and Long-Term Analysis Division

Julie Topoleski is Chief of the Long-Term Analysis Unit at the Congressional Budget Office. Her group is responsible for long-term projections of Social Security, Medicare, Medicaid, and the federal budget as well as long-term analysis of reforms in those areas. She directs the annual publication of *CBO's Long-Term Budget Outlook* and manages CBO's long-term microsimulation model (CBOLT) which provides the basis for assessing the economic well-being of individuals across and within birth cohorts and for projecting long-term budgetary outcomes. She began her career at CBO in 2003 as an analyst working on CBOLT and playing an integral role in long-run analyses of Medicare policy changes and the analysis and writing of *CBO's Long-Term Budget Outlook*. She holds a B.A. in economics from Mary Washington College and a Ph.D. in economics from the University of Maryland.