Federal Accounting Standards Advisory Board

April 8, 2009

Memorandum

To: Members of the Board

From: Richard Fontenrose, Assistant Director

Through: Wendy M. Payne, Executive Director

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

MEETING OBJECTIVES

To consider pro forma illustrations of new reporting and other issues regarding 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 pre-ballot draft standard for your consideration.

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.

Introduction

The staff briefing memorandum for the February meeting noted that the comment letters received on the exposure draft *Accounting for Social Insurance, Amended,* (ED) had raised three "broad issues" (see Attachment 1 for an updated summary of respondents' comments and Attachment 2 for updated tables of decisions and points of consensus as of February 26, 2009). The "broad issues" involved:

(1) the closed group measure for social insurance, as a concept, and/or
(2) its display on the balance sheet or on any basic financial statement or, indeed, anywhere in a financial report prepared on the basis of generally accepted accounting principles; and
(3) the note disclosure of the accrued benefit obligation.

These issues involve "Questions for Respondents" 2, 5, and 7 in the exposure draft (ED).

At the meeting on February 26 the Board voted 5 to 5 on two proposals; (1) to go forward with a liability on the balance sheet greater than the current "due and payable" amount and (2) to add a line item on the balance sheet for social insurance commitments, as proposed in the exposure draft. Thus, those proposals will not go forward, which disposes of "board issue 1 and 2" and Question for Respondents #2 that asked about a new line item on the balance sheet.

The Board directed staff to explore options for reporting social insurance and possibly other critical information in association with the balance sheet. The Board was particularly interested in the "Overall Perspectives" table in the FY 2004 Financial Report (see Attachment 3). This is discussed in Section I below, which contains issues and staff recommendations.

Other issues from the ED are discussed in Section II below. The respondents to FASAB exposure documents usually focus on the "Questions for Respondents" and the social insurance ED was no exception. Thus, the Questions for Respondent provide a framework for considering issues raised by respondents. Section II presents issues for your consideration using the Questions for Respondents (except for Question for Respondent 2, which, as noted above, the Board dealt with in February). This section also contains staff recommendations.

In addition, the Board directed staff to consider deferred revenue accounting. This is discussed in Section III. Here, also, staff recommendations are provided.

Section I – Pro Forma Illustrations

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

As promised at the Board meeting on February 26, staff developed pro forma displays based on the "Overall Perspective" table from the FY 2004 Financial Report of the United States government (FR), page 11, and emailed it to members on March 17, 2009, followed by a hardcopy. The Options transmitted at that time are repeated here for discussion. The updated illustrations are at Attachment 3 – Pro Forma Illustrations. I note that the replica of the "Overall Perspectives" table from the FY 2004 Financial Report that was included in the March 17 email is again presented for your reference.

As indicated in the March 17 communication, Options 1A, 1B, and 1C combine the balance sheet and new information that generally follows the Overall Perspective table concept. The statement is titled "balance sheet and statement of responsibilities" – for now. All the social insurance amounts for the illustrations are from the SOSI and are "open group." This was done for convenience for illustrating display formats. I do not believe the Board has made final decisions regarding what line items to display in the new presentation.

Option 2A would create a new, separate statement that would contain a condensed balance sheet and other key information. Other pro forma options on this theme are not included, i.e., there's no "2B" or "2C," but options for display like those in Options 1B and 1C are possible here, too. There are many variations on these themes and many issues to consider.

Member Comments on March 17 Email

Three Board members provided comments per the March 17 communication. Mr. Steinberg said the proposals go way beyond social insurance; that they are the last steps in the definition of a new reporting model; and, as last steps, much work must precede proposing models: identify users, determine their needs, compare to the SFFAC 1 reporting objectives, etc. He felt these are the preliminary steps of another Board project, the financial reporting project.

He noted his recent talk at the JFMIP Conference regarding “Federal Financial Accounting-Changes on the Horizon” where he discussed a new reporting model for the governmentwide statements. The new model would bring together the work being done on three FASAB projects: “fiscal sustainability,” social insurance, and the financial reporting project. He mentioned the amount of work that would have to be done to adjust, refine, justify, etc. the proposal. Mr. Steinberg also noted, from his reading of the minutes from the Board’s February meeting, the number of members that said statements should not add apples and oranges – which both his illustrations from his JFMIP talk and the Options emailed on March 17 do.

Mr. Patton commented regarding the Options that, although he would still prefer to report social insurance as a liability on the balance sheet –

(1) Page 11 of the FY 2004 FR presents some vertical and horizontal additions of balance sheet “elements” and “responsibilities.” He thought that a significant number of Board members would now object to adding such “apples and oranges.”

(2) Option 1A incorporates “sustainability” items as another class of “responsibilities.” The conceptual foundation for drawing the line between above the line responsibilities and below the line “responsibilities” is not obvious to him. (See also his next comment.) He likes the idea of bringing “contingencies” from the Notes into the (above the line) “additional responsibilities” category.

(3) Option 1B would seem to make the segregation of balance sheet elements and “responsibilities” clearer. It also integrates the two types of “responsibilities” into one “above the line” category, which seems cleaner to him. However, he wondered about including sustainability items with “responsibilities” items. He commented that the responsibility items seem to reflect more specific commitments (e.g., social insurance) than do the sustainability items. His initial reaction would be to omit the sustainability items from a statement of responsibilities. Also, he said that Option 1B seems to avoid adding non-alike items until we get to the very bottom right corner, to which he thought some will still object. If that additional item is eliminated, then he thought Option 1B is essentially the same as Option 1C, except for the extra two columns in Option 1B, which he did not think really serve much function (except to highlight the separation of elements and responsibilities).

(4) Option 1C seems to omit a dollar amount for contingencies; he would be tempted to include that item in the additional responsibilities section and include a dollar amount. Also, again, he is not convinced that the other sustainability items ought to be included in this statement at all.

(5) Option 2A would add another statement to an already very long and complicated report. He said it also suffers from some of the flaws pointed out with respect to the other Options. So, at least initially, this seems like a weak candidate to him.

He provided some tentative answers to the six questions in the email:

1. **Should the new statement be combined with the balance sheet (as in Option 1) or be a separate statement, with the current balance sheet continuing as it is (as in Option 2)?**

   Option 1 preferred.

2. **Should the amounts for “responsibilities” and for liabilities be added together, either horizontally or vertically?**

   2a – Minimize the addition of unlike items.

2b – If sustainability items are not included in the statement, doubling counting is not an issue. If they are included then the overlap will definitely need to be netted out.

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

   Yes. The conceptual framework should be consistent with what the standards say; so if we promulgate a standard that is inconsistent with the existing concept framework, let's acknowledge the inconsistency and change the conceptual framework.

4. **Should SFFAC 2 be amended by the SI project regarding display?**

   Yes. The conceptual framework should be consistent with what the standards say; so if we promulgate a standard that is inconsistent with the existing concept framework, let's acknowledge the inconsistency and change the conceptual framework.

5. **Should the statement include more than social insurance amounts, especially, should it include the "rest of government" or other long-term projections and/or "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?**

   5a – Eliminating the sustainability items should avoid the problem of double counting.
   5b – "Potential assets or resources" do not give rise to the level of actual commitments reported in the responsibilities section. They may be worthy of a short, non--dollarized footnote.

6. **What social insurance amounts [open group measure or closed group measure] should be displayed in the new presentation?**

   Seems like the Board supported open group.

Mr. Schumacher commented that he preferred Option 1C because it uses a more familiar format and segregates "additional responsibilities." He prefers that liabilities and responsibilities be added together; if they are not, then he prefers the format of Option 1A.

Mr. Torregrosa offered preliminary comments. He mentioned that economists generally push to see the amounts for additional responsibilities also expressed in terms of the present value of future GDP, to frame the numbers. He said, absent some framing, the estimates may be hard to interpret, and there is some recent evidence that really big numbers do not "sink in."

Mr. Torregrosa favors splitting the balance sheet and net position from responsibilities for social insurance and other sustainability measures. For this reason, he likes how Option 1C lines up the items with additional responsibilities at the end. He feels it is desirable to make sure additional responsibilities are not listed in the same column as balance sheet items. For this reason he likes how Option 1B displays net responsibilities. Shifting up the “Net Position” and listing it above net responsibilities would improve 1B from his perspective.

Mr. Torregrosa thinks showing sustainability items might clutter the presentation. He finds showing just the social insurance net responsibilities listed in the FY 2004 FR appealing.

Pro Forma Illustrations

Although the idea of developing a complete pro forma package for April was mentioned at the February FASAB meeting, I have not done a pro forma SOSI or pro forma “statement of changes in social insurance amounts” to illustrate how the line items could tie to the SOSI or a pro forma fiscal sustainability statement. However, any social insurance and "fiscal sustainability" amounts displayed on these illustrations would necessarily tie to the bottom lines on the SOSI and other statements.

Issues and Sub-issues

Sub-issues related to a new statement that I mentioned in the March 17 email, which Mr. Patton commented on individually, as noted above, are list immediately below for discussion at the April meeting.

Sub-Issues to Consider (as noted in the March 17 email):

1.1. Should the new statement be combined with the balance sheet (as in Option 1) or be a separate statement, with the current balance sheet continuing as it is (as in Option 2)?

1.2. If they are included in the statement (see sub-issue #5 in this box for this question), should the amounts for "responsibilities" and for liabilities be added together, either horizontally or vertically? The issue of double counting will have to be addressed. For example, liabilities include the present value of future accrued pension benefit payments and so would the "rest of government" long-range or "sustainability" projections.

1.3. 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?

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?

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

Staff Recommendation regarding Issue 1 and Sub-Issues

Regarding Issue 1, and sub-issue 1.1, staff recommends:

1. Development of a new statement, as in Option 1, within the social insurance project. It is difficult to develop concepts in the abstract. The social insurance project provides a case study, as it did for "elements" and "fiscal sustainability." It is also at a stage where progress can be made. Thus, Option 1C is recommend immediately below.
2. Consideration Option 1C. Option 1 would be a new statement that incorporates the balance sheet. Option 1C segregates "responsibilities" and seems the most clear and easiest to explain and understand.[2]

This recommendation would require re-exposure.

Regarding sub-issue 1.2 [see the box on the preceding page], staff recommends that the amounts for "responsibilities" and for liabilities be added together, provided that double counting is prevented. Staff does not consider these elements to be "apples and oranges" but rather different kinds of apples. Staff concludes that a grand total for the statement will be useful for users.

Regarding sub-issues 1.3 and 1.4, staff recommends expanding the concepts to include new elements and new displays. Some respondents to the social insurance ED were troubled by the postponement of conceptual development of and foundation for "commitments." Such work will take additional time and, of course, re-exposure.

Regarding sub-issue 1.5, staff recommends that the new statement include the "rest of government" amounts from the "fiscal sustainability" presentation. This will help integrate the information and provide the reader with a concise overview. Staff does not offer a recommendation at this time regarding the inclusion of "resources," that is, potential assets.

Regarding sub-issue 1.6, staff recommends using the open group measure in the new statement provided that the summary section of the SOSI provides both the closed and open group measures and both can be discussed in the MD&A.

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[2] The segregation seems similar to the work of the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) regarding a new financial statement format disaggregating activities into meaningful operational categories. See FASB Discussion Paper, *Preliminary Views on Financial Statement Presentation*, October 16, 2008.

Section II – Other Issues

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

This discussion begins with Question for Respondents #7 because it is fundamental. It asked respondents whether they agreed with the decision to "feature" the closed group measure in the social insurance standard; or, in other words, use it as a common thread among the proposed new reporting. The Board's compromise would have displayed the closed group measure on the balance sheet and used it as link between the balance sheet, the statement of social insurance (SOSI), and the new statement of changes in social insurance amounts (SCSIA).

The Board said in the basis for conclusions that it based its decision to "feature" the closed group measure on several notions. (ED paragraphs A69-A74, A80) The Board said the closed group measure represents a reasonably good estimate of the net responsibility of future participants, under current laws, to pay benefits to current participants. In addition, it argued that the closed group measure is more appropriate for the balance sheet than the open group measure because it is not as volatile.

The Board concluded that the closed group measure is relevant to the concerns of users who are assessing options for federal financial policy. The Board said that the measure not only draws attention to the financing challenges but also quantifies it in a way that can support further analysis and decision-making; and it is important for analysis of program changes. For example, the closed group measure represents one way to consider the cost of transition from a current program to a new program or a current program in a different form. The closed group measure represents net benefits scheduled to be paid to current participants – i.e., retirees and those working in covered employment.

Mr. Werfel and other members presented an Alternative View that argued for the open group measure. Paragraph A145 in the ED explained the rationale.

Mr. Patton and other members preferred a liability on the balance sheet. Paragraph A142 explained the rationale.

Fifteen of 22 respondents[3] disagreed with the decision to feature the closed group measure, many of whom cited Mr. Werfel's argument in paragraph A145.

Respondents who objected to the closed group measure mentioned the following reasons:

- The open group measure is essential to assess financial sustainability. (Letter 6, 7, 13, 15, 17, 23)

[3] The number of respondents cited as agreeing or disagreeing is an approximation. Arguments probably could be raised regarding staff's characterizations of a response or two.

  - The closed group measure does not reflect the pay-as-you-go financing. (Letters 6, 7, 9, 13, 15, 23, 24)
  - The closed group measure would be misleading due to absence of cash flows from future participants. (Letters 6, 7, 13, 15)

- The Social Security and Medicare Trustees Reports emphasize almost exclusively the open group measure. (Letters 7, 13, 15, 23)
- The open group measure is the bottom line of the SOSI. (Letter 23)
- The closed group measure makes it appear that current participants are less likely to get their benefits than is the case. (Letters 6, 7)
- Closed group measures are typically used for private sector pension plans and retiree health programs where individuals perform services in exchange for such benefits as part of their compensation, which constitute exchange transactions; but social insurance transactions are nonexchange transactions. (Letters 5, 20, 23)
- The closed group measure provides meaningful information only for programs intended to be fully pre-funded. (Letter 9)
- The closed group measure is an accrual-type measure and is inappropriate for social insurance because there is no irrevocable commitment. (Letter 5)
- The closed group measure is not a good reflection of the net responsibility of future taxpayers because some scheduled benefits for the closed group could not be paid under current law. (Letter 23)

On the other hand, another respondent noted that the financing method should not determine whether a particular measure is reported. He felt that as long as the financial statements provide clear definitions of different measures, users will have the necessary information to develop a comprehensive and unbiased understanding of the programs' financial positions. (Letter #12)

A respondent who favored the recognition of a liability on the balance sheet for the accrued benefit obligation – but not a "commitment" on the bottom of the balance sheet – also commented that the open group measure was best for the SOSI because the purpose of the SOSI is to assist users in assessing the long-term sustainability of the programs. (Letter 25)

Several respondents also argued for an obligating event creating a liability on the balance sheet before the "due and payable" event. (Letter 1, 18, 19, 21, 22, 25)

Several respondents commented that both the closed group measure and the open group measure should be discussed in the financial report. (Letters 16, 22), while others said there are good arguments for both measures but recommended choosing only one for display to avoid confusion. (Letter 11, 26)

Several respondents said the closed group measure is appropriate for the balance sheet and operating statement because it relates to current participants. (Letters 19, 21). One said the open group measure would be most appropriately reported on the SOSI and the anticipated "statement of sustainability." (Letter 19) Similarly, a respondent favored featuring the closed group measure because it rather than the open group measure is appropriate for accounting and financial reporting. (Letter 27) Another respondent said the open group measure was the only one appropriate for the balance sheet because it indicates the government's obligation. (Letter 20)

Staff Recommendation re Issue 2 re "Featuring" the Closed Group Measure

Staff recommends "featuring" the open group measure. This would mean presenting it on the new basic statement, as discussed in Section I of this memorandum, and using it to illustrate changes on the new "statement of changes in social insurance amounts." This would not mean, however, that the financial report must never speak of closed group measure. Staff recommends that the closed group measure be (1) discussed in the MD&A and (2) presented on the SOSI summary, as discussed below.

The basis for this recommendation is the Board's vote in February that resulted in the proposed balance sheet presentation of the closed group measure as a commitment not going forward. Thus, the closed group measure will not be the common thread among the proposed new reporting. In addition, many FASAB members seemed to favor the open group measure for the new "statement of changes in social insurance amounts."

This recommendation would not require re-exposure.

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)?

The Board proposed 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") (paragraphs 26-30 and A75-A79). The proposal required management to do more than provide program vignettes and repeat what was fairly obvious from a review of the financial statements. The ED proposed to require a discussion of major changes and the causes thereof, and especially what that implied for the entity. The proposal went beyond SFFAS 15 in emphasizing the need to provide meaningful analysis of changes, and to discuss possible future effects of anticipated future events. SFFAS 15, paragraph 3, is permissive about this but not mandatory. The proposal specified what information, at a minimum, the entity should present and explain (paragraph 27) (costs, net position, social insurance commitments, the closed group measure and changes therein, key budgetary amounts, and the fiscal gap). The proposal is permissive but not mandatory with respect to presenting a table containing these measures, but it did provide a pro forma illustration (Appendix B of the ED).

Seventeen of 24 respondent agreed that the MD&A should discuss key measures. Some had no objections to the MD&A standard as drafted.

Some respondents opposed the standard or had reservations about it because they felt it was too prescriptive, and that the critical measures to discussion should be left up to management's discretion. (Letters 6, 7, 13, 15, 26, 27) Several respondents mentioned that the discussion of summary measures like the fiscal gap in the MD&A should be left to the discretion of the governmentwide entity. They said that any measure that summarizes financial flows over a long period of time in a single number cannot address the sustainability of financing, that measures that illustrate the timing and trend should be encouraged over summary measures. (Letter 13, 15) Several respondents agreed that key measures should be discussed but objected to the closed group measure being part of the discussion, believing it to be misleading or irrelevant to the program's financing. (Letters 6, 7, 9, 13, 15, 20, 23)

Some respondents also objected to a standard on social insurance addressing MD&A requirements not related to social insurance. (Letters 6, 7) One respondent recommended that the standard amend SFFAS 15 rather than SFFAS 17 with respect to MD&A provisions to avoid confusion or mistakes. (Letter 14)

Several respondents objected to the provision in paragraph 26 that requires management to discuss possible future effects of anticipated events and trends. (Letters 8, 9) One respondent said such information could be considered speculative in nature and discredit the remainder of the data. (Letter 8)

One respondent who approved of the MD&A requirement suggested requiring a discussion of projected time increments shorter than 75 years, stating that 75 years is too far into the future for most be to find credible. (Letter 11)

Another recommended a different format for the table of key measures. (Letter 18)

Staff Recommendation re Issue 3 re MD&A

Staff recommends that the MD&A portion of the standard be approved as written, with two exceptions. First, ED 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. Second, ED paragraph 27e requiring discussion of the "fiscal gap" may have to be modified based on the Board's conclusions with respect to the "fiscal sustainability" project.

The Board's objective in being more prescriptive regarding MD&A was to make management's discussion of social insurance more meaningful. Staff believes the Board's rationale as discussed in the ED's basis for conclusions is still persuasive. MD&A needs to be more analytical. In addition, the Board will be responsive to the comments received by re-orienting ED paragraph 27c.

This recommendation obviously would not require re-exposure.

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)?

The Board proposed to require a new summary section of the statement of social insurance ("SOSI") to present the closed and open group measures (paragraphs 34-35 and A114-A116). The proposal calls for both the component entity's SOSI and the governmentwide entity's SOSI to provide a summary by age cohort and provide a subtotal for the closed group measure and a total for the open group measure. The component entity would also subtract any assets held to derive the unfunded obligation.

Thirteen of 23 respondents agreed that there should be a summary section. Most of the objections were based on the display of the closed group measure in the summary, rather than a summary per se. (Letters 5, 6, 7, 9, 13, 15) Some respondents preferred either the closed group measure or the entire summary section in notes rather than the SOSI. (Letters 5, 11) One respondent objected to displaying the open group measure. (Letter 27)

There were no objections to displaying the unfunded obligation on the component entity's SOSI. Several respondents explicitly approved of it. (Letters 7, 13, 15)

Staff Recommendation on Issue 4 regarding SOSI Summary Section

Staff recommends that the standard be approved as written. A summary is needed at the consolidated FR level. Treasury has included the summary in the last two FRs and it has been well received; for example, see Congress Cooper's comment letter. Most importantly, the disaggregation by age cohort provides useful information for all the reasons stated in the ED. The bottom line of the proposed summary would be the open group measure, which therefore would be the main focus. The closed group measure is an intermediate step and provides useful information that could put the closed group measure in context when that measure is discussed in other sections of the financial report. The Social Security Trustees do not hesitate to provide closed group measure information in the Trustees' Report. This recommendation would not require re-exposure.

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)?

The Board has unanimously favored and did propose a new basic financial statement entitled "statement of changes in social insurance amounts" that explains the changes during the reporting period in the closed group measure (see paragraphs 36-37 and A116). Mr. Werfel and other members provided an alternative view wherein the new statement would focus on changes in the open group measure rather than the closed group measure.

Seventeen of 22 respondents agreed that there should be a statement explaining the changes.

Some respondents favored the open group measure for the subject of the statement rather than the closed group measure. (Letter 5, 6, 7, 9, 11, 13, 20, 23) One respondent explicitly objected to using the open group measure. (Letter 27)

A few respondents suggested presenting both the closed group measure and open group measure in the statement because, for example, it would be consistent with the SOSI summary. (Letters 17, 22)

One respondent recommended allowing the preparer the flexibility to present either a separate statement or incorporating a "changes" section into the existing SOSI. (Letter 23) Other respondents favored presenting this information in the notes or RSI rather than a statement because, for example, it would confuse the reader. (Letters 8, 14, 18, 25)

Some respondents suggested an additional line item for the statement of changes: the change in valuation period. (Letters 7, 13, 15) They state that this item would show the change due solely to the change in valuation date; that is:

(1) The change in the date to which annual estimates are discounted, which, they say, increases the magnitude of the measured amount by the nominal annual rate of interest.
(2) The omission of obligations and taxes for the first year of the former valuation period.
(3) The net obligations over taxes for the last year of the new valuation period.

These respondents state that inclusion of these items in "Other changes" after the other line items would be inappropriate, as these changes are fundamental and occur even if there is no change for any of the other reasons.

Staff Recommendation on Issue 5 regarding the New Basic Statement

The staff recommends that the statement of changes in social insurance amounts be approved, but that the open group measure replace the closed group measure as its subject. The closed group measure is no longer going to be a line item on the balance sheet and, thus, it is being de-emphasized to that extent, at least. In addition, the SOSI summary section concludes with the open group measure and therefore that measure would provide a "bottom line" linkage between the two statements.

Regarding the comment about the need for a "change in valuation date" line item in the new statement, the standard does not require any specific line items for the statement of changes. It merely requires the "significant components of the change" be displayed in the statement and gives examples. The examples do not include "change in valuation date" because it is not specific enough; it can be disaggregated into smaller components such as the interest on the obligation, which is a function of the present valuation methodology employed. However, again, the standard, as currently written, would allow the preparer to decide the "significant components" to display.

This recommendation would not require re-exposure.

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

The Board proposed to disclose an accrued benefit obligation in notes to the financial statements (see paragraph 38 and A117-A123). The objective of the proposal is 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 equivalent to the measure that the Board members who held the Primary View believe should be recognized as a liability. The amount can be compared to the other measures and provide a full array of information. It is not currently available in federal financial reports.

The proposals allows for several acceptable methods for calculating an accrued benefit obligation. For example, the Social Security Administration provides, through its Office of the Actuary, an accrued benefit obligation for Social Security in a periodically updated Actuarial Note. Other approaches for calculating an accrued benefit obligation are acceptable. For example, the Primary View in the FASAB's *Preliminary View: Accounting for Social Insurance, Revised*, provided methodology for calculating a liability amount for social insurance programs. Also, SFFAS 5 provides a methodology for calculating pensions, disability, and post-employment healthcare and insurance liabilities. All of these approaches are acceptable. The proposal requires the entity to provide a description of the approach used.

Mr. Werfel and other members had an alternative view expressing opposition to this disclosure (see paragraph A146).

Mr. Patton proposed that social insurance be recorded on the balance sheet as a liability before it is due and payable, not just presented on the balance sheet "below the line" (see paragraph A139).

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

One respondent objected to the disclosure because he believes that the accrued benefit obligation does not reflect the realities of a social insurance program and would not be meaningful because the programs are not going to be terminated. (Letter 5)

Another respondent said the open group measure represents the government's true obligation. (Letter 20) Conversely, other respondents commented that the accrued benefit obligation would not be meaningful because of the term "obligation," which may be misleading to users in this context since it implies that the government has an "obligation" or liability to participants. (Letter 6, 7, 13, 15, 17, 20)

Several respondents said that this disclosure overloaded the reader because the financial statements already include extensive information on social insurance and there is a limit to how much can be reasonably absorbed. (Letter 5, 7, 8, 13, 15, 23) One respondent recommended requiring only one measure from among the closed group measure, open group measure, and the accrued benefit obligation and using it throughout the presenting and preferred the open group measure. (Letter 11)

Another respondent said the accrued benefit obligation is calculated based on current participants only and did not reflect the pay-as-you-go financing of the programs. (Letter 6, 7, 13, 15)

Some respondents commented that the accrued benefit obligation was the best measure of the true liability as of the reporting date. (Letter 12, 18, 19, 25) Another respondent supported the disclosure saying that it would be similar to a private sector pension measure and that government financial statements are most useful when they are comparable to accounting in the private sector. (Letter 27)

Staff Recommendation on Issue 6 regarding Note Disclosure of Accrued Benefit Obligation

The staff recommends that the standard be approved as written. The staff continues to believe that the accrued benefit obligation provides useful comparative information. It complements existing information and adds perspective. It will give interested users a traditional frame of reference and provide a perspective on social insurance programs from the point of view of a deferred benefit or an insurance obligation. The amount thus provided can be compared to the other measures of new policy. This number is not currently available in federal financial reports but it is available on the SSA Web site to those who follow the SSA links to the proper SSA Web page.

This recommendation would not require re-exposure.

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 adding a line item to the statement of net cost ("SNC") for the change during the reporting period in the closed group measure. Some members felt that, although the current and proposed social insurance reporting does a very good job of meeting SFFAC 1, Objectives 3A-3C, the proposed standard can be criticized for failing to address Objective 2A and 2B unless something is reported on the operating statement. Others members argued that the change in the closed group measure should not be presented on the SNC because it is a fundamentally different measure than the other components of the SNC (see ED paragraphs A101-A113).

Nineteen of 22 respondents agreed with the Board's decision not to present a line item. Again, many of the objections to the line item were based on objections to the closed group measure.

Some respondents said the SNC elements are fundamentally different than the change in the closed group measure or even the change in the open group measure. They believe the SNC should reflect the matching of operating costs with services and not future benefit payments. (Letter 6, 7, 13, 15, 17, 22, 23)

One respondent characterized the SOSI amounts as economic, similar to fair market value, and not suitable for the SNC. (Letter 8)

Another respondent commented that "below the line" items are not supported by the FASAB concepts or other standard-setting organizations and recommended continued deliberation. (Letter 19)

A respondent rejected the change in the closed group measure for the SNC but recommended the change in the open group measure for that purpose. (Letter 20)

Another respondent disagreed with the Board's decision. He said that reporting a line item on the SNC would tie the relevant financial statements together, and that the argument that a good or service is not provided by the change in the closed group measure ignores political reality and public perception. (Letter 21)

Staff Recommendation on Issue 7 regarding not having a Line Item for the Change in the closed group measure on the SNC

Staff recommends 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 the Board is considering a new basic display and "deferred earmarked revenue," the Board's initial decision regarding the SNC seems appropriate.

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). The Board concluded that the requirements in SFFAS 17 resulted in voluminous narrative and graphs that were daunting to use and thus did not communicate the information very well. The new approach for sensitivity analysis was intended to be more concise and therefore foster better communication with users.

In addition to proposing flexibility, the Board narrowed the focus of the sensitivity analysis from the individual assumptions used in all the projections and present values required by SFFAS 17 [see SFFAS 17, pars. 27(4)(a) and 32(4)] to the sensitivity of the closed group measure and open group measure in order to ease the burden on the preparer while at the same time provide more meaningful information. These measures are and/or would have been “bottom lines” on basic financial statements.

Fourteen of 20 respondents agreed with the Board’s approach.

Some agreed provided the analysis only relates to the open group measure. (Letters 5, 6, 7, 9, 13, 15, 20, and 23)

Some respondents opposed the notion of allowing stochastic analysis as an alternative to the current requirement to analyze individual assumptions (Letters 7, 13, 15, and 20). Several suggested that analysis of sensitivity and of uncertainty are two different things. Staff notes that the letters from these respondents are very similar but that differences between the letters are meaningful. I note the comment letter from Steve Goss, Chief Actuary, SSA, and Karen Glenn of the Office of the Actuary, SSA (Letter 13), appears to the model for two other comment letters (Letters 7 and 15). However, letter from the Richard Schreitmueller, Chair, Social Insurance Committee, American Academy of Actuaries (Letter 15), does not include the assertion that “current ranges of potential outcomes [in stochastic modeling] understate the size of the range of potential outcomes at a given probability level.” I infer that there may be some disagreement among actuaries on the extent to which stochastic analysis has been developed.

In any case, although they agree that flexibility when reporting on uncertainty is desirable, these respondents believe sensitivity analysis still requires analysis of changes in individual assumptions; in other words, that illustrating uncertainty in a projection is fundamentally different than illustrating the sensitivity of that projection to changes in specific assumptions. They state that stochastic analysis, which the proposal allows as an alternative to other kinds of sensitivity analysis, including that involving individual assumptions, illustrates the overall uncertainty of a projection. They caution that its use is still under development. As mentioned above, some but not all of these respondents assert that current ranges of potential outcomes understate the size of the range of potential outcomes at a given probability level. However, these particular respondents all agree with the suggestion to exclude stochastic analysis from the standard, for now, because trying to include the appropriate caveats would introduce considerable complexity.

Two respondents were concerned that allowing too much flexibility could have negative consequences. (Letters 3, 11) One respondent mentioned that comparability from year to year for a single entity and among entities could be affected. This respondent also found stochastic analysis potentially harder to understand than the current assumption-by-assumption approach. (Letter #11) Another respondent suggested providing examples of acceptable sensitivity analysis in the standard. (Letter #22) Another said flexibility is good but more guidance is needed. (Letter #23)

Staff Recommendation on Issue 8 regarding Flexibility in the Sensitivity Analysis

The American Academy of Actuaries' Social Insurance Committee (Letter 15) and SSA's Chief Actuary (Letter 13) agree 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 on the subject measurement is important and provides useful information that is different from stochastic modeling. They recommend that the standard continue to require analysis of the effect of changes in individual assumptions. They state that including the results of stochastic modeling to illustrate the uncertainty of a projection can be useful, but is fundamentally different than sensitivity for specific assumptions. They state 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.

The staff recommends accepting the advice of the AAA Social Insurance Committee and SSA's Chief Actuary in this regard. There particular expertise in this area is especially welcome. The staff recommends amending ED paragraph 42 to incorporate a phrase from SFFAS 17, paragraph 27(4)(a), and ED paragraph 43 to drop a sentence as follows:

> 42. The entity should illustrate ~~provide~~ the sensitivity ~~analysis~~ of the closed and open group measures ~~appropriate for its particular social insurance programs~~[8] to changes in the most significant individual assumptions. The objective of sensitivity analysis is to illustrate how an estimate or projection would change if assumptions, data, methodologies or other inputs change.
>
> ~~43.~~ When determining the type of sensitivity analysis to provide, the entity should consider future trends, the utility of the information to the users and policy-makers, and the relative burden on the component entity resources. Providing analysis or disclosure for one or more periods will not imply that such analysis or disclosure is appropriate in the future, although the reasons for discontinuing a particular sensitivity analysis should be addressed in the annual report. Entities may consider presenting ~~disclosing~~ the results

[8] ~~See Actuarial Standards of Practice 32, paragraph 3.5.~~

of stochastic modeling to illustrate the uncertainty inherent in the projection ~~as an augment or alternative to sensitivity analysis~~.

This would address the actuaries’ concern and provide more flexibility than is currently the case in SFFAS 27(4)(a) and 32(4).

This recommendation would not require re-exposure.

Section III – Deferred Earmarked Revenue

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

Summary

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.[4] 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.

[4] 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.[5] 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."[6]

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).[7]

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[8] 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.

[5] PV, pars. 67 and A148-9.
[6] *Preliminary View*, par. A148.
[7] PV, par. A148-9.
[8] 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.[9]

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, Table #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 Table #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.

[9] 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 used" (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.[10] 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 nonexchange revenue.

Presumably the Board would not want to change the accounting treatment of earmarked exchange revenue. 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

[10] 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.[11]

The Governmental Accounting Standards Board's (GASB) recent Concepts Statement 4, *Elements of Financial Statements*,[12] 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.[13] 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.[14] 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."[15]

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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[11] Mosso, David, "Accrual Accounting and Social Security," *Journal of government Financial Management*, Fall 2005.
[12] June 2007.
[13] GASB Concepts Statement 4, pars. 34-35.
[14] Ibid., pars. 58-59.
[15] 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.[16] 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"?

[16] 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.[17] 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

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

Attachment 1 – Summary of Responses

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

Attachment 1 – Summary of Responses

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

Attachment 1 – Summary of Responses

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

Attachment 1 – Summary of Responses

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<tr><td>27</td><td colspan="3">Yes</td><td colspan="3">No</td><td colspan="3">Yes</td><td colspan="3">Yes</td><td colspan="3">Yes</td><td colspan="3">Yes</td><td colspan="3">Yes</td><td colspan="3">Yes</td></tr>
<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

	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.

Attachment 2 – Tables of 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 for separately under the proposal.	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.

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

	Board Majority View	Board Minority View
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. Also, from a cost-benefit perspective, one might question not availing of the current process.	The members agreed with the recommendation.	No disagreement was expressed.
Pre-*Preliminary Views* staff	The members agreed with the recommendation	No disagreement was expressed.

	Board Majority View	Board Minority View
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.	and decided that the exploration would be part of the measurement project or at least not part of the Social Insurance Liability Project.	
Pre-*Preliminary Views* staff Question #5 – What should be recognized as social insurance "expense" or "cost"? The staff recommends four	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

	Board Majority View	Board Minority View
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 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		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 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.

	Board Majority View	Board Minority View
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.		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 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	The Board did not have an opportunity to address this question at this time. 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.	

	Board Majority View	Board Minority View
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 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 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 Board did not have an opportunity to address this question at this time.	

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

	Board Majority View	Board Minority View
The staff recommends … to be determined.		
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 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.	The Board did not have an opportunity to address this question at this time.	
Pre-*Preliminary Views* staff Question #10 – What is the reporting objective for social insurance?	A majority of the Board agreed with the recommendation.	No disagreement was expressed, but see Mr. Patton's issue in Question #5 above.

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

<table>
<tr><th></th><th>Board Majority View</th><th>Board Minority View</th></tr>
<tr><td>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 specific aspect of the plan, e.g., return on investment.</td><td></td><td></td></tr>
<tr><td colspan="3">Consensus Items, December 2007</td></tr>
<tr><td>There is a consensus among members regarding the following components of a social insurance standard, which primarily involve display:</td><td colspan="2">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).</td></tr>
</table>

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

	Board Majority View	Board Minority View
	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.

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

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

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

							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.

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.

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

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

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

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

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.

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

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 **CFR SOSI**?	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 **component entity's SOSI**?	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.

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

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.	

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	

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 summary section of the	The Board decided that the Treasury securities should not be included in the summary section of the	

August 2008 Staff Questions and Board Member Answers		
	Majority View	Minority View
governmentwide and component entities' SOSI?	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.	

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.
	BR	
DT/CBO		
HS		
	JF	
WJ		
JP		
AS		
	BD	
	CH/OMB	
TA		

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

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	
TA	TA		
??		CH/OMB	
BD		BD	
AS	AS		
JP	JP		
WJ	WJ		WJ
JF	JF		
HS		HS	
DT/CBO	DT/CBO		
BR	BR		

August 2008 Vote re Whether to Approve the Disclosure of an Accrued Benefit Obligation			
Approve the Disclosure		Disapprove the Disclosure	
SS	**Medicare**	**SS**	**Medicare**
		CH/OMB	CH/OMB
BD	BD		
AS	AS		
JP	JP		
WJ		(if all or none)	WJ
JF		(if all or none)	JF
HS	HS		
DT/CBO		(if all or none)	DT/CBO
BR	BR		
TA	TA		

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

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.	

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		

October 2008 Vote on Whether the SI ED Should Be Issued			
	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.		

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

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	

Attachment 3 – Pro Forma Illustrations

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)

Attachment 3 – Pro Forma Illustrations

Option 1A -- This format closely replicates the table on page 11 of the FY 2004 FR. Line items for "responsibilities" are inserted into the balance sheet's liability section, there is a separate column for amounts, and there is a third column for the combined total. However, I've added amounts for "contingencies" (brought forward from the footnotes), and also line items at the bottom for the long-term projections from the "fiscal sustainability statement" or whatever that statement is going to be called. Please note all statements would include the prior fiscal year even if it is not illustrated in the pro forma statement.

United States government Pro Forma Pro Forma Balance Sheet and Statement of Responsibilities as of September 30, 2008, and September 30, 2007 (billions)	Balance Sheet	2008 Additional Responsibilities	Memo Combined
ASSETS			
Cash and other monetary assets	$425		$425
Receivables and securities	436		436
Property, plant, and equipment	738		738
Inventories, related property and other	377		377
Total assets	$ 1,975	$ -	$ 1,975
Stewardship Land and Heritage Assets (Note X)		--	
LIABILITIES & NET RESPONSIBILITIES			
Payables, insurance and guarantee liabilities	$ 382		382
Federal debt securities held by the public and accrued interest	5,836		5,836
Federal employee and veteran benefits payable	5,319		5,319
Environmental, disposal, and other liabilities	641		641
Social Security (see SOSI and Changes in SOSI)		6,555	6,555
Medicare (see SOSI and Changes in SOSI)		36,312	36,312
Other social insurance		104	104
Total liabilities & net responsibilities	12,178	42,971	55,149
Contingencies (Note Y) and Commitments (Note Z)		1,240	1,240
NET POSITION			
Earmarked funds	705		705
Non-earmarked funds	(10,908)		(10,908)
Total net position	(10,204)		(10,204)
Total liabilities and net position	$1,975		1,975
NET POSITION, RESPONSIBILTIES, AND CONTINGENCIES	(10,204)	(44,211)	(54,414)
Other responsibilities (see Statement of Fiscal Sustainability [or whatever title is used], page XX)		--	--
Receipts -- non-social insurance		$ 91,000	91,000
Spending -- non-social insurance		(89,500)	(89,500)
		$ 1,500	$ 1,500

Option 1B -- This Option also closely replicates table on page 11, FY 2004 FR. It differs from Option 1A immediately above in that the line items for "responsibilities" are inserted into the balance sheet as a separate section AFTER the liability section. I've included the long-term projections for the "fiscal sustainability statement" in this section.

United States government Pro Forma Balance Sheet and Statement of Responsibilities as of September 30, 2008, and September 30, 2007 (billions)	2008 Balance Sheet	2008 Additional Responsibilities	2008 Memo Combined
ASSETS			
Cash and other monetary assets	$425		$425
Receivables and securities	436		436
Property, plant, and equipment	738		738
Inventories, related property and other	377		377
Total assets	$ 1,975	$ -	$ 1,975
Stewardship Land and Heritage Assets (Note X)		--	
LIABILITIES			
Payables, insurance and guarantee liabilities	$ 382		$ 382
Federal debt securities held by the public and accrued interest	5,836		5,836
Federal employee and veteran benefits payable	5,319		5,319
Environmental, disposal, and other liabilities	641		641
Total liabilities	12,178		12,178
Contingencies (Note Y) and Commitments (Note Z)	--	1,240	1,240
NET RESPONSIBILITIES			
Social Security (see SOSI and Changes in SOSI)		6,555	6,555
Medicare (see SOSI and Changes in SOSI)		36,312	36,312
Other social insurance		104	104
Other responsibilities (see Statement of Fiscal Sustainability [or whatever title is used], page XX):			
Receipts -- non-social insurance		(91,000)	91,000
Spending -- non-social insurance		89,500	(89,500)
Total Net Responsibilities		42,971	42,971
NET POSITION			
Earmarked funds	705		
Non-earmarked funds	(10,908)		
Total net position	(10,204)		
Total liabilities and net position	$1,975		
NET POSITION, RESPONSIBILTIES, AND CONTINGENCIES$	$(10,204)	$(42,971)	$(52,995)

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Attachment 3 – Pro Forma Illustrations

Option 1C -- This Option, too, is based on table in FY 2004 FR. However, here only two columns are used, one for each FY, and responsibilities are presented as a separate section at the bottom.

United States government Pro Forma Balance Sheet and Statement of Responsibilities as of September 30, 2008, and September 30, 2007 (billions)	2008 Balance Sheet	2007 Balance Sheet
ASSETS		
Cash and other monetary assets	$425	$128
Receivables and securities	436	420
Property, plant, and equipment	738	692
Inventories, related property and other	377	342
Total assets	$ 1,975	$ 1,581
Stewardship Land and Heritage Assets (Note X)		
LIABILITIES		
Payables, insurance and guarantee liabilities	$ 382	$ 66
Federal debt securities held by the public and accrued interest	5,836	5,078
Federal employee and veteran benefits payable	5,319	4,769
Environmental, disposal, and other liabilities	641	342
Total liabilities	12,178	10,255
Contingencies (Note Y) and Commitments (Note Z)		
NET POSITION		
Earmarked funds	705	620
Non-earmarked funds	(10,908)	(9,826)
Total net position	(10,204)	(9,206)
Total liabilities and net position	$1,975	$1,049
ADDITIONAL RESPONSIBILITIES		
Social Security (see SOSI and Changes in SOSI)	(6,555)	(6,763)
Medicare (see SOSI and Changes in SOSI)	(36,312)	(34,085)
Other social insurance	(104)	(100)
Other responsibilities (see Statement of Fiscal Sustainability [or whatever title is used], page XX):		
Receipts -- non-social insurance	91,000	XX,XXX
Spending -- non-social insurance	(89,500)	XX,XXX
Total Additional Responsibilities	(41,471)	XX, XXX
NET POSITION AND RESPONSIBILTIES	$(39,496)	$XX, XXX

Attachment 3 – Pro Forma Illustrations

Option 2A -- This "statement" would be in addition to the balance sheet, which would stand alone, as is does now. This new statement would display a condensed balance and "responsibilities." Again, it would be a new statement in addition to the balance sheet and other statements.

United States government Pro Forma Statement of Key Measures as of September 30, 2008, and September 30, 2007	2008			2007		
(billions)	Balance Sheet	Additional Responsibilities	Memo Combined	Balance Sheet	Additional Responsibilities	Memo Combined
ASSETS	$ 1,975		$ 1,975		[ditto]	
Stewardship Land and Heritage Assets (Note X)		--				
LIABILITIES & NET RESPONSIBILITIES						
Payables, insurance and guarantee liabilities	382		382			
Federal debt securities held by the public and accrued interest	5,836		5,836			
Federal employee and veteran benefits payable	5,319		5,319			
Environmental, disposal, and other liabilities	641		641			
Social Security (see SOSI and Changes in SOSI)		6,555	6,555	→ Like the Options 1A, 1B, 1C, the		
Medicare (see SOSI and Changes in SOSI)		36,312	36,312	"responsibilities" line items could		
Other social insurance		104	104	could be presented with liabilities or		
Total liabilities & net responsibilities	12,178	42,971	55,149	as a separate section within the		
Contingencies (Note Y) & Commitments (Note Z)		1,240	1,240	balance sheet or separately,		
NET POSITION	(10,204)		(10,204)	at the bottom of the statement.		
Total liabilities and net position	$1,974		$1,974			
NET POSITION, RESPONSIBILTIES, AND CONTINGENCIES	(10,204)	(44,211)	(54,415)			
Other responsibilities (see Statement of Fiscal Sustainability [or whatever title is used], page XX)		--	--			
Receipts -- non-social insurance		91,000.0	91,000.0			
Spending -- non-social insurance		(89,500.0)	(89,500.0)			
		$ 1,500.0	$,500.0			

Attachment 4 – Review of FASAB Standards regarding Deferred Revenue

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.”[18]

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.[19]

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.[20] Revenue from exchange transactions is recognized when goods or services are provided.[21]

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.[22]

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.[23]

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. …”[24] In addition,

[18] SFFAC 5, par. 52.
[19] SFFAC 5, par. A8.
[20] SFFAS 7, par. 33.
[21] SFFAS 7, par. 34.
[22] SFFAS 7, par. 21.
[23] SFFAS 7, pars. 22 and 244.
[24] 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.[25]

SFFAS 7 does not explicitly address deferring non-exchange revenue that may be received before it is needed to make program payments.[26] 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.[27]

The FASAB Objectives focus on the fundamental importance of cost information and the cost-accomplishment relationship.[28] 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.[29]

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.[30]

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.[31] 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.[32]

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

[25] See SFFAS 3, pars. 57-78,
[26] SFFAS 7, par. 184.
[27] SFFAS 7, par. 113.
[28] SFFAS 7, par. 114.
[29] SFFAC 1, pars. 126 and 128; and SFFAS 4, pars. 31-40.
[30] SFFAS 7, par. 20.
[31] SFFAS 7, par. 117.
[32] 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.[33] 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.[34] 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.[35]

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.[36] The new focus in FASAB standards is on costs, both gross and net, which are useful in evaluating performance on many levels.[37]

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.[38]

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 Table 1 below), and to show the portion of net position attributable to earmarked funds separately on the balance sheet (see Table 2 below). It also requires a footnote disclosure (see Table 3 below).

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[33] SFFAS 7, par. 19.
[34] SFFAS 7, par. 18.
[35] SFFAS 7, par. 18.
[36] SFFAS 7, par. 18.
[37] SFFAS 7, par. 18.
[38] SFFAS 27, par. 63.

Table 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			
	Non-Earmarked Funds	Earmarked Funds	Consolidated
(In billions of dollars)		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)

Table 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

Table 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

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 Table 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 Table 5).

Table 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**	

Table 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.[39]

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