Federal Accounting Standards Advisory Board

May 29, 2009

Memorandum

To: Members of the Board

From: Richard Fontenrose, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: TAB B, Staff Continuing Analysis Regarding the Issues Associated with the Exposure Draft *Accounting for Social Insurance, Revised*[1]

MEETING OBJECTIVES

To continue to consider issues associated with the exposure draft *Accounting for Social Insurance, Revised*, proposing amendments to SFFAS 17, *Accounting for Social Insurance*. Decisions made at the meeting will enable staff to resolve issues and prepare a draft standard that includes a new basic statement.

Specific issues 1 through 9 are presented in the memo.

STAFF ANALYSIS

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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.

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Introduction

The staff memorandum for the April 23 Board meeting discussed, in three "Sections" (I, II, and III), (1) reporting options, (2) other issues from the exposure draft (ED), and (3) accounting for deferred revenue, and provided recommendations.

Section I, Issue 1 of the staff memorandum for April asked whether the staff should develop a new basic statement. The Board voted affirmatively 6-3, with Mr. Steinberg reserving judgment until he sees the format.

Regarding the format for such a statement, the members expressed tentative preferences and directed the staff to further develop two options. One option was similar to Option 1C in the staff's April memorandum. The other approach, proposed by Mr. Jackson in April, would have a column for the balance sheet and a column for social insurance amounts similar to Option 2A in the staff's April memorandum.

Staff believes there was strong support among the members for keeping the balance sheet format as it is and combining it with social insurance amounts. However, it is less clear whether the format will be preserved by (1) creating a single combined balance sheet and summary of social insurance statement (hereinafter "revised balance sheet"), (2) creating a new summary statement (hereinafter "additional statement"), or (3) even by presenting a summary within management's discussion and analysis (MD&A) (hereinafter "MD&A requirement"). Table 12 in Attachment 2 presents the members' April 2009 views.

The pro forma illustrations of the two options in Attachment 3 of this memorandum preserve the balance sheet format. Either illustration could be required as a revised balance sheet, an additional statement or an MD&A requirement. Issues presented in this memorandum for consideration in June include the question of format as well as placement within the financial report.

Please note that Attachment 3 to this memorandum also contains pro forma statements of social insurance, of changes in social insurance amounts, and of long-term projections. These illustrate the linkage between them and the two options, which I am calling, for convenience, the "balance sheet and social insurance summary" (see Illustrations 2 and 3 of Attachment 3).

Section I, Issue 1 of the staff's April memorandum also contained six "sub-issues" dealing with the basic statement. These were numbered 1.1 through 1.6.

Sections II and III of the staff's April memorandum presented other issues relating to the social insurance exposure draft, some of which have been resolved, as will be noted below, while others need to be addressed.

This staff memorandum will follow the same three-section approach as the April staff memorandum.

Section I – Pro Forma Illustrations

Issue 1 – Should the Staff Develop a New Basic Statement?

Regarding Section I, Issue 1 of the staff's April memorandum, "Should the Staff Develop a New Basic Statement", the staff recommended (page 8 of that memorandum) that a new statement be developed within the social insurance project. The staff reasoned that it would be difficult to develop financial statement concepts in the abstract, and the social insurance project provides a working case study for that purpose, as it did for "elements" and "fiscal sustainability." Also, the social insurance project has already considered relevant issues and is at a stage where progress can be made.

The Board voted in favor of the staff recommendation, 6-3, with Mr. Steinberg reserving judgment until he sees the format.

The question of whether the new statement would apply to both the governmentwide and component entities will be considered in due course.

Regarding the format options for such a statement – which was essentially sub-issue 1.1 of the staff's April memorandum ("Should the new statement be combined with the balance sheet … or be a separate statement …") – the members expressed a tentative preference for two options. "Option 1," (see Attachment 3, Illustration 2, of this memorandum) would be similar to Option 1C in the staff's April memorandum. It would report social insurance "sustainability" amounts in a separate section below the balance sheet and retain the current columnar presentation.

"Option 2" (see Attachment 3, Illustration 3, of this memorandum) would add columns to present the same data, as discussed in Mr. Jackson's two-column sketch. Illustration 3 shows a three-column approach that could facilitate addition of some of the amounts, if the Board decides that they should be added, which is a question to be considered below.

Please note that the staff believes there is strong support among the members for keeping the balance sheet format as it is and combining it with social insurance amounts either vertically or horizontally. Five members supported the revised balance sheet approach. Three members supported the additional statement approach and two members supported the MD&A requirement. Either of the illustrations could be required in any of these three manners. Both Illustrations 2 and 3 of Attachment 3 preserve the format of the balance sheet while combining it with social insurance amounts.

Thus, the first issue for the Board to address in June is: which option does it prefer for the statement. Other questions regarding presentation are address in subsequent "sub-issues" such as the manner in which the new statement will be presented.

Which option does the Board prefer for the statement, Illustration 2 or Illustration 3 or something else?

Sub-Issues to consider from the staff's April memorandum.

Sub-Issues initially presented at the April FASAB meeting are listed below. Some of these issues were fully addressed by the Board in April, as is noted below.

1.1. Should the new statement be combined with the balance sheet – a revised balance sheet - (as in Option 1, April edition), or a separate statement – an additional statement - with the current balance sheet continuing as it is (as in Option 2, April edition). Alternatively, the Board could re-consider its decision to develop a basic statement and decide to require a table in MD&A (that is, not a new basic financial statement but a required summary schedule or analysis in MD&A)?

Staff believes the Board decided this issue in April when the members expressed their tentative preferences. The staff believes the members expressed strongest support for keeping the balance sheet format and data as it is and combining it with social insurance amounts, and this is reflected in the options in Attachment 3, Illustrations 2 and 3 of this (June) memorandum. These options envision a revised balance sheet. Other options are an additional statement or an MD&A requirement. Minimal revisions would be needed to the illustrations to accomplish this (for example, the line items from the balance sheet might be combined for brevity).

Which option does the Board prefer:

1. **revised balance sheet,**
2. **additional statement, or**
3. **MD&A requirement?**

1.2. If they are included in the [new] statement, should the amounts for "responsibilities" and for liabilities be added together? The issue of double counting will have to be addressed. …

Staff believes that in April the Board did not support including non-social insurance amounts in the basic statement. If the Board affirms that view in June, this sub-issue would involve only whether the social insurance amounts presented on the new statement should be added to liabilities. Some members seemed to favor this. They said that almost everyone who publicly discusses these amounts adds them together, and they cite the Peterson report, former Comptroller General Walker's presentations, even the Financial Report of the United States Government, and many other presentations.

Other members do not favor adding them together. They argue these amounts are "apples vs. oranges," and/or that proper context is needed as in the "statement of fiscal sustainability"; and/or, that readers can add them up if they want to, since the new statement will conveniently present the amounts in close proximity. Some members said there is a substantial difference between private parties adding these amounts up and the federal government doing it. The latter connotes the imprimatur of the federal government.

The formats the members seem to favor suggest a non-additive approach. Social insurance amounts would be either below the balance sheet or side-by-side. Liability amounts would be presented separately, in their balance sheet section, and would have to be added separately to social insurance amounts in a yet-to-be-finalized format. The statement therefore would seem not to move logically to a combined bottom line. Simply adding social insurance to the bottom line of the balance sheet, i.e., to "net position," might be a possibility. The government's net position is displayed as a negative amount in the FR. It is a balancing amount that reduces the total liabilities amount to equal total assets.

In April the staff recommended adding them together – provided that double-counting be eliminated – as different kinds of "apples" rather than "apples and oranges." Adding them up, the staff argued, provides useful information for users.

Should the amounts for [social insurance] "responsibilities" and for liabilities be added together?

1.3. Should SFFAC 5 be amended by the social insurance project to define "responsibilities" or "commitments"?

A threshold question regarding sub-issue 1.3 is whether the Board wants to label the social insurance amounts presented on the new statement "responsibilities" or "commitments." If so, then sub-issue 1.3 is the next issue.

At the April meeting Mr. Jackson mentioned an approach where the terms "responsibilities" and "commitments" would not be used and therefore the standard would not be introducing any new elements or concepts. Social insurance amounts would be presented, for example, under the heading "social insurance" or "social insurance summary" or other similar terminology. Such an approach might not necessitate developing new elements or concepts. In addition, the amounts that would be on the new basic statement already exist on the SOSI and on the new statements

changes in social insurance amounts and of long-term projections, and the Board has not felt the need to develop concepts for them.

Regarding sub-issues 1.3, staff recommended developing concepts for new elements. The staff argued that the absence of a conceptual foundation for fundamental elements would undermine the standard. The social insurance ED had argued that the conceptual work on "commitments" would follow in other projects in due course. Many respondents ignored that point or found it unacceptable. Some respondents were troubled by the postponement of conceptual development of and foundation for "commitments."

Amending SFFAC 5 would require re-exposure.

A. Does the Board want to label the social insurance amounts on the new statement social insurance "responsibilities" or "commitments"?

B. If the answer to A. immediately above is yes, then should SFFAC 5 be amended by the social insurance project to define "responsibilities" or "commitments"?

1.4. Should SFFAC 2 be amended by the social insurance project regarding display?

Regarding sub-issue 1.4, staff recommended expanding the concepts to include new displays. Amending SFFAC 2 would require re-exposure. Alternatively, SFFAC 2 amendments could be addressed through the reporting model project.

Should SFFAC 2 be amended by the social insurance project regarding display?

1.5. Should the statement include more than social insurance amounts, especially, should it include the "rest of government" or other long-term projections/"fiscal sustainability" amounts)? Again, there's the issue of double counting and also the possibility of other technical differences. Also, should potential assets or resources be considered for display?

Regarding sub-issue 1.5, the staff believes the Board did not support including non-social insurance amounts in the new basic statement.

1.6. What social insurance amounts should be displayed in the new presentation?

Regarding sub-issue 1.6, staff recommended in April and continues to recommend using the open group measure in the new statement. This is consistent with (1) staff's recommendation for Section II, Issue 2 (see below) regarding "featuring" the open group measure immediately below; and with (2) Section II, Issue 7, regarding the Board's decision not to present a line item on the statement of net cost for the change in either the open or closed group measure.

What social insurance amounts should be displayed in the new presentation?

Section II – Other Issues

Issue 2 – Should the Standard "Feature" the Closed Group Measure (this is Question for Respondents 7 from the ED)?

With regard to Issue 2, the staff recommended in April that the open group measure be "featured." This would not mean that the financial report must never speak of the closed group measure. Staff recommended that the closed group measure be (1) discussed in the MD&A and (2) presented on the SOSI summary, as discussed below.

Based on the wording of the staff recommendation on page 11 of the April staff memorandum on which an affirmative vote was taken, and on the Board discussion in April, the effect of "featuring" the open group measure instead of the closed group measure would be to require:

1. <u>Regarding MD&A</u>, the open group measure will be emphasized, which would involve the following two components:
    a. The standard would require the preparer's MD&A to "present and explain" (see ED, paragraph 27 for this phraseology) the open group measure.
    b. In addition, the staff recommended and the Board approved in April having the standard require that MD&A include a discussion of the closed group measure; for example, it could be used as an analytical tool to help explain the open group measure and to provide a contrasting perspective. Staff will develop wording for paragraph 27 of the proposed standard for the members' consideration.
2. <u>Regarding the new "statement of changes in social insurance amounts,"</u> use the open group measure as the subject instead of the closed group measure.
3. <u>Regarding the SOSI summary section</u>, include a subtotal for the closed group measure as proposed in the ED.

Mr. Steinberg does not think the Board approved, at the April meeting, part 1b immediately above, regarding the requirement to discuss the closed group measure in MD&A. If other members agree that the Board's approval of the staff recommendation in this regard did not include part 1b, the staff recommends that the Board vote (or re-vote) on that specific issue at the June meeting.

Issue 3 – Should the Standard Require Key Measures To Be Presented in the MD&A as Described in the Exposure Draft (this is Question for Respondents 1 from the ED)?

Regarding Issue 3, the staff recommended in April that the MD&A portion of the standard (ED paragraphs 26-30) be approved as written, with two exceptions. First, ED sub-paragraph 27c should be changed to incorporate and emphasize the open group measure, while at the same time retaining a requirement to discuss the closed group measure (note Mr. Steinberg's comment on Issue 2 immediately above for more on this issue). Please note paragraph 27 states that, At a minimum, all [social insurance and governmentwide] entities should present and explain, as described in paragraph 26, the following measures except as noted:

- a. Costs …
- b. Net position …
- c. Social insurance commitments as follows:
  - i. The closed group measure …
  - ii. The change in the closed group measure ….
- d. Key budgetary amounts …
- e. Fiscal gap

Second, ED sub-paragraph 27e should be changed. It required a discussion of the "fiscal gap" and needs to be modified based on developments in the "fiscal sustainability" project.

In addition, please note that conforming changes to ED paragraph 30 and possibly other paragraphs would be needed where the terms "closed group measure" or "open group measure" are used to ensure the text reflects the Board's final decisions.

The staff anticipates a "track changes" edition of the draft standard in the near future, which will enable the Board to review all the potential changes.

The Board partially addressed Issue 3 in April. Although it did not vote on whether to approve the MD&A standard, the Board partially addressed Issue 3 in conjunction with Issue 2 immediately above. The Board's voted to "feature" or emphasize the open group measure in the MD&A and elsewhere, as noted on page 9 above, instead of the closed group measure, which would seem to dispose of the part of Issue 3 dealing sub-paragraph 27c, and the ED will be revised accordingly.

Regarding sub-paragraph 27e dealing with the MD&A discussion of "fiscal gap," the staff is recommending at this time the following wording – instead of the "fiscal gap":

27.e ~~**Fiscal gap**~~ **Sustainability information** (for the governmentwide entity only), the line for spending in excess of receipts in the statement of long-term fiscal projections as described in SFFAS 3X and its relationship to federal debt.

Does the Board support the staff recommendation that the MD&A standard be approved as written with the exception of sub-paragraphs 27c and 27e?

Does the Board approve the staff recommendations for sub-paragraphs 27c and 27e?

Issue 4 – Should the Standard Require the SOSI to Have a Summary Section as Described in the Exposure Draft (this is Question for Respondents 3 from the ED)?

Regarding Section II, Issue 4, although the Board did not vote on whether to approve the summary section of the SOSI, the Board effectively addressed Issue 4 in combination with Issue 2 above. The staff recommended in April that the SOSI have a summary section as described in the ED. The staff concludes that the Board's decision with respect to Section II, Issue 2, that the closed group measure will continue to be a subtotal in the summary section of the SOSI, as proposed in the ED, means that the Board approved a summary section for the SOSI with a subtotal for the closed group measure. This would fully address Issue 4.

Issue 5 – Should the Standard Require a New Basic Statement that Explains changes to the Closed or Open Group Measure (this is Question for Respondents 4 from the ED)?

Regarding Section II, Issue 5 the staff recommended in April that the new statement be approved and that the open group measure replace the closed group measure. Although a formal vote was not taken on Issue 5, the staff concludes from the fact that the Board has unanimously supported a "change statement" and from the discussion at the April FASAB meeting that the Board supports its recommendation. This would fully address Issue 5.

Issue 6 – Should the Standard Require Note Disclosure of an Accrued Benefit Obligation (this is ED Question for Respondents 5 from the ED)?

The ED proposed that the standard require disclosure of an accrued benefit obligation in notes to the financial statements (see paragraph 38 and A117-A123). The objective of the proposal was to give interested users a traditional frame of reference. The accrued benefit obligation provides a perspective on social insurance programs from the point of view of a deferred benefit or an insurance obligation for those users who value such information. It is not currently available in federal financial reports, but it is available, for Social Security, on the SSA Web site for those who follow the SSA links to the proper Web page.

The proposal allows for several acceptable methods for calculating an accrued benefit obligation.

The respondents were nearly evenly divided on this question (12 of 23 responded negatively).

Should the standard require note disclosure of an accrued benefit obligation?

Issue 7 – Does the Board Continue to Conclude that the Standard Should Not Require a Line Item on the Statement of Net Cost for the Change during the Period in the Closed Group Measure (this is Question for Respondents 6 from the ED)?

The Board considered but decided not to propose in the ED a line item for the statement of net cost ("SNC") for the change during the reporting period in the closed group measure. Staff recommended in April that the Board approve the standard as written.

Since a majority position was not possible regarding the proposal for a line item on the balance sheet, or indeed, an accrued expense and liability; and considering that the Board decided to develop a new basic statement, the Board's initial decision regarding the SNC seems appropriate.

Does the board continue to conclude that the standard should not require a line item on the statement of net cost for the change during the period in the closed group measure?

Issue 8 – Should the Standard Provide a General Requirement that Allows Flexibility in the Sensitivity Analysis (this is Question for Respondents 8 from the ED)?

The Board proposed to change the requirement currently in SFFAS 17 for sensitivity analysis. The proposed standard would require the entity to provide sensitivity analysis of the closed and open group measures appropriate for its particular social insurance program, but does not specify a particular approach for the analysis (see ED paragraphs 42-43 and A125-A137). Further the ED provided that "entities may consider disclosing the results of **stochastic modeling** as an augment or alternative to sensitivity analysis."

The American Academy of Actuaries' Social Insurance Committee (Letter 15) and SSA's Chief Actuary (Letter 13) agreed that flexibility in the sensitivity analysis is desirable and can produce better information for users. They also agree that analysis of the effect of changes in individual assumptions is important and provides useful information that is different from stochastic modeling. They recommended that the standard continue to require analysis of the effect of changes in individual assumptions. They stated that including the results of stochastic modeling to illustrate the uncertainty of a projection can be useful, but it is fundamentally different than sensitivity for specific assumptions. They said that stochastic modeling is under development and should not replace the analysis of the effect of changes in individual assumptions in the current standards. They recommend excluding stochastic analysis, for now.

In April the staff recommended accepting the advice of the AAA Social Insurance Committee and SSA's Chief Actuary in this regard.

Should the standard provide a general requirement that allows flexibility in the sensitivity analysis as described above but does not allow stochastic modeling to serve as an augment or alternative to sensitivity analysis?

Section III – Deferred Earmarked Revenue

Issue 9 – Should the Social Insurance Project Develop Liability Recognition for "Deferred Earmarked Revenue"

Summary

[*The following is the same as in the staff memorandum for the April FASAB meeting.]*

At its meeting on February 26, 2009, the Broad discussed the possibility of recognizing a liability for "excess" earmarked revenue related to social insurance payroll tax. Under the concept, social insurance taxes received in a period in excess of benefits paid in that period would be accounted for as deferred revenue, a liability account.

The Alternative View in *Preliminary Views* on social insurance (AVPV) had proposed that the Board consider recognizing deferred revenue (par. 67 and A148-9). The AVPV argued that earmarked revenue should not offset non-earmarked costs. Staff concludes that this would apply only at the consolidated governmentwide level because component entities do not reduce "cost" by earmarked nonexchange revenue. However, the governmentwide entity reports the subtotal "net operating (cost)/revenue" that is unique to its "statement of operations and changes in net position" (SOCNP), which is net cost less federal taxes, duties, etc. I believe this is what the AVPV and former Comptroller General Walker have in mind when they say excess earmarked revenue should not offset non-earmarked costs in determining net operating cost.

The second reason offered by the AVPV for considering deferred earmarked revenue – that "excess" earmarked revenues received in excess of "benefits incurred" should not be recognized as revenue until used – seems to invoke a matching principle focusing on matching revenue and expense. As it has been adapted by the Board, the matching principle in federal accounting calls for net cost to be matched with services provided, which recognizes that the primary mission of the federal government is to provide services.

FASAB standards have stated that the principle of matching revenue and expense is not applicable to nonexchange transactions.[2] The federal government does not "earn" nonexchange revenue. Costs in the federal government are not incurred to produce revenue.

However, the Board may want to change the treatment of earmarked <u>nonexchange revenue</u>.

Regarding the question of developing liability recognition for "excess" earmarked revenue, staff recommends that current FASAB standards not be changed; that is, that the staff should not develop liability recognition for deferred earmarked revenue. If liability recognition is desired, staff suggests a possible approach.

[2] SFFAS 7, par. 17.

Discussion

Alternative View in Preliminary Views

The Alternative View in *Preliminary Views* on social insurance (AVPV) had proposed that the Board consider recognizing deferred revenue.[3] The AVPV said that an argument can be raised that earmarked revenue received in excess of "benefits incurred" should not be recorded as revenue in the current period because

(1) "excess" earmarked revenue should not offset non-earmarked costs in determining "net operating cost," and
(2) "consistent with the Alternative View that social insurance benefit expense should be recorded in the period in which services are provided, such earmarked revenues should be recognized in the period in which they are used."[4]

Instead, the AVPA stated that such "excess" earmarked revenue should be reported as "deferred earmarked revenue." The AVPV said that deferred earmarked revenue would be a liability on the balance sheet, and it would not modify or be inconsistent with SFFAS 27.

The AVPV said that the deferred earmarked revenue concept should be considered by the Board as a project separate from social insurance. The AVPV members thought that it would require revising portions of SFFAS 7, *Accounting for Revenue and Other Financing Sources*, and noted that the supporting arguments also may be applied to numerous other funds with earmarked receipts (e.g., Highways and Airport and Airways Trust Funds).[5]

The Preliminary Views and Question 5

The *Preliminary Views* on social insurance contained a Question for Respondents (#5) that asked whether the Board should consider recognizing deferred earmarked revenue, as a separate project. Respondents to the *Preliminary View* on social insurance[6] commented that:

a. The information provided under the Primary View proposal properly matches costs and revenues, and/or that current revenue recognition standards were appropriate.
b. Some commented that earmarked taxes were the same as non-earmarked; or that payroll taxes were mandatory and not "deferred" for anything.
c. One respondent noted that the concept of deferred revenue may be contradictory to the PV's Alternative View that there are no present obligations until benefits are due and payable.
d. Another respondent said that deferred revenue pertains to exchanges.

[3] PV, pars. 67 and A148-9.
[4] *Preliminary View*, par. A148.
[5] PV, par. A148-9.
[6] The social insurance ED, pars. A44-A46, discusses the PV respondents' comments.

Some PV respondents said that, if the attain-fully-insured-status obligation event or other early accrual were not adopted, then the notion of deferred revenue should be considered.

At the May 2007 public hearing, Professor Howell Jackson argued against recognition of deferred revenue.

> Mr. Allen asked Mr. Jackson to address the deferred revenue issue. He responded that the bonds are not special. The deferred revenue approach asks the wrong question. The question is[:] what is the obligation for future benefits. It is not the amount owed. In addition, the outcome would be perverse. We have been disguising the deficit by folding in surpluses. The surpluses are almost over - so by the time you institute a standard, we would have a restatement and then you would get to enjoy the revenues again as they were used to offset benefits paid from the trust fund balances.[7]

Conceptual basis for deferring earmarked revenue.

Avoiding Cost Offsets

The first reason offered by the AVPV – that "excess" earmarked revenue should not offset non-earmarked costs – would apply only at the consolidated governmentwide level, at least if the subject is solely social insurance earmarked revenue. The governmentwide entity reports costs differently than component entities.

First, both the governmentwide entity and component entities report "net cost" via the "statement of net cost" (SNC). "Net cost" equals gross cost less exchange revenue. Nonexchange revenue like earmarked social insurance revenue is not reported on the SNC.

Second, the governmentwide entity reports a subtotal for costs on its unique "statement of operations and changes in net position" (SOCNP) (see Attachment 4, Illustration #1 for the SOCNP), that the component entities do not. This subtotal is called "net operating (cost)/revenue." On the SOCNP, "net operating cost" equal all government nonexchange revenue (income tax, unemployment tax, etc.) less "net cost." I believe this is what the AVPV and former Comptroller General Walker have in mind when they say "excess" earmarked revenue should not offset non-earmarked costs in determining net operating cost. On the component entities' "statement of changes in net position" (SCNP) (see Illustration #4 in Attachment 4 for SSA's SCNP) "net cost" is subtracted from "total financing" to yield the change in net position. The SCNP reports on financing.

"Net cost" is discussed throughout FASAB standards, especially in SFFAC 2, SFFAS 4, and SFFAS 7. "Net operating cost" as a subtotal in addition to "net cost" is not mentioned in FASAB concept statements.

I note that, if the scope of the issue were conceived as broader than just social insurance (and perhaps other programs with earmarked <u>nonexchange revenue)</u> and included earmarked <u>exchange revenue</u>, then such revenue would offset "gross cost" on the SNC.

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[7] See the minutes of May 2007 hearing at http://www.fasab.gov/meeting.html.

In addition, any entity "investing" in Treasury securities would, by definition, have "excess" revenue, whether the source of the revenue was exchange or nonexchange. Such revenue would, using he AVPV characteristic, "offset non-earmarked costs in determining net operating cost"; and, literally, would not be "recognized as revenue in the period in which they are <u>used</u>" (emphasis added).

Matching Principle

The second reason offered by the AVPV for considering deferred earmarked revenue – that "excess" earmarked revenues received in excess of "benefits incurred" should not be recognized as revenue until used – seems to invoke the matching principle. In the private sector, the matching principle requires revenue to be matched with associated expense to derive net income. However, as it has been adapted by the Board, the matching principle in federal accounting calls for net cost to be matched with services provided, which reflects the fact that, as the Board has said, the primary mission of the federal government is to provide services.

For the AVPV, the service provided by social insurance is the payment to or on behalf of participants. The payment is the benefit expense. The AVPV view was that the benefit expense and revenue should be recorded in the same period, the period when the payment is made. Thus, presumably, revenue recognition is postponed until the payment is made.

Heretofore, FASAB standards have stated that the principle of matching revenue and expense is not applicable to nonexchange transactions, that nonexchange transactions are fundamentally different than exchange transactions with respect to matching.[8] The federal government does not "earn" nonexchange revenue. Costs in the federal government are not incurred to produce revenue and, therefore, matching non-exchange revenue with costs is not relevant.

However, the Board may want to change the accounting treatment of earmarked <u>nonexchange revenue</u>.

Presumably the Board would not want to change the accounting treatment of earmarked <u>exchange revenue</u>. The latter already is been recognized when earned based on goods and services provided; and, if it is received before being earned, revenue is already accounted for as "deferred" or "unearned", that is, as a liability. Any "excess" earmarked exchange revenue is normally invested in Treasury securities until needed, and therefore the principle that revenue is not recognized as such until "used" to make payments obviously would not apply to exchange revenue.

Regarding matching earmarked nonexchange revenue with "cost," the Primary View in *Preliminary Views* (PVPV) argued for recognizing accruing cost at the point when the participant is fully insured; such cost would be matched with revenue, i.e., the payroll taxes. Former

[8] SFFAS 7, par. 17 and 18.

Chairman Mosso also spoke of the critical information produced when the current accruing costs of social insurance are matched with the current payroll taxes received, and the misleading nature of simply matching cash flow.[9]

The Governmental Accounting Standards Board's (GASB) recent Concepts Statement 4, *Elements of Financial Statements*,[10] introduces two new elements that are neither assets nor liabilities: "deferred outflow of resources" and "deferred inflow of resources." The latter, which is of particular interest for this discussion, is an acquisition of net assets by the government that is applicable to a future reporting period.[11] It is reported in a statement of financial position.

The GASB explicitly distinguishes "deferred revenue" from the new element of deferred inflow of resources. Deferred revenue is a liability, while deferred inflow of resources is not a liability. They are defined differently.[12] Deferred inflow of resources results in the acquisition of net assets, while deferred revenue does not. The latter results in the recording a liability and an asset (normally cash).

Importantly, GASB limited the recognition of deferred outflows and inflows of resources to instances that it identifies in authoritative pronouncements. This is what the FASAB did in SFFAS 17 regarding the identification of social insurance programs. The GASB "was concerned about the application of these elements to items that have not been subjected to appropriate due process procedures."[13]

Thus, there are several alternative approaches to explore as a basis for liability recognition for "excess" earmarked revenue.

Staff Recommendation

Regarding the question of a liability for "excess" earmarked revenue, staff recommends that current FASAB standards not be changed; that is, that the staff should not develop liability recognition for deferred earmarked revenue.

The nonexchange revenue concepts in SFFAS 7 are the result of the Board's extensive deliberation. SFFAS 7 provides a persuasive argument for the current treatment of nonexchange revenue. "Deferred revenue" is an accrual concept based on the matching of revenue and expense. I do not believe that it is applicable to federal <u>nonexchange revenue</u>.

For <u>exchange revenue</u>, the deferred revenue principle would be applied based on current FASAB standards, if the assets were received before being earned. "Excess" exchange revenue invested in Treasury securities is not "deferred revenue." Revenue recognition has taken place and the entity is investing the excess.

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[9] Mosso, David, "Accrual Accounting and Social Security," *Journal of government Financial Management*, Fall 2005.
[10] June 2007.
[11] GASB Concepts Statement 4, pars. 34-35.
[12] Ibid., pars. 58-59.
[13] Ibid., par. 61.

Regarding nonexchange revenue, there, too, revenue has been recognized according the SFFAS 7 standards and the entity is investing the "excess." The revenue is not being received before it is "earned." It is tax revenue paid in excess of current needs pursuant to the design of the program.

Professor Jackson's point is also a concern, i.e., that the outcome would be perverse. "We have been disguising the deficit by folding in surpluses. The surpluses are almost over - so by the time you institute a standard, we would have a restatement and then you would get to enjoy the revenues again as they were used to offset benefits paid from the trust fund balances."

If the Board wants to recognize a liability that would address the earmarked funds' holdings of Treasury securities, staff recommends Mr. Patton's minimum liability approach.[14] The "minimum liability" is a pragmatic acknowledgement that there is an obligation to the social insurance participants, based on many arguments, including the payroll taxes received in excess of the immediate program requirements. Although the Board recorded a tie vote in February in this regard, the Board's direction to staff to analyze deferred revenue would seem to allow staff further recommendations.

Alternatively, a basis for a liability might be that the government has received someone else's money in trust to use for a specific purpose. Any excess revenue over immediate needs would be a liability until either used or returned to the donor or contributor. The problem with this approach is that it is not "someone else's money." It is tax revenue and the Board has said that it wanted to treat all tax revenue the same.

One additional problem with liability recognition for "excess" revenue is inconsistency. "Excess" nonexchange revenue would be a liability until used, while "excess" exchange revenue is not.

Should the social insurance project develop liability recognition for "deferred earmarked revenue"?

[14] Mr. Patton recommended recognition of a liability for those participants having attained fully insured status but reduced for the amount not projected to be funded under current law.

Attachment 1 – Summary of Respondents

As of February 19, 2009, we have received 27 responses from the following sources:

	FEDERAL (Internal)	NON-FEDERAL (External)
Users, academics, others	2	16
Auditors	3	
Preparers and financial managers	6	

Table A – Tally of Responses by Question

QUESTION	YES / AGREE	NO / DISAGREE	NO COMMENT
Q1. The Board proposes to require social insurance component entities and the governmentwide entity to discuss and analyze key measures from the basic financial statements in their management's discussion and analysis ("MD&A"). See paragraphs 26-30 in the proposed standard and paragraphs A75-A79 in the basis for conclusions. **Do you believe that key measures should be presented in the MD&A as described in this exposure draft?**	17	7	3
Q2. The Board is proposing to add a line for the **closed group measure** to the balance sheet below assets, liabilities, and net position and not included in the totals for these classifications.[15] See paragraphs 31-32 in the proposed standard and paragraphs A81-A100 in the basis for conclusions. Two members have submitted alternative views on this issue. See paragraphs A139-A142 in the basis for conclusions for Mr. Patton's view. Mr. Patton and other members believe that a liability greater than the due and payable amount should be recognized on the balance sheet. See paragraph A144 in the basis for conclusions for Mr. Werfel's view. Mr. Werfel and other members believe that the closed group measure should not be presented on the balance sheet. **Do you believe that the balance sheet should present a line item for the closed group measure as described in this exposure draft?**	5	18	4
Q3. The Board proposes to add a new summary section of the statement of social insurance ("SOSI") to present the closed and open group measures. See paragraphs 34-35 in the proposed standard and paragraphs A114-A116 in the basis for conclusions. **Do you believe that the SOSI should have a summary section as described in this exposure draft?**	13	10	4

[15] Definitions of certain terms are provided in the Definitions section and Appendix F: Glossary of this proposed standard.

QUESTION	YES / AGREE	NO / DISAGREE	NO COMMENT
Q4. The Board proposes a new basic financial statement entitled "statement of changes in social insurance amounts." The new statement would explain the changes during the reporting period in the present value amounts for the closed group measure included in the statement of social insurance. See paragraphs 36-37 in the proposed standard and paragraph A116 in the basis for conclusions. Mr. Werfel and other members have an alternative view. They believe the new statement should focus on changes in the open group measure and not the closed group measure. The question of the use of the appropriate measure is addressed in question 7 below. See paragraph A145 in the basis for conclusions. **Do you believe there should be a new basic financial statement explaining changes to the present value amount included in SOSI?**	17	5	5
Q5. The Board proposes to disclose an accrued benefit obligation in notes to the financial statements. This information would include a five year trend when the standard is fully implemented. See paragraph 38 in the proposed standard and paragraphs 117-123 in the basis for conclusions. Mr. Werfel and other members have an alternative view expressing opposition to this disclosure. See paragraph A146 in the basis for conclusions. **Do you believe that an accrued benefit obligation should be disclosed as described in this exposure draft?**	11	12	4
Q6. The Board considered but decided not to propose adding a line item to the statement of net cost ("SNC") for the change during the reporting period in the closed group measure that would be presented below exchange revenue and expenses and not included in the totals for these classifications. Some argue that this measure should not be presented on the SNC because it is a fundamentally different measure. Others believe the change is an economic cost that belongs on the SNC, and that including this number at the bottom of the SNC appropriately links all basic financial statements. See paragraphs A101-A113 in the basis for conclusions. **Do you believe that the SNC should not include a line item for the change during the period in the closed group measure, which would be presented below exchange revenue and expenses and not included in the totals for these classifications?**	19	3	5
Q7. The Board decided to present the **closed group measure** (closed group measure) (defined in paragraph 19) as a common thread among the proposed new reporting. The proposal requires that the closed group measure and other key measures from the financial statements be discussed in management's discussion and analysis; that the closed group measure be presented on the balance sheet below assets, liabilities and net position (without being included in the totals for those categories); and that the changes in the closed group measure during the reporting period be presented and explained in the new summary	7	15	5

QUESTION	YES / AGREE	NO / DISAGREE	NO COMMENT
section of the statement of social insurance and the new statement of changes in social insurance. The Board considered the **open group measure** (defined in paragraph 24) instead of the closed group measure as the focus for the disclosure. This exposure draft discusses both the closed group measure and the open group measure throughout. Paragraphs A69-A74 provide the basic rationale for the Board's selection of the closed group measure. Mr. Werfel and other members have an alternative view regarding the presentation of the closed group measure. They oppose the addition of the closed group measure to the balance sheet. Further, they believe the open group measure is the appropriate measure to use in the new statement of changes in social insurance and not the closed group measure. See paragraph A145 in the basis for conclusions. **Do you agree with the Board's decision to feature the closed group measure?**			
Q8. The Board is proposing to change the requirement currently in SFFAS 17 for specific sensitivity analysis. The standard will require the entity to provide sensitivity analysis of the closed and open group measures appropriate for its particular social insurance program but will not specify a particular approach for the analysis. See paragraphs 42-43 of the standard and paragraphs A125-A137 of the basis for conclusions. **Do you believe that a general requirement that allows flexibility in the sensitivity analysis presented will produce better information regarding the sensitivity of social insurance programs?**	14	6	7

Table B – Quick Table of Responses by Question

Key to Respondents

	Name	Organization	Category
1	Douglas Jackson	Individual	Non-federal, Other
2	Dick Young	Individual	Non-federal, Other
3	Juan Kelly	Mahoney and Associates	Non-federal, Other
4	Kenneth Winter	Individual	Non-federal, Other
5	David M. Walker	Peter G. Peterson Foundation	Non-federal, Other
6	Mary Glenn-Croft	Social Security Administration, Office of Chief Financial Officer	Federal Preparer
7	Daniel L. Fletcher	CFOC Standardization Committee, FASAB Response Group Representative	Federal Preparer
8	Steven Schaeffer	Assistant Inspector General for Audit, Social Security Administration	Federal Auditor
9	Eric Klieber	Buck Consultants	Non-federal, Other
10	Dr. Joseph Maresca	Individual	Non-federal, Other
11	Denial Kovlak	Greater Washington Society of CPAs and GWSCPA Educational Foundation	Non-federal, Other
12	Andrew Rettenmaier	Texas A & M University	Non-federal, Other
13	Stephan Goss	Chief Actuary, Social Security Administration	Federal Preparer
14	Cynthia Simpson	Labor Department	Federal Preparer
15	Richard G. Schreitmueller	American Academy of Actuaries	Non-federal, Other
16	Jagadeesh Gokhale	Cato Institute	Non-federal, Other
17	Terry Bowie	NASA	Federal Preparer
18	Sheila Weinberg	Institute for Truth in Accounting	Non-federal, Other
19	Robert Childree	AGA – Financial Management Standards Board	Non-federal, Other
20	Alvin K. Winters	Individual	Non-federal, Other
21	The Honorable Jim Cooper	House of Representatives	Federal, Other
22	Frank Murphy	Department of Housing and Urban Development	Federal Preparer
23	Jeanette Franzel	government Accountability Office	Federal Auditor
24	Douglas W. Elmendorf	Congressional Budget Office	Federal, Other
25	Elliot P. Lewis	Assistant IG, Labor Department	Federal Auditor
26	John Favret	Individual	Non-federal, Other
27	Peter Knutson & Mary Foelster	AICPA, Chairman, FASAB Social Insurance Task Force, and Director, Governmental Auditing and Accounting, respectively	Non-federal, Other

Table B – Quick Table of Responses by Question

Respondent ▼	1 Do you Agree?	2 Do you Agree?	3 Do you Agree?	4 Do you Agree?	5 Do you Agree?	6 Do you Agree?	7 Do you Agree?	8 Do you Agree?
1	Yes	No	Yes	N/C	Yes	No	N/C	N/C
2	N/C	N/C	N/C	N/C	N/C	N/C	N/C	N/C
3	Yes	No	Yes	No	No	Yes	No	No
4	N/C	N/C	N/C	N/C	N/C	N/C	N/C	N/C
5	Yes	No	No	Yes	No	Yes	No	Yes
6	No	No	No	Yes	No	Yes	No	Yes
7	No	No	No	Yes	No	Yes	No	Yes
8	No	No	Yes	No	No	Yes	No	Yes
9	Yes	No	No	Yes	No	Yes	No	Yes
10	N/C	N/C	N/C	N/C	N/C	N/C	N/C	N/C
11	Yes	Yes	Yes	Yes	Yes	Yes	No	No
12	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
13	No	No	No	Yes	No	Yes	No	No
14	No	No	Yes	Yes	Yes	Yes	N/C	Yes
15	No	No	No	Yes	No	Yes	No	No
16	Yes	Yes	N/C	N/C	N/C	N/C	No	N/C
17	Yes	No	No	Yes	No	Yes	No	Yes
18	Yes	Yes	Yes	No	Yes	No	Yes	N/C
19	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
20	Yes	No	No	Yes	No	Yes	No	No

TAB B (June 2009) Attachment 1 – Summary of Responses

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Do you Agree?</th><th colspan="3">3
Do you Agree?</th><th colspan="3">4
Do you Agree?</th><th colspan="3">5
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Do you Agree?</th><th colspan="3">7
Do you Agree?</th><th colspan="3">8
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<tr><td>Totals</td><td>17</td><td>7</td><td>3</td><td>5</td><td>18</td><td>4</td><td>13</td><td>10</td><td>4</td><td>17</td><td>5</td><td>5</td><td>11</td><td>12</td><td>4</td><td>19</td><td>3</td><td>5</td><td>7</td><td>15</td><td>5</td><td>14</td><td>6</td><td>7</td></tr>
<tr><td colspan="25">Legend –
N/C – no comment or not able to characterize the comment as agreement or disagreement.</td></tr>
</table>

Attachment 2 – Tables of Decisions and Points of Consensus as of February 26, 2009

Table No. 1 – Decisions and Points of Consensus as of February 26, 2009

	Board Majority View	Board Minority View
Pre-*Preliminary Views* staff Question #1 – What attribute should be measured for social insurance? Staff recommends present value. The objective regarding the measurement attribute for social insurance should be the same as FASB's "fair value." Fair value is essentially market value but "for some assets and liabilities, management's estimates may be the only available information." Present value is a component of FASB's fair value hierarchy. Moreover, present value is required in various current FASAB standards that require long-range projections, including SFFAS 5 (for pension, retirement healthcare, insurance, and other liabilities), SFFAS 17, and others. Also, the Social Security Trustees use present value extensively in their Annual Report.	The members agreed with the recommendation.	No disagreement was expressed.

Table No. 1 – Decisions and Points of Consensus as of February 26, 2009

	Board Majority View	Board Minority View
Pre-*Preliminary Views* staff Question #2 – Should OASDI and Medicare liabilities include projected amounts in excess of the current statutory limit? Staff recommends including the full cost and full liability to the participants. The probability that the government would ignore the shortfall and then default on a large percentage of the benefits is remote. [Staff Note: Regarding this issue, staff notes two points. First, the cap involves the open group projection, which, as the Board is well aware, includes all participants and all revenue and cost over 75 years. It is a different measure than the liability the staff recommended, which measures the gross cost of benefits for a specific, limited population group. No taxes to be paid in the future or benefits to be credited in the future would be included in the liability. Assets (i.e., Treasury securities), which represent accumulated excess revenue received as of the reporting date, would be accounted	Messrs. Patton, Schumacher, Reid, and Mosso, and Ms. Cohen agreed with the staff recommendation, with the statutory limitation reported either on the face of the financial statements or in a footnote. Some of the rationales expressed: Mr. Reid said that a computation that was limited to statutory provision would be incomplete. Ms. Cohen said that current law does not limit the benefits per se. The projection shows a shortfall, but the projection is based on assumptions and estimates and may be change. Current law merely makes it a self-financing program.	Three members disagree with recommendation (GAO, OMB, CBO). One member (Mr. Farrell) was concerned about what he viewed as inconsistent application of the current law notion, but he did not express a position. Some of the rationales expressed: Mr. Torregrosa said that since the Board is using current law as the basis for liability decisions and current law specifies that funding is cut off, the projection should be based on what is available. Mr. Dacey said that amounts should not be projected in excess of the statutory limit. Although accruing liabilities for other unfunded programs is appropriate, these programs are unique because of the public communication that full benefits will not be paid in the future. However, the full exposure or responsibility for the federal government should be communicated in the SOSI.

Table No. 1 – Decisions and Points of Consensus as of February 26, 2009

	Board Majority View	Board Minority View
for separately under the proposal. Secondly, this appears to be a "funding" issue, and the Board has said that funding should not affect liability recognition. Also, the cap would affect the Medicare liability sooner than the Social Security. The statutory provisions for Medicare will be inefficient to pay 100 percent of HI claims (SMI, Part B, re doctor bills has access to the General Fund and therefore has no such "cap") will arrive much sooner than for Social Security.]		
Pre-*Preliminary Views* staff Question #3 – What assumptions should be used in projecting cash flow? The staff recommends a general requirement as in SFFAS 5 with a reference to actuarial standards of practice. The recommendation is a pragmatic approach to this very difficult subject and has been effective for past FASAB standards.	The members agreed with the recommendation.	No disagreement was expressed.

Table No. 1 – Decisions and Points of Consensus as of February 26, 2009

	Board Majority View	Board Minority View
Also, from a cost-benefit perspective, one might question not availing of the current process.		
Pre-*Preliminary Views* staff Question #4 – How should uncertainty be illustrated? In addition to the recommendations below regarding display, disclosure and RSI, the staff recommends exploring the use of "expected present value" as an alternative to present value based on the "best estimate." The expected cash flow approach accommodates the use of present value techniques when the timing of cash flows is uncertain. The expected cash flow approach focuses on explicit assumptions about the range of possible estimated cash flows and their respective probabilities. The "best estimate" approach is well known and perhaps even "generally accepted" with respect to Social Security and Medicare, and yet the EPV approach is gaining is acceptance in the private sector and is worth exploring for social insurance.	The members agreed with the recommendation and decided that the exploration would be part of the measurement project or at least not part of the Social Insurance Liability Project.	No disagreement was expressed.

Table No. 1 – Decisions and Points of Consensus as of February 26, 2009

	Board Majority View	Board Minority View
Pre-*Preliminary Views* staff Question #5 – What should be recognized as social insurance "expense" or "cost"? The staff recommends four components. For OASDI and HI the four components of cost describe above – "service cost," interest on the liability, actuarial gains and losses, and prior service cost – are consistent with the benefit promise expressed for OASDI and HI as a given amount per year of work in covered employment as well as the changes therein in subsequent periods. For SMI staff recommends the insurance accounting provided in SFFAS 5 and FAS 60. The staff recommends that SMI be characterized as short-term health insurance because it has the short-term characteristics discussed in FAS 60, e.g., SMI provides insurance protection for a fixed period, and the government may adjust the provisions of coverage at the end of any coverage period. The cost of SMI would be the all claims incurred during the period, including, when appropriate, those	A majority of the Board agreed with the recommendation.	No disagreement was expressed but Mr. Patton raised an issue regarding what the cost or expense would be for. He noted that the staff memo, on page 1, notes that a majority of the Board tentatively decided that the obligating event for Social Security and Medicare Hospital Insurance (HI) occurs when participants meet the 40-quarters of work in covered employment (or equivalent) condition. On page 2, the memo says that a key component of cost is the present value of future outflows attributable to obligating events occurring in the reporting period. He said these two statements did not appear to work together, unless work in covered employment after 40 quarters is also an obligating event. He asked what the obligation occurring at 40 quarters is for. He suggested it was for the present value of the full amount due when the participant retires rather than only the amount credited to the participant at 40 quarters, plus the annual increments after that, based on work covered employment to the reporting date. He said the subsequent increments were being treated as if an earnings process was taking place, which he disagreed with. However, if the latter is the Board's position, then the subsequent work in covered employment was also an obligating event. Mr. Dacey said he also saw a comparison issue between the staff recommendation for

Table No. 1 – Decisions and Points of Consensus as of February 26, 2009

	Board Majority View	Board Minority View
not yet reported and contingencies that meet the criteria for recognition; and a provision for premium deficiency, if any. As short-duration insurance SMI is not likely to have premium deficiency. The SMI would involve a shorter-range estimate than Social Security and HI, but where longer-range estimates were necessary, present value would be appropriate. In the case SMI cost would include components like those measure for OASDI and HI, i.e., present value, interest on the obligation, actuarial gains and losses.		measuring Social Security as an incremental cost versus the SMI approach. He said future revenue should be included because it is a realistic assumption that participants will be paying the premium when they are getting the benefits. He said he did not know why that was not being recommended for Social Security as well. Mr. Torregrosa said that CBO does not distinguish between Social Security and Medicare Hospital Insurance, Part A, on the one hand and Medicare SMI, Part B, on the other. Thus, CBO would reject the insurance accounting approach for SMI, Part B, and in particular would not count any future premium income in the estimate because that would not be done for Social Security. He said CBO favors accelerating the recognition point for SMI to 40 quarters.
Pre-*Preliminary Views* staff Question #6 – What should be recognized as the social insurance liability? The staff recommends that liability be the accumulated cost. Accrued costs and liabilities for social insurance would exclude costs attributable to obligating events occurring in the future.	Chairman Mosso polled the Board. A majority agreed with the staff recommendation that the liability is the accumulated cost.	No disagreement was expressed regarding the notion that the liability should be the accumulated cost. Mr. Patton raised an issue discussed in Question #5 above. Mr. Zavada said that the staff paper had only been available for a short period of time and he had not had time to consult with SSA or HHS on the different questions, which he wanted to do before weighing-in.
Pre-*Preliminary Views* staff Question #7 – What should be	The Board did not have an opportunity to address this question at this time.	

Table No. 1 – Decisions and Points of Consensus as of February 26, 2009

	Board Majority View	Board Minority View
displayed for social insurance on the statement of net cost, balance sheet, and other statements? The Social Insurance project staff recommends a total amount for cost on the statement of net cost and liability on the balance sheet representing all components of accrued cost and liability. The totals could be disaggregated by, for example, age cohort, and/or by degree of uncertainty, and/or by "service cost" plus interest on the liability and actuarial gains and losses. With respect to employee pensions and other retirement benefits the FASAB precedent is to recognize all components of net cost in the year of incurrence. The conclusion has been that, for example, amortizing actuarial gains and losses over X number of years produces a "smoothing" effect that can be misleading and in the private sector has allowed the preparer to manage earnings.	Mr. Reid suggested a separate presentation for actuarial gains and losses for social insurance and all other programs where they are significant. He said he has a very strong preference for not commingling operating expenses with changes actuarial assumptions and for finding some place other than the statement of net cost to put the effects of changes in assumptions. Mr. Reid said his goal is to display the components of a change in the liability rather than aggregating it in one number. This would highlight, for example, frequent changes in assumptions that have little economic justification. He said he wants to avoid having hundred billion(s) dollar swings affecting the statement of net cost. He prefers that the latter display the cost of running the government for a year. Mr. Reid said there would be several choices for displaying actuarial gains and losses when they arise. He suggested, for example, that they could be capitalized and amortized; or, they could be booked directly to a statement that displays these effects, which could be closed to net position; or they could be displayed as a line item on the statement of changes in net position so that, in effect, they do not hit the operating cost in the year the changes in assumptions occur. He said that	

Table No. 1 – Decisions and Points of Consensus as of February 26, 2009

	Board Majority View	Board Minority View
	changing the bottom line on this statement to “operating cost” would be a possibility. Chairman Mosso said he preferred that actuarial gains and losses not be reported directly to net position. They ought to flow through a statement.	
Pre-*Preliminary Views* staff Question #8 – What should be disclosed about social insurance in the notes? The staff recommends … to be determined.	The Board did not have an opportunity to address this question at this time.	
Pre-*Preliminary Views* staff Question #9 – What should be done with RR Retirement, Unemployment Insurance, and Black Lung Benefits? Staff recommends the following: Railroad Retirement – analogize to OASDI and SMI. Unemployment Insurance – continue to apply SFFAS 17 Black Lung Benefits – continue to apply SFFAS 17 Railroad Retirement program	The Board did not have an opportunity to address this question at this time.	

Table No. 1 – Decisions and Points of Consensus as of February 26, 2009

	Board Majority View	Board Minority View
features are similar enough to OASDI and Medicare to apply the same approach. Unemployment insurance is unlike OASDI and SMI and for the present the SFFAS 17 is adequate. Black Lung Benefits is immaterial and is phasing-out and SFFAS 17 requirements are adequate.		
Pre-*Preliminary Views* staff Question #10 – What is the reporting objective for social insurance? The staff recommends that the objective should be to report the costs incurred in during the reporting period based on obligating events in that period. The objective of the communication should be to report the costs incurred in during the reporting period and the amount of those costs that will have to be financed in future budgets. The latter are sometimes referred to as “legacy costs” or “sunk costs.” They represent the accrued liability portion of long-term actuarial projections. Other measures are either macro economic or pertain to	A majority of the Board agreed with the recommendation.	No disagreement was expressed, but see Mr. Patton’s issue in Question #5 above.

Table No. 1 – Decisions and Points of Consensus as of February 26, 2009

	Board Majority View	Board Minority View
a specific aspect of the plan, e.g., return on investment.		
Consensus Items, December 2007		
There is a consensus among members regarding the following components of a social insurance standard, which primarily involve display:	Retain the Statement of Social Insurance (SOSI). Some aspects of the format for the SOSI are yet to be determined, but the staff assumes that the SOSI will continue to require five years of data and therefore provide information about trends. Add a statement of changes in SOSI amounts. The format for the statement of changes is yet to be determined. The Primary View proposed expanding the SOSI. The Alternative View proposed a separate statement. Mr. Reid recently suggested expanding the SOSI to explain, for example, how much of the change is due to work in covered employment in the current year, how much is due to benefits paid out during the current year, and how much to changes in assumptions. Retain the SFFAS 17 required supplementary information (RSI). Consider changes to the Statement of Changes in Net Position and other basic financial statements to display social insurance information. The possibilities include a new line item(s) and/or section(s) for the current statements as well as a new basic statement to bridge the Balance Sheet, Statements of Changes in Net Position and of Net Cost, and/or the SOSI. Congress's ability to change a social insurance program, by itself, does not mean that obligations under the program are not liabilities. Proposals regarding social insurance display eventually will be explained in the context of the current FASAB accounting and reporting model. New information and displays may or may not align with this model. Alternatives will be evaluated against the elements definitions, current concepts of recognition versus disclosure, and implications for other statements in the model.	

Majority Positions, April 2008	
	At the April meeting, the Board continued its discussion of the nature and display of social insurance information, and there appeared to be a majority for:

	• highlights information to be presented in the governmentwide management's discussion and analysis (MD&A) section, as requirement supplemental information (RSI). The highlights would include the information in Table 1,"The Nation By the Numbers – An Overview," which was presented in the introductory, "citizen's guide," section of the FY 2007 consolidated Financial Report of the United States government (CFR). In addition, the highlights would include the change in the closed group net present value (NPV) in the "social insurance exposures" section, rather than in the costs section; • a line item for the closed group NPV in a stand alone section on the balance sheets of the governmentwide and component entities; • no additional displays on the governmentwide or component entity operating statement, statement of net cost, or statement of changes in net position; • a summary section on the governmentwide SOSI displaying the NPV of the closed group and open group, as was done for the FY 2007 CFR. In addition, for the component entity's SOSI, the same summary section as for the CFR; and • a statement of changes in SOSI amounts, closed group only, for the governmentwide and component entities, with a format as proposed in April 2006.

TAB B (June 2009) Attachment 2 – Tables of Decisions and Points of Consensus as of February 26, 2009

Table 2 – MATRIX OF MEMBERS' RESPONSES TO STAFF QUESTIONS, APRIL 2008										
HIGHLIGHTS STATEMENT (Attachment 1 in April briefing material)										
	NJ	JF	HS	BM	BR	DW	BD	AS	JP	TA
Should the CFR have a highlights statement (HS)?	Yes, require highlights in the MD&A, not as a basic financial statement. Be somewhat prescriptive.	Yes	Yes, require highlights in the MD&A, not as a basic financial statement	No. Don't prescribe MD&A.	Yes, require highlights in the MD&A. Does not need to be a basic fin. stmt. Do not be too prescriptive.	Yes. Agrees with Mr. Steinberg. Require highlights in the MD&A, not as a basic financial statement.	Yes, highlights could be in the MD&A. Should not be a basic fin. stmt. Do not be too prescriptive.	Yes, require highlights in the MD&A, not as a basic financial statement	Yes	Yes, require highlights in the MD&A, not as a basic financial statement
If so, is format in Attachment 1 appropriate? If not, what add/subtract?	Yes but do not display Treasury securities & assets.	Yes	No. Guidance should be the "what" only, not "how."	N/A (see immediately above)	Yes but do not display Treasury securities & assets.	No. Guidance should be the "what" only, not "how."	Should not prescribe format but, in any case, he'd show change in SI with "SI exposures," not with "costs." Would not display Treasury securities & assets.	Yes but do not display Treasury securities & assets.	Yes	Yes but do not display Treasury securities & assets.
Should Highlights include fiscal imbalance?	Yes	No specific comment	No specific comment	No specific comment	Yes	No specific comment	SI should be a part of eventual fiscal sustainability	No specific comment	No specific comment	No specific comment

TAB B (June 2009) Attachment 2 – Tables of Decisions and Points of Consensus as of February 26, 2009

Table 2 – MATRIX OF MEMBERS' RESPONSES TO STAFF QUESTIONS, APRIL 2008										
							discussion in MD&A.			
Should Highlights be "basic"?	No. Should be RSI.	Yes	No. Should be RSI.	No	No. Should be RSI.	No. Should be RSI.	No	No. Should be RSI.	Yes	No. Should be RSI.

Table 2 – MATRIX OF MEMBERS' RESPONSES TO STAFF QUESTIONS, APRIL 2008										
BALANCE SHEET LINE ITEMS (Attachment 2 in April briefing material)										
	NJ	JF	HS	BM	BR	DW	BD	AS	JP	TA
Should CFR and component entity balance sheets (B/S) have line items as proposed?	Yes. Display NPV of closed group. Do not display Treasury securities & assets.	Yes	No	Yes. Do not display Treasury securities & assets.	Yes. Do not display Treasury securities & assets.	No	No	Yes. Do not display Treasury securities & assets.	Yes	Yes. Do not display Treasur y securitie s & assets.
If concept of B/S line items is acceptable, do you approve format? If not, what instead?	Yes. Do not present Treasury securities & assets in CFR. Consider Chart 13-1 from *Budget*.	Yes	N/A (see immediat ely above)	Yes. Do not present Treasury securities & assets in CFR.	Yes. Do not present Treasury securities & assets in CFR.	N/A (see immediate ly above)	N/A (see immediately above)	Yes. Do not present Treasury securities & assets in CFR.	Yes	Yes. Do not present Treasur y securitie s & assets in CFR.

Table 2 – MATRIX OF MEMBERS' RESPONSES TO STAFF QUESTIONS, APRIL 2008										
OPERATING STATEMENT LINE ITEMS (Attachment 3 in April briefing material)										
	NJ	JF	HS	BM	BR	DW	BD	AS	JP	TA
Should CFR & component oper. stmts. have line items?	No. SI ≠ op. costs.	Yes	No	No	No	No	No	Yes	Yes	Yes
If concept of oper. stmt. line items is acceptable, do you approve format? If not, what instead?	N/A (see immediately above)	Yes	N/A (see immediately above)	N/A (see immediately above)	N/A (see immediately above)	N/A (see immediately above)	N/A (see immediately above)	Yes. Do not present Treasury securities & assets in CFR.	Yes	Yes

Table 2 – MATRIX OF MEMBERS' RESPONSES TO STAFF QUESTIONS, APRIL 2008										
STATEMENT OF SOCIAL INSURANCE (Attachment 4 in April briefing material)										
	NJ	JF	HS	BM	BR	DW	BD	AS	JP	TA
Should the CFR SOSI have a summary section?	Yes. It should tie to balance sheet.	Yes	Yes	No specific comment	Yes. It should tie to balance sheet.	No	Yes	Yes	Yes	Yes
If concept of SOSI summary is acceptable, do you approve format? If not, what instead?	Yes. Do not put the assets on the CFR.	Yes. Okay with not to putting assets on the CFR.	Yes. Do not put the assets on the CFR.	No specific comment	Yes. Do not put the assets on the CFR.	N/A (see immediately above)	Yes. Do not put the assets on the CFR.	Yes. Do not put the assets on the CFR.	Yes. D not put the assets on the CFR.	Yes
Should component entities' SOSI have the summary section?	Yes. It should tie to balance sheet.	Yes	Yes	No specific comment	Yes. It should tie to balance sheet.	No	Yes	Yes	Yes	Yes

Table 2 – MATRIX OF MEMBERS' RESPONSES TO STAFF QUESTIONS, APRIL 2008										
STATEMENT OF CHANGES IN SOSI AMOUNTS (Attachment 5 in April briefing material)										
	NJ	JF	HS	BM	BR	DW	BD	AS	JP	TA
Do you approve format of statement of changes in SI amounts (SoC) ? If not, what instead?	Yes	Yes	Yes. Pick either the closed or open group.	Yes. Display closed group only.	Yes	Yes	Yes	Yes	Yes	Yes
Should SoC be "basic"?*	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

*Although most members did not address this question specifically, staff assumes that approval of the SoC means also approval as basic info.

Table 3 – June 2008 Staff Questions and Board Member Answers		
	Majority View	Minority View
Does the Board agree with the [MD&A] highlights requirement?	The standard will identify all the items on the pro forma table as key measures to be discussed in the MD&A financial statement discussion but it will not require (or preclude) tabular or statement format. Specific sub-line items would not be required.	Some members said the Board is being too prescriptive, e.g., there are six financial statements now.
Does the Board agree that the closed group NPV should be displayed in a separate section "below the line" on the balance sheet?	Mr. Allen asked if any member wanted to change his vote from the April meeting (see "Balance Sheet Line Items" in the Matrix for April 2008 immediately above). No member did. (See 28 of June minutes.)	
Does the Board agree that the closed and open group NPV should be displayed on the **<u>CFR SOSI</u>**?	No objections expressed. The standard will not preclude presenting the SOSI information in different ways, e.g., net numbers by cohort.	
Does the Board agree that the closed and open group NPV should be displayed on the **<u>component entity's SOSI</u>**?	No objections expressed. The standard will not preclude presenting the SOSI information in different ways, e.g., net numbers by cohort.	
Does the Board agree that the items causing change during the period that are illustrated in Attachment 6 [the statement of changes in social insurance amounts] are appropriate?	There were no objections to the line items but several members asked for more explanation of the meaning of several line items, e.g., "changes in programmatic data."	
Does the Board agree that the accrued benefit obligation should be disclosed in the notes to the financial statements?	The Board decided to postpone a vote on this disclosure. Some members noted that users want to know what this number is, that it would be provided in the spirit of compromise, and that context would be provided for it in the note.	Some members were concerned that more than one number would be confusing; that the accrued benefit obligation implied that the program would be terminated and/or that it implies a liability; and that the Board hadn't deliberated enough on it.

Table 3 – June 2008 Staff Questions and Board Member Answers		
	Majority View	Minority View
Should a bottom line like that on the balance sheet be provided on the operating statement representing the change in the level of social insurance commitments during the period?	The Board did not approve a line item for the operating statement. The members did not object to explaining, in the basis for conclusions, that the Board considered this and the reasons why the Board rejected it. They did not object to a question for respondents on the subject.	

Table 4 – August 2008 Staff Questions and Board Member Answers		
	Majority View	Minority View
Staff Question #1 – Does the Board approve having the proposed standard amend rather than replace SFFAS 17 and SFFAS 15?	The Board voted in favor of focusing on SFFAS 17 for the proposed standard. SFFAS 17 will be amended to require, from SI entities only, the analysis of key financial statement amounts in the MD&A. SFFAS 15 will not be amended to apply the SI MD&A requirements generally to other federal entities. (See table below for the vote tally.)	Some members favored amending SFFAS 15 in a limited way to require a more robust discussion of key financial statement amounts in the MD&A of all federal entities. They argued that some improvement in the short run was better than a lot of possible improvement in the indeterminate future. Some members favored a starting a separate project to comprehensive address problems with the MD&A standard.
Staff Question #2 – Does the Board have additional questions for respondents?	The Board decided to add questions for respondents about the relative merits of the closed group measures, and about sensitivity analysis.	
Staff Question #3 – Does the Board have additional suggestions regarding the components of the change in social insurance amounts during the reporting period?	The Board decided that the proposed statement will require (1) footnotes at the bottom of the statement (or wherever there is room on the face of the statement) explaining the reasons for the changes. The explanation of some changes is likely to require several sentences. The most significant	

Table 4 – August 2008 Staff Questions and Board Member Answers		
	Majority View	Minority View
	changes also will be explained in the MD&A. However, no formal note disclosure will be required. And, the Board decided (2) the format and line items for the statement that are illustrated in the proposed standard would be merely an example of the requirement, i.e., no specific categories will be required.	
Staff Question #4 – Does the Board continue to support [the approach to sensitivity analysis]?	There were no objections or issues raised regarding the approach to sensitivity analysis. However, the Board decided that there should be more language to explain the objective of sensitivity analysis and to make it more objective driven.	
Staff Question #5 – Does the Board approve the discussion of respondents' comments in the basis for conclusions?	There were no objections to the approach for summarizing the responses to the preliminary views document.	
Other Questions/Issues in August 2008.	Majority View	Minority View
Should there be a required note disclosure of the accrued benefit obligation?	The Board voted in favor of disclosing the accrued benefit obligation in a note because users ask for it, including at least 50 percent of the respondents to the *Preliminary Views* document; and because it is part of a compromise package. Staff will explain how it will be calculated regarding Medicare. (See table immediately below for the vote count.)	Some members were opposed to disclosing this number in a footnote because they did not have enough information on how it would be applied to Medicare; and/or they preferred that there be fewer numbers for users to consider; and/or they felt the number implied that the SI programs will be terminated.
Should the Treasury securities held by social insurance entities be included in	The Board decided that the Treasury securities should not be included in the	

Table 4 – August 2008 Staff Questions and Board Member Answers		
	Majority View	Minority View
the summary section of the governmentwide and component entities' SOSI?	summary section of the governmentwide CFR SOSI because the gross NPV will have to be financed and the securities held do not represent assets of the consolidated entity for program financing. The members did not object to reporting them on the component entities' SOSI.	

Table 5 – August 2008 Vote re Whether the Social Insurance Standard Should Go forward: [**Staff Question #1 for August 2008**]		
1) focusing solely on implications of social insurance reporting	(2) as written with social insurance reporting requirements and an MD&A amendment addressing financial statement analysis that would apply to all agencies.	a second part of the second question is: (3) or do members want a separate project on MD&A.
	Mr. Reid	
Mr. Torregrosa		
Mr. Steinberg		
	Mr. Farrell	
Mr. Jackson		
Mr. Patton		
Mr. Schumacher		
	Mr. Dacey	
	Ms. Hug	
Mr. Allen		

Table 6 – August 2008 Vote re Whether to Focus on One Consistent Measure and, If So, Which One			
Yes, Focus on One Consistent Measure for MD&A and Statements	Which Measure?		Current Participant Liability + Residual Open Group
	Closed Group	Open Group	
Mr. Allen	Mr. Allen		
??		Ms. Hug	
Mr. Dacey		Mr. Dacey	
Mr. Schumacher	Mr. Steinberg		
Mr. Patton	Mr. Patton		
Mr. Jackson	Mr. Jackson		Mr. Jackson
Mr. Farrell	Mr. Farrell		
Mr. Steinberg		Mr. Steinberg	
Mr. Torregrosa	Mr. Torregrosa		
Mr. Reid	Mr. Reid		

Table 7 – August 2008 Vote re Whether to Approve the Disclosure of an Accrued Benefit Obligation			
Approve the Disclosure		Disapprove the Disclosure	
Social Security	**Medicare**	**Social Security**	**Medicare**
		Ms. Hug	Ms. Hug
Mr. Dacey	Mr. Dacey		
Mr. Schumacher	Mr. Schumacher		
Mr. Patton	Mr. Patton		
Mr. Jackson		(if all or none)	Mr. Jackson
Mr. Farrell		(if all or none)	Mr. Farrell
Mr. Steinberg	Mr. Steinberg		
Mr. Torregrosa		(if all or none)	Mr. Torregrosa
Mr. Reid	Mr. Reid		
Mr. Allen	Mr. Allen		

Table 8 – October 2008 Vote re Whether the Discussion of Key Financial Measures Should Be In A Specific MD&A Section.		
	Should the Discussion of Key Financial Measures Be in a Specific MD&A Section?	
	Yes	No
Mr. Patton	Yes, people should not have to search through the MD&A	
Mr. Schumacher	Agrees with Mr. Patton	
Mr. Dacey		No. Agrees with the objective of making the discussion easy to find, but would vote “no” because SFFAS 15 does not establish 4 distinct MD&A sections, at least in practice.
Mr. Werfel		No. Agrees with Mr. Steinberg that the standards should not get be too prescriptive about display.
Mr. Allen	Agrees with Mr. Patton	
Mr. Reid		Agrees with Mr. Werfel
Mr. Torregrosa		Agrees with Mr. Steinberg
Mr. Steinberg		Agrees with Mr. Steinberg
Mr. Farrell	Yes. The reference to sections in paragraph 26 of the ED should not be taken literally. There should be an area within MD&A that discusses financial statement analysis.	
Mr. Jackson	Yes. ED paragraph 26 merely says the section “devoted to financial statement analysis.” He suggested leaving paragraph 26 as is and changing the Question for Respondents to agree with it.	

Table 9 – October 2008 Vote on Whether the SI ED Should Be Issued			
	Should the SI ED be Issued?		
	Yes	No	Other
Mr. Patton	Send it out.		
Mr. Schumacher	Send it out.		
Mr. Dacey	Would like to get the document out because it is important to get the issues out and get comments; but is also evaluating an alternative view and evaluating whether he would join that.		
Mr. Werfel	Put the exposure draft out. He will vote against it in substance. He does not want to hold it up. He'd rather get it out there with the yes and no votes and an alternative view.		
Mr. Allen	Send it out.		
Mr. Reid	Send it out.		
Mr. Torregrosa			He would push for the compromise but will await the director's decision. Thinks Mr. Werfel's alternative view reflects the traditional budget view.
Mr. Steinberg	Agrees with Mr. Farrell but wants to see the "track change" edition.		
Mr. Farrell	Send it out without going through the individual issues again.		
Mr. Jackson	Send it out without comment.		

Table 10 – February 2009 Vote on whether there should be either (1) a liability should be recognized on the balance sheet [other than that based on the “due and payable” approach] or (2) a line item on the balance sheet for social insurance commitments as proposed in the exposure draft.		
	Should there be a liability or line item?	
Mr. Patton	Yes	
Mr. Schumacher	Yes	
Mr. Franzel		No
Mr. Kearney		No
Mr. Allen	Yes	
Ms. Fleetwood		No
Mr. Torregrosa		No
Mr. Steinberg		No
Mr. Farrell	Yes	
Mr. Jackson	Yes	

Table 11 -- April 23, 2009, vote on the question “Should the Staff Develop a New Basic Statement”:			
Mr. Patton	Yes		
Mr. Schumacher	Yes		
Mr. Dacey		No	
Mr. Werfel		No	
Mr. Allen	Yes		
Ms. Hug		No	
Mr. Torregrosa	Yes		
Mr. Steinberg			May or may not support a statement, depending on the format.
Mr. Farrell	Yes		
Mr. Jackson	Yes		

Table 12 – Summary of Tentative Preferences of Members regarding Financial Statement Options, as of April 23, 2009			
	Something Similar to Option 1 – Combined Balance Sheet and Sustainability Info.	Something Similar to Option 2 – A Separate Statement	Other
Mr. Jackson		A separate statement with two columns as illustrated above. Non-SI sustainability amounts are not included. Liabilities and SI sustainability amounts are not added together. The current balance sheet format and geography is not affected.	
Mr. Patton	Option 1B or 1C w/o non-SI amounts.		
Mr. Schumacher	Option 1C w/o non-SI amounts		
Mr. Dacey			Mr. Jackson's format in the MD&A
Mr. Werfel		Something similar to Option 2A	
Mr. Allen	"Overall Perspectives" table from the FY 2004 FR. Open to other options.		
Ms. Hug			Mr. Jackson's format in the MD&A
Mr. Torregrosa	Option 1C w/o non-SI amounts		
Mr. Steinberg		Something similar to Option 2A	
Mr. Farrell	"Overall Perspectives" table from the FY 2004 FR w/o non-SI amounts		

Table 13 – April 23, 2009, vote on the question of whether to carve out the statement of changes in social insurance amounts:			
	Yes	No	Comments
Mr. Patton		X	
Mr. Schumacher		X	Fears the rest of the project would disappear and the Board would end up dealing with it in the reporting model project several years from now.
Mr. Dacey	X		
Mr. Werfel	X		
Mr. Allen	X		
Ms. Hug	X		
Mr. Torregrosa		X	Disaggregating the reasons for the change is very important. The net result of the social insurance project is the statement of fiscal sustainability, which wouldn't have been done without the social insurance project. However, he opposed the carve-out in deference to the private sector members' view.
Mr. Steinberg	X		
Mr. Farrell		X	He thought carving-out of a small piece of a standard for issuance should be re-exposed; it sets a bad precedent.
Mr. Jackson		X	He'd open up the sustainability project and integrate it with the social insurance.

<table>
<tr><td colspan="4">Table 14 -- April 23, 2009, vote on the staff recommendation on page 11 of the staff memorandum regarding Issue 2, that the standard “feature” the open group measure.</td></tr>
<tr><td></td><td>Supports the Staff Recommendation</td><td>Does Not Support the Staff Recommendation</td><td>Comments</td></tr>
<tr><td>Mr. Patton</td><td>X</td><td></td><td></td></tr>
<tr><td>Mr. Schumacher</td><td>X</td><td></td><td></td></tr>
<tr><td>Mr. Dacey</td><td>X</td><td></td><td></td></tr>
<tr><td>Mr. Werfel</td><td></td><td>X</td><td>Agreed that the emphasis should be on the open group measure and appreciated that the closed group measure might need to be discussed, but objected to the FASAB requiring that the closed group measure be discussed in the MD&A and elsewhere in the presentation. He said a better standard-setting model is to require the one measure the Board deems appropriate and allow the preparer and the auditor the flexibility to include additional measures if they believe it is necessary to provide better context for the primary measure.</td></tr>
<tr><td>Mr. Allen</td><td>X</td><td></td><td></td></tr>
<tr><td>Mr. Scott</td><td></td><td>X</td><td>Favors Mr. Werfel’s view.</td></tr>
<tr><td>Mr. Torregrosa</td><td>X</td><td></td><td></td></tr>
<tr><td>Mr. Steinberg</td><td></td><td>X</td><td>Favors Mr. Werfel’s view.</td></tr>
<tr><td>Mr. Farrell</td><td>X</td><td></td><td></td></tr>
<tr><td>Mr. Jackson</td><td>X</td><td></td><td></td></tr>
<tr><td colspan="4">The effect of this is to require:
1. Emphasis on the open group measure in the MD&A. However, the closed group measure will be required to be included in MD&A discussion of social insurance.
2. The use of the open group measure for the statement of changes in social insurance amounts.
3. In addition, the closed group measure will continue to be a subtotal in the summary section of the SOSI, as proposed in the ED.</td></tr>
</table>

Attachment 3 – Pro Forma Illustrations

Illustration No. 1 – Overall Perspective Table from FY 2004 Financial Report

Overall Perspective (billions of dollars)	2004 Balance Sheet	2004 Additional Responsibilities	2004 Combined Amounts	2003 Balance Sheet	2003 Additional Responsibilities	2003 Combined Amounts	$ Change
ASSETS							
Inventory, cash	$ 359		$ 359	$ 372		$ 372	$ (13)
Property, plant & equipment	653		653	658		658	(5)
Loans receivable	221		221	221		221	0
Other	165		165	154		154	11
Total Assets	$,398		$ 1,398	$ 1,405		$1,405	$ (7)
LIABILITIES & NET RESPONSIBILITIES							
Social Insurance							
Medicare (Parts A, B, D)		(24,615)	(24,615)		(15,006)	(15,006)	(9,609)
Social Security		(12,552)	(12,552)		(11,742)	(11,742)	(810)
Other (RR Retirement)		(112)	(112)		(110)	(110)	(2)
Subtotal, Social Ins.	0	(37,279)	(37,279)	0	(26,858)	(26,858)	(10,421)
Fed. empl. & vets. Pensions/benefits	(4,062)		(4,062)	(3,880)		(3,880)	(182)
Federal debt held by the public	(4,329)		(4,329)	(3,945)		(3,945)	(384)
Other liabilities	(716)		(716)	(675)		(675)	(41)
Other responsibilities		(903)	(903)		(862)	(862)	(41)
Total Liabilities & Net Responsibilities	($9,107)	($38,182)	($47,289)	($8,500)	($27,720)	($36,220)	($11,069)
Total Assets minus Total Liabilities & Net Responsibilities	($7,709)	($38,182)	($45,891)	($7,095)	($27,720)	($34,815)	($11,076)

Illustration 2 (similar to Option 1C, April Memorandum)

United States Government Balance Sheet and Social Insurance Summary September 30, 2008, and September 30, 2007 (billions)	2008	2007
ASSETS		
Cash and other monetary assets (Note 2)	$ 424.5	$ 128.0
Accounts and taxes receivable, net (Note 3)	93.0	87.8
Loans receivable, net (Note 4)	263.4	231.9
Inventories and related property, net (Note 5)	289.6	277.1
Property, plant, and equipment (Note 6)	737.7	691.1
Securities and investments (Note 7)	79.6	99.8
Investments in Government sponsored enterprises (Note 8)	7.0	
Other assets (Note 9)	79.9	65.4
Total assets	$ 1,974.7	$ 1,581.1
Stewardship Land and Heritage Assets (Note 24)		
LIABILITIES		
Accounts payable (Note 10)	$ 73.3	$ 66.2
Federal debt securities held by the public and accrued interest (Note 11)	5,836.2	5,077.7
Federal employee and veteran benefits payable (Note 12)	5,318.9	4,769.1
Environmental and disposal liabilities (Note 13)	342.8	342.0
Benefits due and payable (Note 14)	144.4	133.7
Insurance program liabilities (Note 15)	77.8	72.7
Loan guarantee liabilities (Note 4)	72.9	69.1
Keepwell payable (Note 8)	13.8	
Other liabilities (Note 16)	298.1	256.4
Total liabilities	12,178.2	10,786.9
Contingencies (Note 19) and Commitments (Note 20)		
NET POSITION		
Earmarked funds (Note 21) (Restated)	704.6	620.2
Non-earmarked funds (Restated)	(10,908.1)	(9,826.0)
Total net position	(10,203.5)	(9,205.8)
Total liabilities and net position	$ 1,974.7	$ 1,581.1
SOCIAL INSURANCE		
Social Security (see Statement of Social Insurance)	($6,555)	($6,763)
Medicare (see Statement of Social Insurance)	(36,311)	(34,085)
Other social insurance (See Statement of Social Ins.)	(104)	(100)
Total social insurance	($42,970)	($40,948)
???TOTAL LIABILITIES AND SOCIAL INSURANCE ???	$ 55,148	$ 51,735

Illustration 3 (similar to Mr. Jackson's concept and Option 2A from the staff's April memorandum)

United States Government Pro Forma
Balance Sheet and Social Insurance Summary
September 30, 2008, and September 30, 2007
(billions)

	2008			2007		
ASSETS	Balance Sheet	Social Insurance	Memo Combined	Balance Sheet	Social Insurance	Memo Combined
Cash and other monetary assets (Note 2)	$ 424.5		$ 424.5	$ 128.0		$ 128.0
Accounts and taxes receivable, net (Note 3)	93.0		93.0	87.8		87.8
Loans receivable, net (Note 4)	263.4		263.4	231.9		231.9
Inventories and related property, net (Note 5)	289.6		289.6	277.1		277.1
Property, plant, and equipment (Note 6)	737.7		737.7	691.1		691.1
Securities and investments (Note 7)	79.6		79.6	99.8		99.8
Investments in Government sponsored enterprises (Note 8)	7.0		7.0	0.0		0.0
Other assets (Note 9)	79.9		79.9	65.4		65.4
Total assets	$ 1,974.7		$ 1,974.7	$ 1,581.1		$ 1,581.1
Stewardship Land and Heritage Assets (Note 24)						
LIABILITIES						
Accounts payable (Note 10)	$ 73.3		$ 73.3	66.2		$ 66.2
Federal debt securities held by the public and accrued interest (Note 11)	5,836.2		5,836.2	5,077.7		5,077.7
Federal employee and veteran benefits payable (Note 12)	5,318.9		5,318.9	4,769.1		4,769.1
Environmental and disposal liabilities (Note 13)	342.8		342.8	342.0		342.0
Benefits due and payable (Note 14)	144.4		144.4	133.7		133.7
Insurance program liabilities (Note 15)	77.8		77.8	72.7		72.7
Loan guarantee liabilities (Note 4)	72.9		72.9	69.1		69.1
Keepwell payable (Note 8)	13.8		13.8	0.0		0.0
Other liabilities (Note 16)	298.1		298.1	256.4		256.4
Total liabilities	12,178.2		12,178.2	10,786.9		10,786.9
Contingencies (Note 19) and Commitments (Note 20)						

NET POSITION						
Earmarked funds (Note 21) (Restated)	704.6		704.6	620.2		620.20
Non-earmarked funds (Restated)	(10,908.1)		(10,908.1)	(9,826.0)		(9,826.0)
	(10,203.5)		(10,203.5)	(9,205.8)		(9,205.8)
Total liabilities and net position	$1,974.7		1,974.7	$10,786.9		10,786.9
SOCIAL INSURANCE						
Social Security (see Statement of Social Insurance)		($6,555)	($6,555)		($6,763)	($6,763)
Medicare (see SOSI and Changes in SOSI)		(36,311)	(36,311)		(34,085)	(34,085)
Other social insurance		(104)	(104)		(100)	(100)
Total social insurance		($42,970)	($42,970)		($40,948)	($40,948)
???TOTAL LIABILITIES AND SOCIAL INSURANCE ???			$55,148			$51,735

Illustration 4 – United States Government Statements of Social Insurance

********UNAUDITED***********

(In billions of dollars)	2008	2007	2006	2005	2004	2003
Federal Old-Age, Survivors and Disability Insurance (Social Security):						
Contributions and Earmarked Taxes from:						
Participants who are receiving benefits or are currently eligible	$542	$477	$533	$464	$411	$359
Participants who have not attained eligibility age or disability	18,249	17,515	16,568	15,290	14,388	13,576
Contributions and Earmarked Taxes	18,791	17,992	17,101	15,754	14,799	13,935
Expenditures for Scheduled Future Benefits for:						
Participants who are receiving benefits or are currently eligible	(6,958)	(6,329)	(5,866)	(5,395)	(4,933)	(4,662)
Participants who have not attained eligibility age or disability	(29,021)	(27,928)	(26,211)	(23,942)	(22,418)	(21,015)
Expenditures for Scheduled Future Benefits	(35,979)	(34,257)	(32,077)	(29,337)	(27,351)	(25,677)
Present value of future expenditures in excess of future revenue for current participants	(17,188)	(16,265)	(14,976)	(13,583)	(12,552)	(11,742)
Contributions and Earmarked Taxes from:						
Future participants	17,566	16,121	15,006	13,696	12,900	12,213
Expenditures for Scheduled Future Benefits for:						
Future participants	(6,933)	(6,619)	(6,480)	(5,816)	(5,578)	(5,398)
Present value of future expenditures in excess of future revenue for future participants	10,633	9,502	8,526	7,880	7,322	6,815
Present value of future expenditures in excess of future revenue for all participants	($6,555)	($6,763)	($6,450)	($5,703)	($5,230)	($4,927)

Federal Hospital Insurance (Medicare Part A):	2008	2007	2006	2005	2004	2003
Contributions and Earmarked Taxes from:						
Participants who are receiving benefits or are currently eligible	$ 202	$ 178	$ 192	$ 162	$ 148	$ 128
Participants who have not attained eligibility age or disability	6,320	5,975	5,685	5,064	4,820	4,510
Contributions and Earmarked Taxes	6,522	6,153	5,877	5,226	4,968	4,638
Expenditures for Scheduled Future Benefits for:						
Participants who are receiving benefits or are currently eligible	(2,747)	(2,558)	(2,397)	(2,179)	(2,168)	(1,897)
Participants who have not attained eligibility age or disability	(17,365)	(15,639)	(15,633)	(12,668)	(12,054)	(10,028)
Expenditures for Scheduled Future Benefits	(20,112)	(18,197)	(18,030)	(14,847)	(14,222)	(11,925)
Present value of future expenditures in excess of future revenue for current participants	(13,590)	(12,044)	(12,153)	(9,621)	(9,254)	(7,287)
Contributions and Earmarked Taxes from:						
Future participants	5,361	4,870	4,767	4,209	4,009	3,773
Expenditures for Scheduled Future Benefits for:						
Future participants	(4,506)	(5,118)	(3,904)	(3,417)	(3,246)	(2,653)
Present value of future expenditures in excess of future revenue for future participants	855	(248)	863	792	763	1,120
Present value of future expenditures in excess of future revenue for all participants	($12,735)	($12,292)	($11,290)	($8,829)	($8,491)	($6,167)

Federal Hospital Insurance (Medicare Part B):	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Contributions and Earmarked Taxes from:						
Participants who are receiving benefits or are currently eligible	$461	$ 433	$ 409	$ 363	$ 332	$ 283
Participants who have not attained eligibility age or disability	3,859	3,184	3,167	2,900	2,665	2,148
Contributions and Earmarked Taxes	4,320	3,617	3,576	3,263	2,997	2,431
Expenditures for Scheduled Future Benefits for:						
Participants who are receiving benefits or are currently eligible	(1,986)	(1,834)	(1,773)	(1,622)	(1,475)	(1,306)
Participants who have not attained eligibility age or disability	(14,949)	(12,130)	(12,433)	(11,541)	(10,577)	(8,845)
Expenditures for Scheduled Future Benefits	(16,935)	(13,964)	(14,206)	(13,163)	(12,052)	(10,151)
Present value of future expenditures in excess of future revenue for current participants	(12,615)	(10,347)	(10,630)	(9,900)	(9,055)	(7,720)
Contributions and Earmarked Taxes from:						
Future participants	1,158	1,172	906	924	891	688
Expenditures for Scheduled Future Benefits for:						
Future participants	(4,262)	(4,257)	(3,407)	(3,408)	(3,277)	(2,622)
Present value of future expenditures in excess of future revenue for future participants	(3,104)	(3,085)	(2,501)	(2,484)	(2,386)	(1,934)
Present value of future expenditures in excess of future revenue for all participants	($15,719)	($13,432)	($13,131)	($12,384)	($11,441)	($9,654)

Federal Hospital Insurance (Medicare Part D):	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Contributions and Earmarked Taxes from:						
Participants who are receiving benefits or are currently eligible	$123	$ 167	$ 173	$ 185	$ 176	
Participants who have not attained eligibility age or disability	1,380	1,627	1,700	1,790	1,857	
Contributions and Earmarked Taxes	1,503	1,794	1,873	1,975	2,033	
Expenditures for Scheduled Future Benefits for:						
Participants who are receiving benefits or are currently eligible	(581)	(794)	(792)	(880)	(773)	
Participants who have not attained eligibility age or disability	(6,527)	(7,273)	(7,338)	(7,913)	(7,566)	
Expenditures for Scheduled Future Benefits	(7,108)	(8,067)	(8,130)	(8,793)	(8,339)	
Present value of future expenditures in excess of future revenue for current participants	(5,605)	(6,273)	(6,257)	(6,818)	(6,306)	
Contributions and Earmarked Taxes from:						
Future participants	604	611	492	572	618	0
Expenditures for Scheduled Future Benefits for:						
Future participants	(2,856)	(2,699)	(2,121)	(2,440)	(2,431)	
Present value of future expenditures in excess of future revenue for future participants	(2,252)	(2,088)	(1,629)	(1,868)	(1,813)	
Present value of future expenditures in excess of future revenue for all participants	($7,857)	($8,361)	($7,886)	($8,686)	($8,119)	

Railroad Retirement	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Contributions and Earmarked Taxes from:						
Participants who are receiving benefits or are currently eligible	$ 5	$ 5	$ 5	$ 4	$ 4	$ 4
Participants who have not attained eligibility age or disability	43	41	40	37	37	40
Contributions and Earmarked Taxes	48	46	45	41	41	44
Expenditures for Scheduled Future Benefits for:						
Participants who are receiving benefits or are currently eligible	(97)	(93)	(92)	(84)	(81)	(80)
Participants who have not attained eligibility age or disability	(88)	(86)	(84)	(73)	(72)	(73)
Expenditures for Scheduled Future Benefits	(185)	(179)	(176)	(157)	(153)	(153)
Present value of future expenditures in excess of future revenue for current participants	(137)	(133)	(131)	(116)	(112)	(109)
Contributions and Earmarked Taxes from:						
Future participants	54	54	56	41	39	41
Expenditures for Scheduled Future Benefits for:						
Future participants	(26)	(26)	(25)	(16)	(14)	(14)
Present value of future expenditures in excess of future revenue for future participants	28	28	31	25	25	27
Present value of future expenditures in excess of future revenue for all participants	($109)	($105)	($100)	($91)	($87)	($82)
Black Lung (Part C):	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Net present value of future revenue over future expenditures	$ 5	$ 5	$ 4	$ 5	$ 4	$ 4
Total net present value of future expenditures in excess of future revenue (the "open group")	($42,970)	($40,948)	($38,853)	($35,688)	($33,364)	($20,826)

TAB B (June 2009) Attachment 3 – Pro Forma Illustrations

Social Insurance Summary	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Contributions and Earmarked Taxes from:						
Participants who are receiving benefits or are currently eligible	$ 1,333	$ 1,260	$ 1,312	$ 1,178	$ 1,071	$ 774
Participants who have not attained eligibility age or disability	(12,369)	(11,608)	(10,920)	(10,160)	(9,430)	(7,945)
Contributions and Earmarked Taxes	(11,036)	(10,348)	(9,608)	(8,982)	(8,359)	(7,171)
Expenditures for Scheduled Future Benefits for:						
Participants who are receiving benefits or are currently eligible	29,851	28,342	27,160	25,081	23,767	20,274
Participants who have not attained eligibility age or disability	(67,950)	(63,056)	(61,699)	(56,137)	(52,687)	(39,961)
Expenditures for Scheduled Future Benefits	(38,099)	(34,714)	(34,539)	(31,056)	(28,920)	(19,687)
Closed group -- Total present value of future expenditures in excess of future revenue for current participants	(49,135)	(45,062)	(44,147)	(40,038)	(37,279)	(26,858)
Contributions and Earmarked Taxes from:						
Future participants	24,743	22,828	21,227	19,442	18,457	16,715
Expenditures for Scheduled Future Benefits for:						
Future participants	(18,578)	(18,714)	(15,933)	(15,092)	(14,542)	(10,683)
Present value of future expenditures in excess of future revenue for future participants	6,165	4,114	5,294	4,350	3,915	6,032
Open group -- Total present value of future expenditures in excess of future revenue	($42,970)	($40,948)	($38,853)	($35,688)	($33,364)	($20,826)

Illustration 5 – Statement of Changes in Social Insurance For the Year Ended September 30, 2008

Open Group

(in billions of dollars)

	Social Security	Medicare HI	Medicare Parts B & D	Other (e.g., RR Ret.)	Total
Net present value (NPV) of future expenditures in excess of future revenue for all participants, beginning of FY 2008	($6,763)	($12,292)	($21,793)	($100)	($40,948)
Reasons for changes in the net present value of future expenditures in excess of future revenue:					
Changes in valuation period [*includes additional benefits accumulated via work done, and interest on the obligation*]	XXX	XXX	XXX	XXX	XXX
Changes in demographic data and assumptions [*includes additional participants*]	XXX	XXX	XXX	XXX	XXX
Changes in economic data and assumptions	XXX	XXX	XXX	XXX	XXX
Changes in Medicare and other healthcare assumptions	XXX	XXX	XXX	XXX	XXX
Changes in law or policy	XXX	XXX	XXX	XXX	XXX
Changes in methodology and programmatic data	XXX	XXX	XXX	XXX	XXX
Other changes	XXX	XXX	XXX	XXX	XXX
Subtotal -- change in net present value during period	208	(443)	(1,783)	(4)	($2,022)
NPV of future expenditures in excess of future revenue, end of FY 2008	($6,555)	($12,735)	($23,576)	($104)	($42,970)

Illustration 6 – Long-Term Fiscal Projections for the U. S. Government

	As of January 1, 20XX (Current Year)		As of January 1, 20XX (Prior Year)		Change from Prior Year	
	PV Dollars (trillions)	% GDP	PV Dollars (trillions)	% GDP	PV Dollars (trillions)	% GDP
Receipts	$ XX.X	X.X%	$ XX.X		$ XX.X	X.X%
Medicare	19,468	X.X%	18,217	X.X%	1,251	X.X%
Social Security	36,357	X.X%	34,113	X.X%	2,244	X.X%
All other receipts	XX.X	X.X%	XX.X	X.X%	XX.X	X.X%
Total Receipts	$ XXX.X	X.X%	$ XX.X	X.X%	$ XX.X	X.X%
Non-interest Spending						
Medicare	(55,779)	X.X%	(52,302)	X.X%	(3,477)	X.X%
Medicaid	XX.X	X.X%	XX.X	X.X%	XX.X	X.X%
Social Security	(42,912)	X.X%	(40,876)	X.X%	(2,036)	X.X%
Major Program A	XX.X	X.X%	XX.X	X.X%	XX.X	X.X%
Major Program B	XX.X	X.X%	XX.X	X.X%	XX.X	X.X%
Rest of Federal Govt.	XX.X	X.X%	XX.X	X.X%	XX.X	X.X%
Total Non-interest Spending	$ XXX.X	X.X%	$ XX.X	X.X%	$ XX.X	X.X%
Non-interest Spending in excess of receipts	$ XX.X	X.X%	$ XX.X	X.X%	$ XX.X	X.X%

Attachment 4 – Review of FASAB Standards regarding Deferred Revenue

[*The following is the same as in the staff memorandum for the April FASAB meeting.]*

SFFAC 5 defines revenue as "inflows 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."[16]

SFFAS 7 is the revenue standard. The Board said in SFFAC 5 that until it amends existing standards, it expects practice to be governed by the definition embodied in the four levels of the GAAP hierarchy.[17]

SFFAS 7 defines "exchange revenue," "nonexchange revenue," and "other financing sources." Exchange revenue is defined as inflows of resources to a governmental entity that the entity has earned and occurs when each party to the transaction sacrifices value and receives value in return.[18] Revenue from exchange transactions is recognized when goods or services are provided.[19]

SFFAS 7 stated that nonexchange revenue transactions do not require a government entity to give value directly in exchange for the inflow of resources. The government does not "earn" the nonexchange revenue. The cost that nonexchange revenue finances falls on those who pay the taxes and make the other nonexchange payments to the government. The different character of nonexchange revenues requires that they be distinguished from exchange revenues. They should be shown in a way that does not obscure the entity's net cost of operations.[20]

Although they had differing views on whether social insurance programs result in exchange or nonexchange transactions, the Board members agreed that social insurance tax revenues should be shown in the same way as other tax revenues for the purposes of financial reporting. They felt social insurance taxes, like other taxes, are determined by the government's power to compel payment. Individuals and businesses have virtually no option except to pay.[21]

Regarding deferred revenue, SFFAS 7 states that, when the exchange transaction involves advance fees or advance payments, "revenue should not be recognized until costs are incurred …. An increase in cash and an increases in liabilities, such as 'unearned revenue,' should be recorded when the cash is received. …"[22] In addition,

[16] SFFAC 5, par. 52.
[17] SFFAC 5, par. A8.
[18] SFFAS 7, par. 33.
[19] SFFAS 7, par. 34.
[20] SFFAS 7, par. 21.
[21] SFFAS 7, pars. 22 and 244.
[22] SFFAS 7, par. 37.

SFFAS 3 requires deferred revenue to be recognized when a forfeiture judgment is obtained. The deferred revenue is reversed when revenue is recognized.[23]

SFFAS 7 does not explicitly address deferring non-exchange revenue that may be received before it is needed to make program payments.[24] However, deferral of revenue would seem to be driven by the earnings process, in other words, by exchange transactions and by the need to match revenue and cost, which would not apply to non-exchange revenue. SFFAS 7 states that the matching principle is well grounded in private sector accounting principles where it is used to calculate net income; that it provides a measure of effort compared with accomplishments; but that such a measure cannot be used for most government activities where directly measuring the value of the government's activity to society is difficult.[25]

The FASAB Objectives focus on the fundamental importance of cost information and the cost-accomplishment relationship.[26] Sub-objectives 2A and 2B declare that federal financial reporting ought to provide information useful to determine the costs of specific programs and changes therein.

Of critical importance for the deferred revenue proposal, costs can be matched against provision of goods and services provided year by year and be analyzed in relationship to a variety of measures of the achievement of results.[27]

Information about the net cost of exchange transactions gives one indication of the extent to which people are willing to make voluntary payments to acquire goods or services of the kinds that are sold. It thus can give an indication of the extent to which people judge the products to have value. Net cost also can be used in evaluating an entity's pricing policy. Most importantly of all, both net cost and gross cost can be compared with outputs and outcomes.[28]

To determine the "net cost" of an exchange activity—i.e., the part of the cost that is not offset by revenue earned from the goods and services provided—the related revenue must be matched with the cost.[29] SFFAS 7 therefore used the accrual basis for recognizing exchange revenue and to provide for <u>matching exchange revenue</u> against related cost as closely as practicable. In particular, the Board stated that the goal of FASAB standards is to match exchange revenue with the gross cost of outputs and to offset <u>exchange revenue</u> against that related gross cost.[30]

The operations of an entity engaged in exchange transactions produce the revenue earned as well as the associated cost incurred; therefore financial accounting should

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[23] See SFFAS 3, pars. 57-78,
[24] SFFAS 7, par. 184.
[25] SFFAS 7, par. 113.
[26] SFFAS 7, par. 114.
[27] SFFAC 1, pars. 126 and 128; and SFFAS 4, pars. 31-40.
[28] SFFAS 7, par. 20.
[29] SFFAS 7, par. 117.
[30] SFFAS 7, par. 121.

relate the revenue to the cost for these transactions. The net effect—the gross cost minus the revenue, or the net cost—generally determines the extent to which taxpayers bear the cost of the operations.

SFFAS 7 states that the concept of matching costs and revenue has little relevance in government except where there is an exchange transaction.[31] Only revenue classified as exchange revenue should be matched with costs; nonexchange revenue and other financing sources should not be matched with cost because they are not earned in the operations process.[32] Because they are inflows that finance operations, the Board in SFFAS 7 concluded that nonexchange revenue and other financing sources should be classified by other rules, and should be recognized only in determining the overall financial results of operations in the period.[33]

SFFAS 7 changed federal accounting in this regard. Under the pre-SFFAS 7 and even pre-FASAB rules, the focus was on matching all of the entity's financing with incurred expenses to report the "net results of operations." The Board concluded that this generally was not useful in evaluating performance.[34] The new focus in FASAB standards is on costs, both gross and net, which are useful in evaluating performance on many levels.[35]

SFFAS 27 addressed earmarked funds. Under SFFAS 27, the financial statements present the cumulative financing provided by earmarked funds to the general fund that will need to be repaid in order to finance the designated activities, purposes or benefits.[36]

SFFAS 27 defines "earmarked funds" as funds financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. They are designated for specific purposes and are afford special accountability apart from the government's general revenue.

SFFAS 27 requires the governmentwide entity to show earmarked revenue, other financing sources, and net cost of operations separately on the U.S. government's statement of operations and changes in net position (see Illustration 1 below), and to show the portion of net position attributable to earmarked funds separately on the balance sheet (see Illustration 2 below). It also requires a footnote disclosure (see Illustration 3 below).

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[31] SFFAS 7, par. 19.
[32] SFFAS 7, par. 18.
[33] SFFAS 7, par. 18.
[34] SFFAS 7, par. 18.
[35] SFFAS 7, par. 18.
[36] SFFAS 27, par. 63.

Illustration 1 – Statement of Operations and Changes in Net Position

From Treasury's published report:

United States government Statements of Operations and Changes in Net Position
for the Years Ended September 30, 2008, and September 30, 2007

(In billions of dollars)	Non-Earmarked Funds	Earmarked Funds	Consolidated
		2008	
Revenue			
Individual income tax and tax withholding	$ 1,210.0	$ 868.4	$ 2,078.4
* * * *			
Unemployment taxes		39.4	39.4
Excise taxes	15.3	51.8	67.1
Miscellaneous earned revenues	29.9	5.8	35.7
Intragovernmental interest		201.0	201.0
Total revenue	1,661.7	1,200.7	2,862.4
Eliminations			(201.0)
Consolidated revenue			2,661.4
Net Cost			
Net cost	2,186.4	1,454.3	3,640.7
Intragovernmental interest	201.0		201.0
Total-net cost	2,387.4	1,454.3	3,841.7
Eliminations			(201.0)
Consolidated net cost			3,640.7
Intragovernmental transfers	(338.0)	338.0	-
Unmatched transactions and balances	(29.8)		(29.8)
Net operating (cost)/revenue	(1,093.5)	84.4	(1,009.1)
Net position, beginning of period	(9,826.0)	620.2	(9,205.8)
Prior period adjustments -- changes in			0.0
accounting principles	11.4		11.4
Net operating (cost)/revenue	(1,093.5)	84.4	(1,009.1)
Net position, end of period	($10,908.1)	$704.6	($10,203.5)

Illustration 2 – Balance Sheet

United States government Balance Sheet

as of September 30, 2008, and September 30, 2007

(billions)	2008	2007
Assets:		
* * * *		
Total assets	$ 1,974.7	$ 1,581.1
Stewardship Land (Note 24) and Heritage Assets (Note 25)		
Liabilities:		
* * * *		
Total liabilities	12,178.2	10,786.9
Contingencies (Note 18) and Commitments (Note 19)		
Net position:		
Earmarked funds (Note 20)	704.6	620.2
Non-earmarked funds	(10,908.1)	(9,826.0)
Total net position	(10,203.5)	(9,205.8)
Total liabilities and net position	$1,974.7	$1,581.1

Illustration 3 – Partial Note 21 re Earmarked Funds

Note 21. Earmarked Funds

(In billions of dollars)	OASI Trust Fund (So.Security)	Civil Service Retirement Fund	Medicare Part A Trust und	///	Total Earmarked Funds
Assets:					
	* * * *				
Investments in Treasury securities	2,150.7	728.9	318.7	///	4,154.8
	* * * *				
Total assets	$2,179.3	$739.3	$346.8	///	$4,461.8
Liabilities					
Liabilities due and payable	46.4	5.0	21.0	///	132.2
Other federal liabilities	4.2	0.1	22.5	///	64.8
Other non-federal liabilities	--	1,387.8	0.4	///	3,560.2
Total liabilities	50.6	1,392.9	43.9	///	3,757.2
Total net position	2,128.7	(653.6)	302.9	///	704.6
Total liabilities and net position	2,179.3	739.3	346.8	///	4,461.8
Change in net position					
Beginning net position, adjusted	1,946.7	(613.6)	295.0	///	620.2
Investment revenue	104.1	37.3	16.6	///	201.0
Individual income taxes	573.8		197.2	///	868.4
	* * * *				
Unemployment and excise taxes				///	91.2
Program net cost	(505.9)	(108.2)	(217.7)	///	(1,452.3)
Ending net position	2,128.7	(653.6)	302.9	///	704.7

TAB B (June 2009) Attachment 4 – Review of FASAB Standards regarding Deferred Revenue

SFFAS 27 requires component entities to show earmarked nonexchange revenue and other financing sources and net cost of operations separately on their statements of changes in net position (see Illustration 4 below). In addition, they are to show the portion of cumulative results of operations attributable to earmarked funds on their statements of changes in net position and balance sheets (see Illustration 5).

Illustration 4 – SSA Statement of Change in Net Position

SSA Consolidated Statements of Change in Net Position

for the Years Ended Sept. 30, 2008, and Sept. 30, 2007 [*2007 not presented here*]

(Dollars in Millions)	**2008**	
	Cumulative Results of Operations	**Unexpend. Appro.**
Beginning Balances, Total		
Earmarked Funds	**$ 2,140,617**	**$ 57**
All Other Funds	**175**	**2,222**
Beginning Balances, Total	**2,140,792**	**2,279**
Budgetary Financing Sources		
Appropriations Received		
Earmarked Funds		**17,840**
All Other Funds …		**43,847**
… Appropriations Used		
Earmarked Funds	**17,833**	**(17,833)**
All Other Funds	**44,289**	**(44,289)**
Tax Revenues-Earmarked Funds (Note 13)	**671,182**	
Interest Revenue-Earmarked Funds	**115,105**	
Transfers In/Out w/o Reimbursement		
Earmarked Funds	**(5,247)**	
All Other Funds	**6,957**	
Railroad Ret. Interchange-Earmarked Funds	**(4,184)**	
* * *		
Total Financing Sources		
Earmarked Funds	**794,772**	
All Other Funds	**48,541**	
Net Cost of Operations		
Earmarked Funds	**610,096**	
All Other Funds	**48,295**	
Net Change		
Earmarked Funds	**184,676**	
All Other Funds	**246**	
Ending Balances		
Earmarked Funds	**2,325,293**	
All Other Funds	**421**	
Total All Funds	**$ 2,325,714**	

Illustration 5 – SSA Balance Sheet

Consolidated Balance Sheets
as of Sept. 30, 2008, and Sept. 30, 2007
(Dollars in Millions)

	2008	2007
Assets		
* * * *		
Total Assets	**2,414,680**	2,226,329
Liabilities		
* * * *		
Total Intragovernmental	**12,237**	11,685
Benefits Due and Payable	**73,127**	69,938
Accounts Payable	**423**	372
Other	**1,401**	1,263
Total Liabilities	**87,188**	83,258
Net Position		
Unexpended Appro.-Earmarked Funds	**54**	57
Unexpended Appro.-Other Funds	**1,724**	2,222
Cumulative Results-Earmarked Funds	**2,325,293**	2,140,617
Cumulative Results-Other Funds	**421**	175
Total Net Position	**2,327,492**	2,143,071
Total Liabilities & Net Position	**$ 2,414,680**	$ 2,226,329

SFFAS 27 notes that earmarked revenue and other financing sources are accounted for in earmarked funds with widely disparate characteristics and purposes. Earmarked revenue sources may be exchange or nonexchange and include but are not limited to payroll taxes, excise taxes, customs duties, fees, user charges, sales of goods and services and interest earned. Their purposes range from long-term commitments such as social insurance to business-type activity financed mainly by exchange revenue, such as the Employees Life Insurance Fund. Every department and many independent agencies have at least one earmarked fund.

SFFAS 27 states that the unique nature of earmarked funds necessitates additional explanation and disclosure in the basic financial statements.[37]

[37] SFFAS 27, par. 54-55.