



Federal Accounting Standards Advisory Board

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September 20, 2006

**To:** Members of the Board

**From:** Melissa Loughan

*Wendy M. Comes*

**Through:** Wendy Comes, Executive Director

**SUBJ:** Public Hearing on Exposure Draft of Proposed Concepts Statement  
*Definition and Recognition of Elements of Accrual-Basis Financial Statements (TAB B)*<sup>1</sup>

Enclosed is the Public Hearing materials which includes an agenda of planned speakers, along with a copy of their biography, planned remarks or statements (if provided), and a copy of their comment letter previously submitted. If additional materials are received from the participants, it will be provided to the Board at the beginning of the meeting.

Please feel free to contact me on 202-512-5976 or by email at [loughanm@fasab.gov](mailto:loughanm@fasab.gov) to discuss any questions you may have.

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues to be addressed 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.

**September 27, 2006 Board Meeting**

**Public Hearing on Exposure Draft of Proposed Concepts Statement  
*Definition and Recognition of  
Elements of Accrual-Basis Financial Statements***

**Agenda of Speakers**

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**Speakers Providing Testimony**

- 9:15-9:45** Sheila A. Weinberg, Founder & CEO, Institute for Truth in Accounting and Richard H. Skiba, Jr.
- 9:45-10:15** Andrew C. West, AGA Financial Management Standards Board and Anna D. Gowans Miller
- 10:15-10:45** Steve Goss, Chief Actuary, Social Security Administration
- 10:45-11:00**        *~~ BREAK ~~*
- 11:00-11:30** Joseph D. Cummings, Assistant Director Office of Accountability Audits, Department of Labor OIG
- 11:30-12:00** Daniel L. Fletcher, Department of Interior, Office of the Chief Financial Officer (Testimony on behalf of Chief Financial Officers Council's, Standardization Committee's FASAB Response Group)

*~~ALL TMES ARE APPROXIMATE~~*

**Public Hearing on Exposure Draft of Proposed Concepts Statement  
Definition and Recognition of Elements of Accrual-Basis Financial Statements**

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**Speakers Providing Testimony**

	<b><u>PAGE</u></b>
<b>1. Sheila A. Weinberg, Founder &amp; CEO, Institute for Truth in Accounting and Richard H. Skiba, Jr.</b>	
A. Biographies	3
B. Statement or Remarks	5
C. Comment Letter Previously Submitted	8
<b>2. Andrew C. West, AGA Financial Management Standards Board and Anna D. Gowans Miller</b>	
A. Biographies	13
B. Statement or Remarks	15
C. Comment Letter Previously Submitted	16
<b>3. Steve Goss, Chief Actuary, Social Security Administration</b>	
A. Biography	26
B. Statement or Remarks	27
C. Comment Letter Previously Submitted	30
<b>4. Joseph D. Cummings, Assistant Director Office of Accountability Audits, Department of Labor OIG</b>	
A. Biography	39
B. Statement or Remarks	40
C. Comment Letter Previously Submitted	42
<b>5. Dan Fletcher, Department of Interior, Office of the Chief Financial Officer</b>	
A. Biography	49
B. Statement or Remarks	50
C. Comment Letter Previously Submitted	52

**A. Biographies**



*Searching for the Truth  
in broad daylight*

# **Institute for Truth in Accounting**

Biographical information for Sheila A. Weinberg  
For testimony before the Federal Accounting Standards Advisory Board  
September 27, 2006

Sheila A. Weinberg founded the Institute for Truth in Accounting (IFTA) in 2002. With the Board of Directors, she is responsible for setting the strategic direction for the organization. A group of distinguished financial and public policy experts have joined Weinberg in the IFTA's mission to encourage private and public entities to produce financial reports that are comprehensive, understandable and transparent and to inform the public of the importance of truthful accounting. The IFTA believes that the Federal government, as the largest fiscal organization in the world, should be the leader in providing reliable, relevant and comprehensible financial information. The IFTA arranges educational forums for political officials, financial and business experts, thinkers and entrepreneurs to educate them about the true financial condition of our nation and the states. Weinberg has authored several booklets that discuss federal and state government accounting.

For ten years, Weinberg was active with the Concord Coalition, a nonprofit organization that is dedicated to maintaining fiscal responsibility within the Federal government. It was her involvement with the Concord Coalition and her accounting background that led to the founding of the Institute for Truth in Accounting. In 1998 Weinberg was honored with the Concord Coalition Outstanding Volunteer Award.

Prior to her involvement with the Institute for Truth in Accounting, Weinberg worked as a certified public accountant for accounting firms and computer consulting companies. Most recently, she was vice president of Pro Consulting, a computer, accounting and television production consulting company.

Currently, Weinberg serves as an independent legislative advisor to members of Congress. Her editorials about the Federal budget, Social Security, Medicare and other national issues have appeared in USA Today, Chicago Tribune, Chicago Sun-Times and Pioneer Press. She has been a guest on national and local television, as well as, radio shows and is often engaged to speak on Federal budget issues. Weinberg earned her Bachelor of Accounting degree from the University of Denver, which she attended on an academic scholarship. She received her certified public accountant credential in 1981.

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Northbrook, Illinois 60062

telephone: 847-835-5200

**Biographical information for Richard H. Skiba, Jr.**

For testimony before the Federal Accounting Standards Advisory Board  
September 27, 2006

Rick Skiba is a resident of Palatine, Illinois. He has been analyzing State of Illinois audited financial statements since the June 30, 1982 audit. In 1970, he received his Bachelor of Science in Accounting from the University of Illinois at Chicago. In 1975, he passed the Illinois CPA exam though he is not in public practice.

He served as Financial Administrator for the DuPage Water Commission in Elmhurst from 1988 to 2004 and as Finance Director for the Village of Hinsdale from 1976 to 1986. He is now retired.

During his professional career, Rick was a frequent responder to Governmental Accounting Standards Board (GASB) proposed accounting statements. He testified before GASB in 1992 in opposition to Statement 17, which delayed the implementation of Statement 11, the precursor to GASB Statement 34.

**B. Statement or Remarks**

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Verbal Comments for  
Federal Accounting Standards Advisory Board  
September 27, 2006  
Response to Exposure Draft issued June 7, 2006  
Definition and recognition of Elements of Accrual-Basis Financial Statements

The Institute for Truth in Accounting (IFTA) thanks the Federal Accounting Standards Advisory Board (FASAB) for the opportunity to respond this exposure draft. The Institute, founded in 2002, is a nonprofit organization with no political affiliations. It is made up of business, academic, governmental and other leaders who are committed to high standards of ethics and integrity, and who support these principles in the private as well as in the public sector. Our mission is to enhance the credibility of public and private sector financial reporting by encouraging the issuance of understandable, reliable and relevant information.

IFTA commends FASAB's efforts to improve public accountability and enhance the credibility of Federal government financial reporting. Providing clearer and simpler accounting definitions is evidence of these efforts.

For this reason, IFTA supports the FASAB majority position on this proposed statement. We agree with the definitions of asset, liability, net position, revenue and expense. We would, however, express the following understanding regarding some of these definitions:

- that the use of the term present obligation in defining liabilities also encompasses the present value of obligations;
- that the return of revenue to an originating source, which decreases assets and/or increases liabilities, does not define such refund as an expense;
- that the recapture of expense due to unsatisfactory services rendered or a return of goods purchased, which increases assets and/or decreases liabilities, does not define such refund as revenue.

IFTA concurs with the recognition criteria outlined in paragraph 5 (a) and (b) of this exposure draft.

IFTA believes that it should be clearly stated within Paragraphs 5 thru 9 that "diligent effort should be taken to recognize all material elements or items, despite measurement difficulties." The vast majority of material elements or items are measurable in some way, which is superior to not measuring them at all.

We agree that definitions of assets and liabilities should be derived from their fundamental or essential characteristics. We see no alternative approach. We would like to state that including verbiage not fundamental or essential to an element's characteristics would provide opportunity for directing elements away from being reported in the basic financial statements.

Your question 1 c) only refers to the definition of an asset and it being an asset even if it is not recognized in the body of a financial statement. We believe that the same is true for the definition of a liability. As stated above we would like to add that if, **after diligent effort**, an asset **or a liability** cannot be **reasonably** measured or **reasonably** estimated **then** there is no basis for recording. In such circumstances, if the uncertainty of a recognizable element is material, such issue should be fully disclosed in the footnotes to the basic financial statements. It would be the responsibility of the financial report's auditors to issue an adverse opinion or disclaimer opinion, if a material item was not recorded in the basic financial statements, because of its inability to be reasonably measured or estimated.

Your question 2 asks if there are additional elements, which need to be defined. We believe to avoid certain eliminations in consolidating financial statements; it may be beneficial to define a "transfer" element. The transfer element would be defined as increases and/or decreases in assets and/or liabilities exchanged between component units of the federal government.

We do not agree that certain intangible resources, long-term social obligations, and other commitments should be handled differently than other items. If these items meet both the elemental and recognition criteria, they should be handled according. No further additional elements need to be defined. We see these attempts to handle these items differently as designed to specifically exclude these items from the basic financial statements without giving the FASAB members a chance to deliberate on these items in their standard setting processes.

Paragraph 33 of the exposure draft states, "Implicit in the definition and essential characteristics of assets is that the event giving rise to the government's ability to control access to the economic benefits or services embodied in a resource must have occurred. The government's intent or ability to acquire a resource in the future does not create an asset. For the resource to qualify as an asset, the government already must have acquired the resource or otherwise obtained access to the resulting benefits or services to the exclusion of other entities, for example, the mere existence of the government's power to tax is not an asset because, until the government has exercised that power by imposing a tax and has access to benefits by virtue of completion of a taxable event, no event has occurred to generate resources and there are no resulting economic benefits that the government can control and use in providing programs and services."

This should apply to government obligations as well. For the obligation to no longer qualify as a liability, the government must already have abandoned the obligation or otherwise revoked access to the promised benefits or services to the entitlements, for

example, the mere existence of the government's power to cancel an obligation does not cancel a liability because, until the government has exercised that power by canceling a benefit and has denied access to benefits by virtue of completion of the canceling event, no event has occurred to reduce obligations and there are no resulting economic benefits that the government can control and use in providing programs and services.

We must emphasize that the FASAB should not attempt to anticipate the action or intent of future governing bodies by assuming a future governing body will change laws. A seated governing body should not be able to hide its accountability for establishing or increasing obligations because a future governing body may change the laws that established or increased the obligations. Conversely, the public should be informed if a seated governing body reduces or eliminates existing obligations by changing current laws. Governing bodies have the ability to include provisions in current law that would increase, eliminate or reduce benefits or services in the future. Therefore if it was the intent of past and current representatives of the citizenry to increase, eliminate or reduce promised benefits or services in the future, then there would be such provisions in current law.

Your question 8 asks about specifically requiring or excluding an assessment of probability when deciding whether an item meets the definition of an element. IFTA believes that probability is always an issue that must be trusted to conservative professional judgment, anticipate no gains; allow for all losses. This is a basic principle of accounting, conservatism. Such judgment, which is reviewed by the financial report's auditors, is expected in the normal course of the application of the science of accounting. The specific mentioning of probability in this Concept Statement seems directed toward keeping elements off of the basic financial statements.

Your question 9 asks about probability in relation to the measurability. Again, IFTA believes that probability is always an issue that must be trusted to conservative professional judgment as stated above. Once again, the specific mentioning of probability in this Concept Statement seems directed toward keeping elements off of the basic financial statements. Further, if the probability of being unable to measure a recognizable element is grossly material, conservative professional judgment will require the financial report's auditors to consider an adverse opinion or disclaimer of opinion.

Your question 10 asks if the qualitative characteristics included in SFFAC 1 should be included in this Statement. We believe that if already published and not changed by this Concepts Statement, including the qualitative characteristics is unnecessary and confusing. The Concept Statement, to be effective, should limit itself to the specific subject of the concept. Including these qualitative characteristics in the Concept Statement would serve the same purpose as the specific inclusion of probability.

We would like to thank you again for the opportunity to comment this exposure draft. We would be happy to answer any of your questions.



**C. Institute for Truth in Accounting Comment Letter Previously Submitted**

**Institute  
for Truth in Accounting**

1500 Skokie Blvd. #304, Northbrook, Illinois 60062

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August 5, 2006

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Wendolyn Comes, Executive Director  
Federal Advisory Standards Board  
441 G Street NW, Suite 6814  
Mailstop 6K17V  
Washington, DC 20548

Dear Ms. Comes:

Subject: Response to Exposure Draft issued June 7, 2006  
Definition and recognition of Elements of Accrual-Basis Financial Statements

The Institute for Truth in Accounting (IFTA) thanks the Federal Accounting Standards Advisory Board (FASAB) for the opportunity to respond this exposure draft. The Institute, founded in 2002, is a nonprofit organization with no political affiliations. It is made up of business, academic, governmental and other leaders who are committed to high standards of ethics and integrity, and who support these principles in the private as well as in the public sector. Our mission is to enhance the credibility of public and private sector financial reporting by encouraging the issuance of understandable, reliable and relevant information.

**Overall Response**

IFTA commends FASAB's efforts to improve public accountability and enhance the credibility of Federal government financial reporting. Providing clearer and simpler accounting definitions is evidence of these efforts.

For this reason, IFTA supports the FASAB majority position on this proposed statement. We agree with the definitions of asset, liability, net position, revenue and expense. We would, however, express the following understanding regarding some of these definitions:

- that the use of the term present obligation in defining liabilities also encompasses the present value of obligations;
- that the return of revenue to an originating source, which decreases assets and/or increases liabilities, does not define such refund as an expense;
- that the recapture of expense due to unsatisfactory services rendered or a return of goods purchased, which increases assets and/or decreases liabilities, does not define such refund as revenue.

IFTA concurs with the recognition criteria outlined in paragraph 5 (a) and (b) of this exposure draft.

IFTA believes that it should be clearly stated within Paragraphs 5 thru 9 that “diligent effort should be taken to recognize all material elements or items, despite measurement difficulties.” The vast majority of material elements or items are measurable in a way that is superior to not measuring them at all.

**Specific Response to FASAB Questions**

1. Defining and recognizing elements.

- a) The definitions of assets and liabilities should be derived from their fundamental or essential characteristics. We see no alternative approach. Including verbiage not fundamental or essential to an element’s characteristics would provide opportunity for directing elements away from being reported in the basic financial statements.
- b) The definitions of net position, revenues, and expenses should be derived from the definitions of assets and liabilities with the exception of refunds mentioned earlier in this response. We see no alternative approach. Net assets are simply the mathematical net of assets and liabilities. Revenue and expense give rise to assets and liabilities.
- c) An item that meets the definition of an asset **or a liability** must meet the recognition criteria to be reported in the body of a financial statement. If, **after diligent effort**, an asset **or a liability** cannot be **reasonably** measured or **reasonably** estimated **then** there is no basis for recording. In such circumstances, if the uncertainty of a recognizable item is material, such issue should be fully disclosed in the footnotes to the basic financial statements. It would be the responsibility of the financial report’s auditors to issue an adverse opinion or disclaimer opinion, if a material item was not recorded in the basic financial statements, because of its inability to be reasonably measured or estimated.

2. Additional elements.

- a) To avoid certain eliminations in consolidating financial statements, it may be beneficial to define a “transfer” element. The transfer element would be defined as increases and/or decreases in assets and/or liabilities exchanged between component units of the federal government.
- b) If certain intangible resources, long-term social obligations, and other commitments meet both the elemental and recognition criteria, they should be handled according. No further additional elements need to be defined.

3. Government's ability to change laws.

Paragraph 33 of the exposure draft states, "Implicit in the definition and essential characteristics of assets is that the event giving rise to the government's ability to control access to the economic benefits or services embodied in a resource must have occurred. The government's intent or ability to acquire a resource in the future does not create an asset. For the resource to qualify as an asset, the government already must have acquired the resource or otherwise obtained access to the resulting benefits or services to the exclusion of other entities, for example, the mere existence of the government's power to tax is not an asset because, until the government has exercised that power by imposing a tax and has access to benefits by virtue of completion of a taxable event, no event has occurred to generate resources and there are no resulting economic benefits that the government can control and use in providing programs and services."

This should apply to government obligations as well. For the obligation to no longer qualify as a liability, the government must already have abandoned the obligation or otherwise revoked access to the promised benefits or services to the entitlees, for example, the mere existence of the government's power to cancel an obligation does not cancel a liability because, until the government has exercised that power by canceling a benefit and has denied access to benefits by virtue of completion of the canceling event, no event has occurred to reduce obligations and there are no resulting economic benefits that the government can control and use in providing programs and services.

The FASAB should not attempt to anticipate the action or intent of future governing bodies by assuming a future governing body will change laws. A seated governing body should not be able to hide its accountability for establishing or increasing obligations because a future governing body may change the laws that established or increased the obligations. Conversely, the public should be informed if a seated governing body reduces or eliminates existing obligations by changing current laws. Governing bodies have the ability to include provisions in current law that would increase, eliminate or reduce benefits or services in the future. Therefore if it was the intent of past and current representatives of the citizenry to increase, eliminate or reduce promised benefits or services in the future, then there would be such provisions in current law.

4. Characteristics that are *fundamental* or *essential* to *all* federal government assets.

- a) IFTA agrees that there are two characteristics essential to all federal government assets: (1) an asset embodies economic benefits or services that can be used in the future and (2) the government can control access to the economic benefits or services and therefore, can obtain them and deny or regulate the access of other entities.

- b) There are no *additional* characteristics that are *fundamental* or *essential* to *all* federal government assets.
5. Characteristics that are *fundamental* or *essential* to *all* federal government liabilities.
- a) IFTA agrees that there are two characteristics essential to all federal government liabilities: (1) a liability is a present obligation to provide assets or services to another entity and (2) the federal government and the other entity have an agreement or understanding as to when settlement of the obligation is to occur. A government liability is created when a law is enacted that obligates the government to provide assets or services in the future.
  - b) There are no *additional* characteristics that are *fundamental* or *essential* to *all* federal government liabilities.
6. Board's approach to defining elements as deriving from their essential characteristics.
- a) The definitions of assets and liabilities adequately convey the essential characteristics from which they are derived.
  - b) The definitions of net position, revenues, and expenses adequately convey their relationship to assets and liabilities.

7. Conditions that should be met for an item to be recognized in the body of a financial statement:

There are no criteria that should be established as conditions for recognition other than (1) the item must meet the definition of an element and (2) the item must be measurable.

8. Specifically requiring or excluding an assessment of probability when deciding whether an item meets the definition of an element.

IFTA believes that probability is always an issue that must be trusted to conservative professional judgment: anticipate no gains; allow for all losses. Such judgment, which is reviewed by the financial report's auditors, is expected in the normal course of the application of the science of accounting. The specific mentioning of probability in this Concept Statement seems directed toward keeping elements off of the basic financial statements.

9. Explicitly discussing the assessment of probability that an item is measurable.

Again, IFTA believes that probability is always an issue that must be trusted to conservative professional judgment as stated above. Once again, the specific mentioning of probability in this Concept Statement seems directed toward

keeping elements off of the basic financial statements. Further, if the probability of being unable to measure a recognizable element is grossly material, conservative professional judgment will require the financial report's auditors to consider an adverse opinion or disclaimer of opinion.

10. Including the qualitative characteristics of SFFAC 1 in this Statement.

If already published and not changed by this Concepts Statement, including the qualitative characteristics is unnecessary and confusing. The Concept Statement, to be effective, should limit itself to the specific subject of the concept. Including it in the Concept Statement would serve the same purpose as the specific inclusion of probability.

Members of the Institute for Truth in Accounting look forward to testifying at FASAB's hearing on September 27 or 28, 2006. Thank you again for the opportunity to comment this exposure draft. Please do not hesitate to contact us, if you have any comments or questions.

Sincerely,

***Sheila A. Weinberg***

Institute for Truth in Accounting  
Founder & CEO

**A. Biographies**

**Andrew C. West, CPA, CGFM**

Mr. West is a Vice President and Partner with Computer Sciences Corporation (CSC) Federal Consulting Practice (FCP). Within the FCP, Mr. West leads the Functional Management Solutions Group which includes federal financial management, logistics and supply chain, and cross-functional integration practices. Skilled in accounting, budgeting, benchmarking/best practices, financial and resource planning and analysis, and strategic planning. Mr. West has extensive leadership experience in supervising and training professional staffs.

Mr. West is a Certified Public Accountant for the State of Virginia and a Certified Government Financial Manager. He is the co-author of *Public Dollars, Common Sense*, (1997), a critically acclaimed book on the new roles of government financial managers, as well as *Public Dollars Transformation: Common Sense for 21<sup>st</sup>- Century Financial Managers*, (2003). Mr. West has spoken extensively to audiences on government financial reforms, and has published articles in various journals and periodicals. He is a guest speaker for the various Army programs (ACP, PRMC, ACC) at Syracuse University.

Mr. West has been heavily involved in CFO Act and Government Performance and Results Act (GPRA) implementation services with multiple Federal Defense and Civilian agencies. He directed a joint PwC Consulting and Association of Government Accountants sponsored survey of the offices of Federal CFOs and Inspectors General, gauging the progress of nearly 100 Federal organizations in implementing the requirements of the CFO Act, GPRA, and other associated legislation. During 2002, Mr. West worked with the NATO Accounting Standards Working Group to develop the NATO accounting framework, concepts and standards using the International Accounting Standards. Mr. West's recent clients include: the Office of the ASA(FM&C); the Office of the Assistant Secretary of the Air Force for Financial Management, and the Office of the Under Secretary of Defense, Comptroller.

Prior to joining CSC, Mr. West was an Associate Partner with IBM Global Business Services. He also worked nine years with PricewaterhouseCoopers LLP (formerly Coopers & Lybrand) and served as a career US Army officer.

***EDUCATION AND CERTIFICATIONS***

M.B.A. (Finance), Syracuse University, 1989

B.S., Business Administration, University of North Carolina - Chapel Hill, 1971

U. S. Army Command and General Staff College (Honors Graduate), 1985

Certified Public Accountant (CPA) - - Licensed in the State of Virginia;

Certified Government Financial Manager (CGFM)

***PUBLICATIONS***

Public Dollars Transformation - Common Sense for 21<sup>st</sup> Century Financial Managers, West, et. al. Bookmasters, Washington, DC, schedule for release December 2001

Public Dollars, Common Sense - New Roles for Financial Managers, West, et. al., Bookmasters, Washington, D.C., 1997

## **AGA Financial Management Standards Board**

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"The Power of **Benchmarking** " *Knowledge, Knowhow Journal on Management Leadership*,  
November-December 1996

"Government as Business - - Five Years Out is the CFO Act Working?" *The Government Accountants JOURNAL*, March 1996

### ***PRESENTATIONS AND SPEECHES***

"The Army Financial Statements on CD-ROM - - A Best Practice," presentation to the Association of Government Accountants Conference, Boston, Mass., July 2001

"The CFO Act and Other Management Reforms," presentations at Syracuse University Graduate School of Business, August 2000, January 2001, May 2001

"Benchmarking - The Idea Engine for Change," presentation to the American Society of Military Comptrollers Conference, San Antonio, Texas, June 1998

"New Roles for Financial Managers," presentation to the Association of Government Accountants Professional Development Conference, June 1997

"Public Dollars, Common Sense," presentation to Princeton University, Woodrow Wilson School of Public Administration, April 1997

"Results of the CFO Act Survey - - A Call to Action," presentations to the Federal Auditors Executive Council, November 1995, the Chief Financial Officers Council, December 1995, and the AGA Professional Development Conference, June 1996

"Ethically Defending an Unethical Society," guest speaker to faculty, staff, and student body of David Lipscomb University, April 1993

"The Realities of Defense Budgeting," guest instructor for 3 day seminar for MBA graduate students within the Comptrollership Program, Syracuse University, July 1991 and 1992

### ***AWARDS AND HONORS***

Legion of Merit, Department of Defense, 1992

Dr. David Tosh Award, Syracuse University, 1989

Beta Gamma Sigma Business Honors Society, 1989

Dr. Martin Kellogg Award, German Studies, University of California, 1980

### ***PROFESSIONAL AFFILIATIONS***

American Institute of Certified Public Accountants

Virginia Society of Certified Public Accountants

Beta Gamma Sigma Business Honors Society

North Carolina Educational Foundation

The Association of Government Accountants

The American Society of Military Comptrollers

The Association of Syracuse Comptrollers

Executive Board, Piedmont Council, Boy Scouts of America

***CLEARANCE*** - Top Secret/SCI with polygraph

**Anna D. Gowans Miller**

Anna. D. Gowans Miller has been with the Association of Government Accountants (AGA) since the beginning of 2004. At AGA, she is Director of Research and Technical Manager, with dual responsibilities to: 1) direct and sometimes conduct AGA research projects to improve government financial and performance management, federal, state and local, and 2) staff the Financial Management Standards Board, the International Development Committee, and the Emerging Issues Committee.

She is a Certified Public Accountant (CPA), licensed to practice in Texas and the District of Columbia. She first worked with Touche Ross (now Deloitte & Touche), in Houston, Texas where she was the senior in-charge auditor of the first Single Audit of the City of Houston. She taught accounting at the University of Houston, where she gained a Masters in Business Administration, with concentrations in Accounting, Quantitative Management Science, and Information Systems. She was a senior auditor for the Corporation for Public Broadcasting and then technical manager at the American Institute of Certified Public Accountants (AICPA) in Washington, DC. There she staffed the AICPA Government Accounting and Auditing Committee, the Members in Government Committee, and the Performance Auditing Task Force. She helped develop AICPA guidance on accounting and auditing for federal, state, and local governmental entities.

From 1995 to 1997 she was the professional staff member responsible for CFO Act and GPRA issues on the Government Management, Information, and Technology Subcommittee of the Committee on Government Reform and Oversight in the House of Representatives. She was the staff person responsible for directing into legislation the Federal Financial Management Improvement Act of 1996 and the Single Audit Act Amendments of 1996 and for oversight of the Executive Office of the President, including the Office of Management and Budget, the General Accounting Office, now the Government Accountability Office, and other Executive Branch agencies. She advised various Executive Branch agencies on how to improve their strategic plans as part of their GPRA implementation.

From 1997 to 2004, as an independent contractor and CPA, she verified, validated and certified results of Quality Management implementations in organizations of the Department of Defense for the Office of the Secretary of Defense Quality Management Office. The results included costs, savings or revenues generated, other quantifiable performance measures such as productivity, reduction in cycle time, readiness, customer satisfaction, quality of life, enhanced protection of endangered species on training grounds, and other environmental benefits, such as hazardous waste minimization. The initiatives she evaluated were implemented by entities in the Department of the Army (including finalists for the President's Quality Award), the Department of the Navy, including the Marine Corps, the Department of the Air Force, Special Operations Command, Joint Commands, and OSD/Defense Agency units, and required travel throughout the continental United States and Hawaii, Japan, and Korea.

**B. Statement or Remarks – No remarks provided, testimony will cover issues addressed in the comment letter submitted by the AGA Financial Management Standards Board (see below.)**



## AGA Financial Management Standards Board

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### C. AGA Financial Management Standards Board Comment Letter Previously Submitted

August 25, 2006

Wendy Comes, Executive Director  
Federal Accounting Standards Advisory Board  
Mailstop 6K17V  
441 G Street, NW, Suite 6814  
Washington, DC 20548

Dear Ms. Comes:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments on the exposure draft (ED) of a proposed statement of Federal Financial Accounting Concepts, entitled *Definition and Recognition of Elements of Accrual-Based Financial Statements*. The FMSB, comprising 21 members with accounting and auditing backgrounds in federal, state and local government, academia and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB has responses to the questions for respondents and some additional comments. Our responses are in bold text. The text in italics is from the FASAB document.

*1. Two principles underlie the FASAB's approach to defining and recognizing elements of accrual-basis financial statements of the federal government.*

**The two principles identified below are not articulated as principles in the proposed ED. The two statements are not highlighted as foundational assumptions (principles) for the ED. If they rise to the level of "principles, they should be identified as such in the document.**

*The first principle is that the definitions of assets and liabilities should derive from identifying the fundamental or essential characteristics that all assets and liabilities, respectively, share. The definitions of net position, revenues, and expenses should derive from the definitions of assets and liabilities.*

**Does the use of the word "or" in "fundamental or essential" above imply that the 2 words are equivalent or is the word "or" meant to imply "either/or" as either "fundamental or essential?"**

*a) Should the definitions of assets and liabilities derive from their fundamental or essential characteristics? Please provide the reasons for your position and any alternative approach(s) you would take to define assets and liabilities.*

**The definitions should derive from their fundamental or essential characteristics for consistency with accounting guidance and education. (As noted, this statement is not identified as a "principle" in the ED.)**

## AGA Financial Management Standards Board

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b) Should the definitions of net position, revenues, and expenses derive from the definitions of assets and liabilities? Please provide the reasons for your position and any alternative approach(s) you would take to define net position, revenues, and expenses?

**Yes, we think that this position is logical and reasonable.**

The second principle is that definition and recognition are separate concepts. An item that meets the definition of an asset is an asset but to be recognized the asset also must meet the recognition criteria. Thus, meeting the definition of an element is a necessary but not a sufficient condition for an item to be recognized in financial statements. An asset that is not recognized in the body of a financial statement would be a candidate for disclosure in the notes. **The ED mentions several times that assets or liabilities not recognized in the body of the financial statements would be “a candidate for disclosure in the notes or in supplemental information. Should the ED discuss how the decision to disclose should be made?**

c) If an item meets the definition of an asset is it an asset even if it is not recognized in the body of a financial statement because, for example, it is not measurable or its amount is not material? Please provide the reasons for your position.

**We agree that an asset can be defined as an asset without being sufficiently measurable or material to be in the body of the financial statement. Having said that, we think it would be helpful if the ED provided more examples of assets that may not be sufficiently measurable or material to be in the body of the financial statement.**

**In summary, we agree with the two statements, but recommend that the ED clearly articulate that these are principles and foundational assumptions of the ED; they appear to be logical and workable.**

2. The proposed Concepts Statement defines five elements of accrual-basis financial statements: assets, liabilities, net position, revenues and expenses. **The proposed ED can't seem to “make up its mind” about whether “net position” is an element. Net position is not mentioned in paragraph 2 or paragraph 9 which “identify” the elements. The other references noted in this question (e.g., paragraphs 35-37 and 56) do not really define the elements; they refer to a limited number of the elements.**

a) Are there additional elements of accrual-basis financial statements that should be defined in the Concepts Statement? If so, what are they and what are their essential characteristics? Alternatively, what are they and how would you define them?

**The only additional elements that should be defined might be “gains or losses” as discussed below.**

Some constituents believe that because of the unique nature of the federal government additional elements are needed for certain transactions and other events. For example, certain intangible resources, long-term social obligations, and other commitments are viewed by these constituents as requiring a different element or elements than those identified in this proposed Concepts Statement.

**The ED does not discuss these beliefs so that we cannot judge whether they are realistic or valid.**

## AGA Financial Management Standards Board

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b) Do you agree or disagree that there are additional elements that need to be defined? If you agree, what are the essential characteristics of these elements? Please provide examples of the types of transactions that align with these additional elements.

An additional element could be “gains or losses”. Paragraphs 55 and 56 make the point that “gains or losses” are merely sub-sets of revenues and expenses. However, in most cases, gains or losses are not reported as either revenues or expense. Gains or losses represent a composite entry on financial statements, generally the net result of a transaction primarily affecting assets or liabilities. The gain or loss is the “remainder” of such a transaction. For example, if an entity sells an asset at less than recorded value – it records a loss. Conversely, if it sells an asset at more than recorded value it records a gain. However, the entity does not record the receipt of cash as revenue and the value of the underlying asset as an expense. Thus, the gain or loss is not a subset of revenues and expenses – it is the result of an asset or liability transaction and thus could be considered as another element.

3. The proposed Concepts Statement addresses the government’s ability to change laws in the future as stated in paragraph 44 as follows:

*To meet the definition of a liability, the federal government’s contract or other agreement to provide assets or services to another entity must be based on existing conditions, including current law, because an essential characteristic of a liability is that the government has a present obligation, even if conditions may change before settlement is due. For example, the Congress may change a law under which the federal government has incurred a present obligation and erase the obligation or otherwise enable the government to avoid settlement. Alternatively, the government may be able in the future to renegotiate the obligation with the payee or recipient of the promised services. However, liabilities and all other elements of accrual-basis financial statements are based on transactions or events that already have occurred. The government’s power to change existing conditions does not preclude what otherwise would be a present obligation and recognized as a liability. Members with an alternative view believe that the government’s power to modify the law to change or withdraw future benefits related to nonexchange transactions could affect the existence of a present obligation. Consequently, these Board members believe that the government’s ability to change the law may provide additional evidence about whether a present obligation exists and, in some instances, may preclude recognition of a liability. Therefore, they disagree with paragraph 44.*

a) Do you agree with the position taken in (1) the proposed Concepts Statement or (2) the Alternative View concerning the potential effect of the government’s ability to change laws on the recognition of a liability? Please explain the reasons for your position.

We agree with the proposed Concept Statement (1). The existence or non-existence of a liability should be based on the law at the time. Congress can always modify legislation in a way that will affect the existence of liabilities (or assets). If and when that happens the financial statements should be modified with appropriate disclosure of the reasons for the changes in the financial statements. Law takes precedence over accounting rules and regulations, and one takes the action(s) necessary to abide by the law. It is not reasonable to second guess or predict what law(s) will change. Therefore, we agree with the position as stated in the ED, since it is the realistic approach. An example of where the government could change the law and cause a change in the liability recognition follows. The DoD accounts for environmental clean-up of its ranges under current law requiring clean up to a specified depth, three feet below the surface. There are

## AGA Financial Management Standards Board

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Members of Congress who would like to see the law changed and the depth of the clean-up increased to, say, nine feet below the surface. This would dramatically impact the clean-up costs and the liability that the DoD would have to accrue.

We also wish to point out that the AV relates only to non-exchange transactions. Can not the federal government change the law so as to affect liabilities arising from exchange transactions? Also, since the AV is the only mention of non-exchange transactions, is it necessary for the ED to define exchange and non-exchange transactions?

*4. The proposed Concepts Statement identifies two, and only two, characteristics that are fundamental or essential to all federal government assets: (a) An asset embodies economic benefits or services that can be used in the future and (b) the government can control access to the economic benefits or services and therefore, can obtain them and deny or regulate the access of other entities.*

This is not the definition of an asset per paragraph 17. That paragraph says that “an asset is a resource that embodies economic benefits or services that the government can control”. That definition does not embody the concept of future benefits. Other references to the definition are mixed about embodying the concept of future benefits – for example, see the Executive Summary, the Glossary, paragraphs 21, 22, 25. We recommend that each mention of economic benefits or services refer to “future” economic benefits or services.

*a) Do you agree that these two characteristics are essential characteristics of all federal government assets? If not, please give an example of a resource that you believe is an asset but does not possess one or both of these characteristics.*

We think the two characteristics are reasonable. Statement of Financial Accounting Concepts (SFAC) #6 states that, “Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.” If the entity (i.e., the government) does not have control of the asset, it would be difficult to claim it as an asset. Also, if the second part of the definition is removed, it may open up the financial statements to additional “assets”. At present, we cannot think of what those assets might be, but having the control characteristic in the guidance limits potential “frivolous” assets to be considered.

*b) Are there any additional characteristics that are fundamental or essential to all federal government assets?*

**Not that we can think of.**

*5. The proposed Concepts Statement identifies two, and only two, characteristics that are fundamental or essential to all federal government liabilities: (a) A liability is a present obligation to provide assets or services to another entity and (b) the federal government and the other entity have an agreement or understanding as to when settlement of the obligation is to occur.*

*a) Do you agree or disagree that these two characteristics are essential characteristics of all federal government liabilities? Please provide the reasons for your views. If you disagree, please give an example of an obligation or commitment that you believe is a liability but does not possess one or both of these characteristics.*

## AGA Financial Management Standards Board

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SFAC #6 state that, “Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.” We think both parts of the definition are necessary. If the federal government has a liability, but there is no “due date” or no action that will precipitate a due date, in essence the government does not have a liability.

b) Are there any additional characteristics that are fundamental or essential to all federal government liabilities?

**Not that we can think of.**

6. As indicated in Question 1a), the first principle of the Board’s approach to defining elements is that the definitions of assets and liabilities should derive from their essential characteristics, and the definitions of net position, revenues, and expenses should derive from the definitions of assets and liabilities.

a) Do the definitions of assets and liabilities adequately convey the essential characteristics from which they are derived? If not, how would you modify the definitions?

**Yes.**

b) Do the definitions of net position, revenues, and expenses adequately convey their relationship to assets and liabilities? If not, how would you modify the definitions?

**Yes. Conceptually, we believe the definitions convey the essential characteristics. We also suggest that “gains and losses” should be a separate element – see above.**

7. The proposed concepts statement establishes two conditions (“recognition criteria”) that should be met for an item to be recognized in the body of a financial statement: (1) The item must meet the definition of an element and (2) the item must be measurable.

a) Are there other criteria that should be established as conditions for recognition? If so, what recognition criteria would you add or delete?

**No. We have no other proposed criteria.**

8. The proposed Concepts Statement neither explicitly requires nor precludes an assessment of probability when deciding whether an item meets the definition of an element, nor does the Statement establish an explicit threshold of probability at the definition stage. Rather, the Statement indicates that conclusions about the existence of an element require judgment as to whether, based on the available evidence, an item possesses the essential characteristics of an element. The Statement indicates that when an element is considered for recognition, measurement of the element may require an assessment of the probability of future inflows or outflows of resources to or from the element to enhance the reliability of amounts recognized in the financial statements. In addition, the Statement explicitly acknowledges that assessments of the materiality and benefit versus cost of recognizing the results of the measurement of elements may constrain recognition. Members believe that this framework permits future standard setters to adequately address uncertainty with respect to recognition decisions in establishing future standards.

## AGA Financial Management Standards Board

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*Members with an Alternative View believe that, in deciding whether an item meets the definition of an element and considering related uncertainties, there is implicitly an assessment of the probability of whether an item meets the definition of an element and that, because there is a decision to be made, that there is implicitly a probability threshold where an item would not meet the definition of an element. These members believe that the proposed Concepts Statement should explicitly state that (1) the probability that an item meets the definition of an element should be assessed as part of determining whether an item meets the definition of an element (“existence probability”), and (2) there exists a threshold where such probability is so low that an item would not meet the definition of an element. Thresholds to be applied would, as appropriate, be established in specific standards. In the view of these members, the lack of an explicit acknowledgement of the need for an existence probability assessment and a probability threshold at the definition stage would be likely to result in many more items being recognized in the financial statements, including items with a low probability of being assets or liabilities. **It would be helpful if the proponents of the AV provided examples of the types of items that may be recognized that have a low probability of being assets or liabilities.***

*a) Do you agree with the position taken in (1) the proposed Concepts Statement or (2) the Alternative View concerning the need for an explicit requirement for an assessment of probability and a related probability threshold when determining whether an item meets the definition of an element? Please explain the reasons for your position.*

**It seems to us that the proposed ED adequately addresses the need for judgment in determining the existence of an asset or liability and the amount of such asset or liability. As stated in the AV, the need for an assessment and a threshold is implicit in the ED. We are concerned that if the ED explicitly requires an assessment and a threshold, preparers would be “forced” by auditors to specifically examine and document the existence and value of each asset and liability separately from the ordinary course of business. When there is a significant question about existence or value of an asset, such documentation is appropriate. However, new and separate documentation should not be required. Therefore, while we do not have a major problem with explicitly stating the need for such an assessment, we prefer the ED to imply the need (as written) with any explicit requirements included in separate standards as required.**

*9. The proposed Concepts Statement defines “measurable” as “means quantifiable in monetary units.” (par. 5) The proposed Concepts Statement does not explicitly discuss an assessment of probability when deciding whether, based on the available evidence, an item is measurable or that there is a point or threshold at which an item is not measurable. The Statement does discuss the consideration of uncertainty, cost-benefit and materiality and how these factors influence standard setting.*

*Members with an Alternative View believe that, in deciding whether an item is measurable and considering related uncertainties, there is implicitly an assessment of the probability of whether an item is measurable and that, because there is a decision to be made, that there is implicitly a probability threshold where an item would not be measurable. These members believe that the proposed Concepts Statement should explicitly state that (1) the probability that an item is measurable should be assessed as part of determining whether an item is measurable (“measurability probability”), and (2) there exists a threshold where such probability is so low that an item would not be measurable. Thresholds to be applied would, as appropriate, be established in specific standards. In the view of these members, the lack of an explicit acknowledgement of the need for a measurability probability assessment and a probability threshold would be likely to result in many more items being recognized in the financial statements, including items with a low probability of being assets or liabilities.*

## AGA Financial Management Standards Board

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a) Do you agree with the position taken in (1) the proposed Concepts Statement or (2) the Alternative View concerning the need for an explicit requirement for an assessment of probability and a probability threshold when determining whether an item is measurable? Please explain the reasons for your position.

**As per our response to question 8, it seems that the position taken in the proposed concepts statement is most appropriate. Again, we would appreciate more examples from the authors of the AV of items that could be added to the financial statements if the need for assessment is not explicit.**

10. SFFAC 1, Objectives of Federal Financial Reporting, par. 156, states that “Financial reporting is the means of communicating with those who use financial information. For this communication to be effective, information in financial reports must have these basic characteristics: understandability, reliability, relevance, timeliness, consistency, and comparability.” These six characteristics are defined in SFFAC 1 and are not altered by this Statement. Members supporting the proposed Concepts Statement do not believe that repeating the qualitative characteristics in this Statement would be useful and doing so could cause confusion regarding the status and application of the characteristics. These members believe that if the application of the characteristics requires explanation, the explanation should be approached in a comprehensive manner.

The members expressing an alternative view point out that the proposed Concepts Statement does not include a consideration of the qualitative characteristics of financial statements as part of determining whether an item meets the recognition criteria. Members with an alternative view believe that the ED should require a consideration of all of the qualitative characteristics of financial reporting in determining whether an item meets the recognition criteria; i.e., meets the definition and is measurable. In the view of these members, the lack of a consideration of the qualitative characteristics in determining whether an item meets the recognition criteria will likely result in the recognition of items that do not meet the qualitative characteristics (e.g., not relevant or reliable.)

a) Do you agree with the position taken in (1) the proposed Concepts Statement or (2) the Alternative View concerning the need for a consideration of the qualitative characteristics of financial statements as part of determining whether an item meets the recognition criteria? Please explain the reasons for your position.

**We agree with the proposed Concepts Statement (1). As noted above, we have no problems with general statements that qualitative characteristics be considered, but see no real “need” to place that statement in this standard. In addition, we would like to see examples of the types of items that might be included as assets or liabilities if the qualitative factors are not considered.**

### Additional Comments

**Paragraph 6 – recommend giving example or two (maybe in a footnote) where an item is measurable but still does not meet definition of an element and thus should be excluded.**

**Paragraphs 7 and 8 – the incorporation of the judgment concept as opposed to certainty and the concept of materiality and benefit versus cost are good ones.**

We do not see the relevance of the entire section on “Entity Concept” in this ED. We suggest that paragraphs 10 to 16 be eliminated. The only value to be obtained from these paragraphs is that the term “entity” includes individuals (paragraph 16), and if these paragraphs were to be eliminated, the definition of “entity” could easily be placed elsewhere in the ED.

Paragraph 36 – We recommend giving an example within this paragraph for the purpose of (1) clarity and (2) consistency with previous paragraphs where examples are provided for clarification. Such examples greatly enhance reader understandability. In addition, we suggest adding examples in paragraph 24, 29, 36 and 37 and throughout the Alternative View.

The Executive Summary is not consistent with the ED. For example, the ED does not refer to future benefits from assets. The ED also says that “measurement of an item would include an assessment of the probability of future flows of resources or services from an item”, we don’t think the ED has that requirement. In fact, such a statement in the ED is what the authors of the AV are seeking. The Exec Summary also says that the “Concepts Statement would (emphasis added) include a discussion of the effects of uncertainty....” It probably should say “Concepts Statement includes ....”

The ED seems to vacillate between discussing and defining “elements” or “items which make up a element” For example, paragraph 2 says “This Statement focuses on the broad classes (e.g., the elements) and their characteristics instead of defining particular assets, liabilities or other items” Paragraph 4 also relates recognition to “recording or incorporating an element into the financial statements” Then paragraph 5 goes on to discuss “recognition criteria are the conditions an item (emphasis added) should meet ....” The ED should be consistent in whether it is referring to an “element” or an “item.”

We are not sure that the example in paragraph 2 is relevant since the federal government does not claim that outer space is a federal asset.

Paragraph 28, we suggest that the sentence starting “In exercising control ....” should also include the concept that the federal government can fulfill its responsibilities to provide services to the public (as in free parks, museums, etc.)

We suggest that the word “obligation” not be used to describe a liability. While the ED tries to clarify that the word is not being used in its budgetary sense (footnote 6), there is a significant opportunity to misread the word “obligation” as a budgetary term. Perhaps the word “responsibility” can be used in lieu of “obligation”.

We are concerned with the definitions of revenues and expenses in that both exclude borrowing (receipts and repayments) in the respective definitions. The ED does not discuss why borrowing is excluded or how borrowing is to be treated. We assume that borrowing is excluded from the definitions of revenues and expenses since borrowing represents only changes in assets and liabilities. However, many other transactions represent changes in just assets and liabilities but those transactions are not excluded for the definition of revenues and expenses (for example, sale of an asset, paying invoices from a vendor (unless that is “borrowing”). More discussion of why borrowing is excluded may be appropriate.



## AGA Financial Management Standards Board

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We are also concerned about the definitions of revenues and expenses since it is unclear how accruals for things like bad debts will be handled. The definition of revenue is “an increase in assets, a decrease in liabilities or a combination of both from providing good and services, levying taxes or other impositions, receiving donations or any other activity performed during the reporting period.” (The definition of expenses is similar.) However, an accrual for bad debts (for example) does not fall into any of these categories, unless that accrual is considered a valuation issue.

Paragraph 57 is unclear about its impact and effect.

The example in footnote 12 seems to be a contingent liability for which there are adequate standards and therefore does not require additional discussion in this ED.

No members of the FMSB objected to the issuance of this comment letter. We would be pleased to discuss this letter with you at your convenience. You can contact me at [hintonrw@audits.state.ga.us](mailto:hintonrw@audits.state.ga.us) or (404) 656-2174 or Anna D. Gowans Miller, CPA, AGA's Technical Manager and facilitator for this project, at [amiller@agacqfm.org](mailto:amiller@agacqfm.org) or (703) 684-6931, ext. 313.

Sincerely,

A handwritten signature in black ink that reads "Russell W. Hinton". The signature is written in a cursive style with a large initial 'R' and a stylized 'H'.

Russell W. Hinton, CGFM, Chair,  
AGA Financial Management Standards Board

cc. Jeffrey S. Hart, CGFM, CFE  
AGA National President

**Association of Government Accountants  
Financial Management Standards Board**

**July 2006 – June 2007**

Russell W. Hinton, Chairman  
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Clarence L. Taylor, Jr.  
Andrew C. West

Relmond P. Van Daniker, Executive Director, AGA (Ex-Officio Member)  
Anna D. Gowans Miller, Technical Manager, AGA, Staff Liaison

**A. Biography**

**Stephen C. Goss**

Steve Goss is currently Chief Actuary at the Social Security Administration. Mr. Goss joined the Office of the Chief Actuary in 1973 after graduating from the University of Virginia with a Masters Degree in Mathematics. He graduated from the University of Pennsylvania in 1971 with a Bachelors degree in mathematics and economics. He has worked in areas related to health insurance as well as pension, disability, and survivor protection. Mr. Goss has written articles and actuarial studies on several topics and has made presentations and participated in panel discussions at numerous conferences. He has worked closely with members of the executive branch, members of Congress and their staff, and numerous commissions, as well as with private organizations. Mr. Goss is a member of the Society of Actuaries, the American Academy of Actuaries, the National Academy of Social Insurance, the Social Insurance Committee of the American Academy of Actuaries, and the Social Security Retirement and Disability Income Committee of the Society of Actuaries.

**B. Statement or Remarks**

**September 18, 2006**

Statement by Stephen C. Goss, Chief Actuary, Social Security Administration  
To The Federal Accounting Standards Advisory Board on September 27, 2006

Comments on the Exposure Draft:  
Definition and Recognition of Elements of Accrual-Basis Financial Statements

Chairman Mosso and members of the Board, I appreciate the opportunity to comment on the June 7, 2006 Exposure Draft titled *Definition and Recognition of Elements of Accrual-Basis Financial Statements*.

I completely agree that presenting the basic definitions of certain elements of accrual accounting in a single concept statement is a good idea. Such a document has the potential to be a valuable resource to both the preparers and users of financial statements and can make such statements more consistent, understandable, and transparent. However in general, I agree with the positions taken by the alternative view in determining the best course of action for developing this statement. I also suggest that the financial reporting community would be better served if the Board retains the definitions of assets and liabilities that have been established in previous standards. These definitions provide clear guidance and are both relevant and appropriate to our office's work in providing input to the Social Security Administration's financial statement and the government-wide financial statements.

The proposed new liability definition, which contradicts the definition in SFFAS 5, would cause confusion for both producers and users of the statements. And of course such broad change would make comparisons to prior year's financial statements difficult. Of primary concern, are the removal of the probability threshold from the definitions and the directive to ignore the basic power of Congress to change the law. These changes would result in asset and liability definitions so broad that they could lead to unnecessary and excessive expansion of recognized items on the balance sheet and result in a significant reduction in the readability, relevance, and reliability of the financial statements.

My earlier written response to this exposure draft addressed all the questions posed by the Board. In the brief time before you today, I would like to emphasize just a few critical points.

The two fundamental elements of the balance sheet are, of course, assets and liabilities. The executive summary of the exposure draft presents eloquently and succinctly the essence of these elements. It states that "An asset is a resource that embodies economic benefits or services that the federal government can control." Key here is the feature of control, which means not only that the government can control the asset but, just as important, that other entities do not have control over the resource. Without this exclusive control, there could be no assurance that the government will in fact reap the benefits of this resource. This control is fundamental and is also quite separate from the uncertainty that may apply to the potential value of the resource at a later

date. Uncertainty over the future monetary value of a resource is clear. But the uncertainty introduced when the entity does not have exclusive control over the resource and thus, based on the controlling influence of others, may lose access to the resource in the future, is a completely separate and far more fundamental matter. For this reason, it is appropriate that the definition of the asset should place such emphasis on control.

The executive summary goes to state “A liability is a present obligation of the federal government to provide assets or services to another entity at a determinable date, when a specified event occurs, or on demand.” In the case of a Treasury bond that the government has issued to the public, the asset to be provided, the date, and the event that must occur are clear. But, as with a federal asset, “control” is also a fundamental feature of a federal liability. At the time that the present obligation is said to exist, the federal government must no longer have “control” over the assets or services to be provided. If the federal government does retain control, then the other entity cannot have control over the asset or access to it. In this case, neither an asset for the other entity nor a liability for the federal government can be said to exist.

This leads specifically to the point about the ability of the federal government to control what might otherwise appear to be assets for other entities. If through law, or other administrative means, the federal government can unilaterally alter or eliminate the obligation to the other entity, then it cannot exist as an asset for that entity, or as a liability for the federal government. The definition of a federal liability should clearly reflect this fundamental principle of control, as does the current definition. I agree with the alternative view of the Board that the current definition is superior.

Given the general nature of the applicability intended for the proposed definitions for all Federal government financial reporting it may be premature to focus singularly on social insurance. But it is difficult to avoid that focus given the size of the obligations that potentially could be recognized in comparison with liabilities recognized for the rest of the Federal government. Specifically, the nature of social insurance obligations is such that the FASAB has long recognized that only benefits that are both due and payable represent liabilities of the Federal government. This recognition is entirely consistent with the nature of the financing of and the obligation to provide the scheduled benefits and renders the financial statement an entirely relevant and appropriate indicator of the government’s current financial position. Any loosening or expansion of the definitions that would expand what might be recognized as a liability under these social insurance programs would ill serve the public, the news media, legislators, program managers, and other users of this information. Emphasis on such expanded concepts would misinform and lead to inappropriate conclusions about the financial status and sustainability of these programs. Specifically, a program that had been well conceived and has maintained an ability to meet obligations on a pay-as-you-go basis could none the less end up with a substantial unfunded obligation under an expanded definition of liability. In this case an entirely inappropriate message would be conveyed to users of the statement.

Because measures of estimated future cost and income over the next 75 years are included in the financial statements for Social Security and Medicare, it is reasonable to consider how these estimates should be considered and reflected in these financial statements. Due to the several types of uncertainty that pervasively apply to these “scheduled future benefits” and “scheduled

**Steve Goss, Chief Actuary, Social Security Administration**

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future tax income”, it would be entirely inappropriate to refer to these potential future events as representing assets or liabilities. These estimates do provide useful information to help in understanding the potential future financial outlook of the programs. But these estimates have no place on the balance sheets. Moreover, presentation of these amounts for such a long period as 75 years makes for a potentially misleading representation. It is critical that the public understand that if there is a projected shortfall in scheduled revenue to meet scheduled cost over a long period, that this shortfall will need to be met effectively in the years of the shortfall. Providing a summary of the shortfall for a long period only in a summarized present-value dollar form is not consistent with the mechanisms available to rectify the shortfall, either reductions in benefits or increases in income. Whenever summary measures for a 75-year period are provided, it is advisable to provide these as percentages of the tax base from which the additional revenue would need to be drawn, over the same 75-year period. For this reason, the Trustees of Social Security and Medicare present estimated unfunded obligations of these programs as percentages of Gross Domestic product and effective taxable payroll, where appropriate, in addition to present value dollar amounts. Including these additional measures would enhance the presentation of these summary data in the financial statements.

Thank you in advance for taking my comments into consideration, I truly appreciate the work the Board has done over the past 15 years in providing standards and guidance in preparing financial statements that faithfully represent the government’s financial position. I hope to continue working with the Board on the further development of this concept statement and other projects that will add value to federal financial reporting.

Sincerely,  
Stephen C. Goss, ASA, MAAA  
Chief Actuary  
Social Security Administration  
6401 Security Blvd  
700 Altmeyer  
Baltimore MD, 21235.

**C. Steve Goss, Chief Actuary, Social Security Administration Comment Letter  
Previously Submitted**



**SOCIAL SECURITY**

Office of the Chief Actuary

August 15, 2006

Wendy M. Comes, Executive Director  
Federal Accounting Standards Advisory Board  
Mailstop 6K17V  
441 G Street, NW, Suite 6814  
Washington, DC 20548

Dear Ms. Comes:

I appreciate the opportunity to comment on the June 7, 2006 Federal Advisory Accounting Standards Board's Exposure Draft, Definition and Recognition of Elements of Accrual-Basis Financial Statements.

I support presenting the basic definitions of certain elements of accrual accounting in a single concept statement. Such a document has the potential to be a valuable resource to both the preparers and users of financial statements and can make such statements more consistent, understandable, and transparent. However in general, I agree with the positions taken by the alternative view in determining the best course of action for developing this statement. I also suggest that the financial reporting community would be better served if the Board retains the definitions of assets and liabilities that have been established in previous standards. These definitions provide clear guidance and are both relevant and appropriate to our office's work in providing input to the Social Security Administration's financial statement and the government-wide financial statements.

The proposed new liability definition, which contradicts the definition in SFFAS 5, would cause confusion for both producers and users of the statements. And of course such broad change would make comparisons to prior year's financial statements difficult. Of primary concern, are the removal of the probability threshold from the definitions and the directive to ignore the basic power of Congress to change the law. These changes would result in asset and liability definitions so broad that they could lead to unnecessary and excessive expansion of recognized items on the balance sheet and result in a significant reduction in the readability, relevance, and reliability of the financial statements. The enclosure contains responses to the questions listed in the exposure draft.

Given the general nature of the applicability intended for the proposed definitions for all federal government financial reporting, it may be premature to focus singularly on social insurance. But it is difficult to avoid that focus given the size of the obligations that potentially could be recognized in comparison with liabilities recognized for the rest of the federal government. Specifically, the nature of social insurance obligations is such that the FASAB has long recognized that only benefits that are both due and payable represent liabilities of the federal

**Steve Goss, Chief Actuary, Social Security Administration**

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government. This recognition is entirely consistent with the nature of the financing of and the obligation to provide the scheduled benefits and renders the financial statement an entirely relevant and appropriate indicator of the government's current financial position. Any loosening or expansion of the definitions that would expand what might be recognized as a liability under these social insurance programs would ill serve the public, the news media, legislators, program managers, and other users of this information. Emphasis on such expanded concepts would misinform and lead to inappropriate conclusions about the financial status and sustainability of these programs. Specifically, a program that had been well conceived and maintained an ability to meet obligations on a pay-as-you-go basis could none the less end up with a substantial unfunded obligation under an expanded definition of liability. In this case an entirely inappropriate message would be conveyed to users of the statement.

Thank you in advance for taking my comments into consideration, I truly appreciate the work the Board has done over the past 15 years in providing standards and guidance in preparing financial statements that faithfully represent the government's financial position. I hope to continue working with the Board on the further development of this concept statement and other projects that will add value to federal financial reporting.

Sincerely,



Stephen C. Goss, ASA, MAAA  
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6401 Security Blvd.  
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Baltimore MD, 21235

Enclosure

cc:

Jo Anne B. Barnhart  
Linda Combs  
Don Hammond  
David Walker  
Donald Marron  
Dale Sopper



**Responses to Questions listed in the FASAB Exposure Draft  
*Definition and Recognition and Measurement of Elements of Accrual Basis  
Financial Statements*  
From Chief Actuary, Social Security Administration August 15, 2006**

**Question 1(a):**

Should the definitions of assets and liabilities derive from their fundamental or essential characteristics? Please provide the reasons for your position and any alternative approach(s) you would take to define assets and liabilities.

Answer: Yes, definitions of assets and liabilities derive from their fundamental or essential characteristics. This seems clear in general. But this simply means that care must be taken in determining the characteristics, and in recognizing that what is essential and fundamental in one context may not be fundamental and essential in all contexts.

**Question 1(b):**

Should the definitions of net position, revenues, and expenses derive from the definitions of assets and liabilities? Please provide the reasons for your position and any alternative approach(s) you would take to define net position, revenues, and expenses?

Answer: Yes, definitions of net position, revenues, and expenses should generally derive from the definitions of assets and liabilities. This again means that care must be taken in determining the characteristics, and in recognizing that interrelationships among these elements may vary to a degree depending on the nature of the program, its obligations for expenditures, and its basis for financing.

**Question 1(c):**

If an item meets the definition of an asset is it an asset even if it is not recognized in the body of a financial statement because, for example, it is not measurable or its amount is not material? Please provide the reasons for your position.

Answer: Yes, an item that meets the definition of an asset is an asset even if it is assessed to be too small to be material. However, if a potential *asset* is not measurable in the sense that it cannot be quantified in monetary terms, it is questionable whether it should be considered an asset in a financial sense. Should such non-quantifiable assets be included in financial statements then the fundamental difference between them and quantifiable financial assets should be described. This is precisely an example of the necessity for some flexibility in assigning fundamental and essential characteristics of assets and liabilities.

**Question 2(a):**

Are there additional elements of accrual-basis financial statements that should be defined in the Concepts Statement? If so, what are they and what are their essential characteristics? Alternatively, what are they and how would you define them?

Answer: I agree with the FASAB alternative view that additional elements, beyond the five identified within the proposed concept statement, need to be explored. The proposed statement defines elements traditionally associated with financial accounting for the private sector and develops analogous definitions for those elements within the context of the federal government. This approach leaves a possibly incomplete listing of elements and thus may not reflect the true nature of the federal government's financial position or activities. Some potential obligations, for example, may not meet the characteristics of a liability for any number of reasons, but might none the less be of sufficient significance to be mentioned, but not as a liability. For such cases an additional element might be defined. Such an element would not represent a liability, and should at most be recognized as supplementary information provided within the overall financial statement.

SFFAC 1 correctly notes that "The federal government is unique in that it has continuing responsibility for the nation's common defense and general welfare". Carrying out these unique responsibilities causes the government to have unique resources and scheduled financial outlays that have no private counterpart. The elements used in the federal financial statements could incorporate items such as the government's intangible resources and scheduled social insurance benefits using definitions that represent their true substance rather than forcing them into the more limited definitions of assets and liabilities presented in the proposed statement for inclusion on the balance sheet.

The Board has recognized the government's unique status previously by developing new financial statements and exploring additional avenues to present the federal government's financial position. For example, the Board recently made the Statement of Social Insurance (SOSI) a basic financial statement with the same level of importance and held to the same auditing standard as the income statement and balance sheet. No such financial statement is used in the private sector as these government programs are very different in nature from any corporate endeavor and thus the accounting treatment is rightfully different.

**Question 2(b):**

Do you agree or disagree that there are additional elements that need to be defined? If you agree, what are the essential characteristics of these elements? Please provide examples of the types of transactions that align with these additional elements.

Answer: The scheduled Social Security revenue and benefits presented in the SOSI are very different from the basic elements that have been developed in the proposed statement. Paragraph 2 states that the five elements will comprise the building blocks of financial statements. This seems to contradict the fact that the information presented in the SOSI, which

beginning this year is a basic component of the financial statement, is not necessarily comprised of these five elements.

In addition, I am aware that the Board is planning on developing a taskforce to determine the definition, measurement, and display of federal financial sustainability. Since it is likely that these scheduled outlays and revenues will play a vital role in the sustainability project, perhaps the taskforce should also be directed to identify their essential characteristics. Rather than delaying the issuance of this standard, we suggest simply adding wording indicating that this list is not exhaustive and that other elements exist and providing scheduled social insurance benefits as an example of something that does not fall into one of these categories.

**Question 3(a):**

Do you agree with the position taken in (1) the proposed Concepts Statement or (2) the Alternative View concerning the potential effect of the government's ability to change laws on the recognition of a liability? Please explain the reasons for your position.

Answer: I agree with the alternative view that the government's power to modify the law at any time and in any way affects the existence of a present obligation. The exposure draft states "the federal government is governed by and operates in a framework of laws". The primary document that provides that framework, the U.S. Constitution, gives Congress the power to change existing law. It is often said that one Congress cannot bind another. To state that present law should be considered but ignore the fact that the law can be changed at will is contradictory.

**Question 4(a):**

Do you agree that these two characteristics are essential characteristics of all federal government assets? If not, please give an example of a resource that you believe is an asset but does not possess one or both of these characteristics.

Answer: I agree that embodying economic benefits or services for the future and the ability to control access are essential characteristics of federal government assets.

**Question 4(b):**

Are there any *additional* characteristics that are *fundamental* or *essential* to all federal government assets?

Answer: No, I do not believe there are additional essential characteristics that apply to all federal government assets.

**Question 5(a):**

Do you agree or disagree that these two characteristics are essential characteristics of all federal government liabilities? Please provide the reasons for your views. If you disagree, please give an

example of an obligation or commitment that you believe is a liability but does not possess one or both of these characteristics.

Answer: I agree that existence of a present obligation to provide assets and an understanding of settlement are essential characteristics of a federal government liability. But I have two concerns. First, these are not the only characteristics common to federal government liabilities (see 5(b)) and second, the definition of present obligation and understanding are critical. Thus, more is needed and these two characteristics need to be drawn appropriately.

As previously stated, we believe that the Board should continue with the definition of a liability, issued in SFFAS 5, as “A liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events.” This definition basically allows for two essential characteristics that cover all federal liabilities: 1) it is a probable future outflow and 2) the outflow is a result of a past transaction or event.

The proposed characteristics make no mention of probability. This could allow for a large expansion of the liabilities to be recognized for improbable events. Then when the outflows do not occur they would be removed, most like to be replaced by additional liabilities for improbable events. This has the potential to result in financial statements that are inconsistent. Paragraph 57 of the proposed statement states that “Uncertainty about economic activities and results is pervasive and often clouds whether a particular item qualifies as an asset or liability as the definitions are applied”. Since probability and uncertainty are so pervasive in applying the definitions, it would be helpful if the definitions themselves explicitly mentioned that probability should be taken into account.

In addition it would be helpful if the Board expands on the types of events or transactions stated in paragraph 41 that can result in a liability. I recommend that the board tie these into the past events and transactions presented in paragraph 19 of SFFAS 5. Those classes include (1) past exchange transactions, (2) government-related events, (3) government-acknowledged events or (4) non exchange transactions that according to current law and applicable policy are unpaid amounts due as of the reporting date. These classifications identify the different classifications of federal activities and how they differ in substance from what is presented in other entities’ financial statements.

**Question 5(b):**

Are there any *additional* characteristics that are *fundamental* or *essential* to all federal government liabilities?

Answer: Yes, it seems important to have symmetry between the definitions of liability and asset. In the fundamental concepts outlined for a federal government asset, the second essential characteristic stipulates that the asset must be an economic benefit that cannot be controlled, altered, or diminished at will by another entity. This fundamental characteristic of an asset should also apply to a liability. The additional characteristic of a federal government liability should stipulate that the liability cannot be controlled, altered, or diminished at will by the

federal government. To fail to include this characteristic for a liability would create an inconsistency that should obviously be avoided.

**Question 6(a):**

Do the definitions of assets and liabilities adequately convey the essential characteristics from which they are derived? (See paragraphs 17 and 38.) If not, how would you modify the definitions?

Answer: We agree that the definitions of assets and liabilities should be derived from their essential characteristics. As noted in 5(b) above, however, a fundamental characteristic of a federal government liability is missing, that the federal government not have the ability to alter the liability at will. This characteristic is related to discussion of the laws governing Federal financial transactions.

As presented in the exposure draft, the definition of a liability seems to be derived not just from the essential characteristics, but also by the legal framework section in paragraphs 35-37. The legal framework states “a federal liability must have its foundation in law”, thereby creating an additional characteristic that all liabilities share.

Also in paragraphs 35-37, characteristics are given that some liabilities may have but that others do not. For example, legal enforceability, contractual arrangements, and liabilities directly flowing from law are discussed prior to defining a liability or its essential characteristics. This could be confusing and takes away from the Board’s goal of deriving the definition solely from the element’s essential characteristics.

In addition, no such legal framework was identified in the asset section and its placement in the liability section is unnecessary as all of the government’s actions and resulting liabilities and assets have their foundation in law. In order to eliminate any potential confusion and keeping with Board’s desire that the definitions be derived solely from the essential characteristics, I suggest that the Board remove paragraphs 35-37 and leave these issues to be addressed in individual standards.

**Question 6(b):**

Do the definitions of net position, revenues, and expenses adequately convey their relationship to assets and liabilities? (See paragraphs 50, 52, and 53.) If not, how would you modify the definitions?

Answer: With the caveat noted above about the definition of federal government liabilities, the definitions of net position, revenues, and expenses seem to adequately convey the relationships to assets and liabilities.

**Question 7(a):**

Are there *other* criteria that should be established as conditions for recognition? If so, what recognition criteria would you add or delete?

Answer: No, meeting the definition of an element and being measurable seem adequate. However, the definitions should include consideration of probability and, in the case of liabilities, ability to alter the liability, as noted above.

**Question 8(a)**

Do you agree with the position taken in (1) the proposed Concepts Statement or (2) the Alternative View concerning the need for an explicit requirement for an assessment of probability and a related probability threshold when determining whether an item meets the definition of an element? Please explain the reasons for your position.

Answer: I agree with the alternative view and the view the Board presented in SFFAS 5 and feel that probability should be explicitly taken into account both in applying the elemental definitions and measurement. Again, removal of the probability thresholds could result in improbable and therefore immaterial and irrelevant items being recorded on the balance sheet. Recording improbable events on the balance sheet could compromise the relevance of the financial statements, as users expect the statements to accurately capture the true substance of the federal governments' past transactions and events.

**Question 9(a):**

Do you agree with the position taken in (1) the proposed Concepts Statement or (2) the Alternative View concerning the need for an explicit requirement for an assessment of probability and a probability threshold when determining whether an item is measurable? Please explain the reasons for your position.

Answer: I concur entirely with the alternative view. Assessment of the probability of an event is essential in determining whether it meets the threshold of materiality and is meaningfully measurable. Omitting the consideration of probability would lead to the inclusion of confusing and irrelevant items that would obscure the true net position of the entity.

**Question 10(a):**

Do you agree with the position taken in (1) the proposed Concepts Statement or (2) the Alternative View concerning the need for a consideration of the qualitative characteristics of financial statements as part of determining whether an item meets the recognition criteria? Please explain the reasons for your position.

Answer: I agree with the alternative view that the statement should explicitly acknowledge that all of the qualitative characteristics of financial reporting, specified in SFFAC 1, be taken into account

While I suggested in my response to question 6 that the legal framework section be removed, there is one comment in paragraph 36, “some liabilities are construed from the totality of the conditions and factors for a particular situation”, that I think is very important. This statement should be expanded to conclude that all liabilities and assets are determined by the totality of their respective facts and circumstances. Specifically referencing the qualitative characteristics of SFFAC 1 seems to be the easiest way to do this and would maintain consistency between the concept statements.

**A. Biography**

**Joseph D. Cummings, CPA**

Mr. Cummings has over 16 years of experience as an auditor and senior manager with the U.S. Departments of Agriculture (USDA) and Labor (DOL) Offices of Inspector General (OIG). For the last nine years, Mr. Cummings has either performed or monitored the performance of Federal financial statements audits. He currently serves as an Assistant Director in DOL OIG's Office of Accountability Audits and has responsibility to monitor contractor completion of DOL's annual Consolidated Financial Statement audit. From 2001-2005, Mr. Cummings served as an audit program manager with the USDA OIG and in that capacity provided comments on new or proposed changes to existing Federal accounting standards. He has also served as a Senior Auditor with USDA-OIG with management responsibility over the annual Forest Service Financial Statement audit. This experience allowed Mr. Cummings to gain significant experience on how Federal entities should account for Property, Plant and Equipment. Mr. Cummings is a Certified Public Accountant (Georgia) and holds a B.S. B. Ad. (Accounting) from West Virginia University.



## **B. Statement or Remarks**

### ***Mr. Chairman and members of the Board:***

DOL-OIG thanks you for allowing me to speak at today's public hearing. DOL has a long history as a leader in Federal financial management. For the last nine years, DOL has received unqualified audit opinions on its annual financial statements. Since 1997, DOL OIG has also reported no material weaknesses over its internal controls related to financial reporting. DOL is the first and only executive agency to receive all green scores on the President's Management Agenda scorecard.

DOL-OIG agrees with the basic premise of the revisions to the concept statements. We do; however, have some concerns on how FASAB plans to relate the concepts statement to the revisions of current and the establishment of new Federal accounting standards. Revisions proposed by the concepts statement could affect how Federal agencies recognize some items in their financial statements. Federal agencies own and maintain a number of items where they are not required by Federal Accounting Standards to report a value on the balance sheet. These items meet the definition and recognition criteria provided for the revised Concepts statements. In our opinion, if the items described above meet the established criteria, Federal agencies should recognize them. For example, SFFAS No 29 requires Federal agencies reference a note on the balance sheet that discloses information about heritage assets and stewardship land, but recognize no dollar value. In many cases, especially for stewardship land, the Congress specifically authorized the purchase through legislation. The purchase price that Congress authorized could be recognized based on the current definitions proposed in the draft concepts statement. We also believe that FASAB should use the Concept's statement to address inconsistencies within the SFFAS. For example, the DOL is required to recognize an actuarial liability for the FECA program. Under SFFAS No 17, DOL is only required to recognize the current year liability for the Black Lung Program. This treatment is inconsistent since the population is known for both programs and an actuarial estimate can easily be made.

In addition, DOL-OIG has concerns the Concepts Statements only addresses the proprietary side of accrual-based financial statements and does not mention budgetary resources that make up Federal financial statements. We believe the Concepts Statements should address budgetary accounts since they must be reported in Federal Financial Statements. The Concept statement could define major sections of the Statement of Budgetary Resources or alternatively; refer OMB Circular A-11 for these definitions.

DOL-OIG also strongly disagrees FASAB should include additional elements for unique transactions and events. While there are a number of unique transactions and events in the Federal Government, these unusual transactions and events will meet the criteria for one of the defined elements. They may need to be specifically identified or

disclosed in the financial statements, but those differences in presentation are covered by the Standards and should not be dealt with in this Concepts Statement. While these unique transactions and events may be reported separately, they still should be recognized in the financial statements in accordance with one of the defined elements contained in this Concepts Statement.

We disagree with the need in the concepts statement for explicit measurement requirements related to whether an item meets the definition of an element, is measurable, and meets the recognition criteria. An explicit requirement could reduce the use of management judgment of whether they believe an item should or should not be recognized in the financial statements. Management should have the option of taking into account the qualitative characteristics of each line item. Line items not quantitatively material might have qualitative aspects that require management report them in the financial statements. We also want to reiterate that the concepts statement relate to the financial statements taken as a whole. We do not believe the concepts statement should relate to whether Federal agencies should or should not recognize individual components in their financial statements. The recognition of individual components is better left to the Federal Accounting standards.

### C. Department of Labor OIG Comment Letter Previously Submitted

August 8, 2006

Dear Ms. Comes:

Attached are DOL OIG comments on the subject Exposure Draft. We appreciate the opportunity to provide comments. If you have any questions regarding our comments, I can be reached at 202-693-5164.

Mike McFadden  
Director, Office of Accountability Audits

1. Two principles underlie the FASAB's approach to defining and recognizing elements of accrual-basis financial statements of the Federal Government.

The first principle is that the definitions of assets and liabilities should derive from identifying the *fundamental or essential characteristics* that all assets and liabilities, respectively, share. The definitions of net position, revenues, and expenses should derive from the definitions of assets and liabilities. (See paragraphs 3, 19, 21, 40, and 49.)

- a) Should the definitions of assets and liabilities derive from their fundamental or essential characteristics? Please provide the reasons for your position and any alternative approach(s) you would take to define assets and liabilities.

**DOL OIG Response:** We believe assets and liabilities should be defined by their fundamental or essential characteristics. The Statements on Federal Financial Accounting Standards (SFFAS) use fundamental and widely known accounting theory to define assets and liabilities. The SFFAS also provide specific requirements when Federal entities should recognize and report an asset or liability. We believe this Concept's definition of assets and liabilities would be consistent with the Standards.

- b) Should the definitions of net position, revenues, and expenses derive from the definitions of assets and liabilities? Please provide the reasons for your position and any alternative approach(s) you would take to define net position, revenues, and expenses?

**DOL-OIG response:** We believe the Concepts Statement should derive the definitions of net position, revenue and expense from assets and liabilities.

The second principle is that definition and recognition are separate concepts. An item that meets the definition of an asset is an asset but to be recognized the asset also must meet the recognition criteria. Thus, meeting the definition of an element is a necessary but not a sufficient condition for an item to be recognized in financial statements. An asset that is not recognized in the body of a financial statement would be a candidate for disclosure in the notes. (See paragraphs 4–6, 8, and 9.)

- c) If an item meets the definition of an asset is it an asset even if it is not recognized in the body of a financial statement because, for example, it is not measurable or its amount is not material? Please provide the reasons for your position.

**DOL-OIG Response:** We agree that an item that meets the definition of an asset is an asset even if it is not recognized with a value in the financial statements. We agree with the Concepts Statement recognition criteria, that an asset must be measurable to be recognized and that immaterial items need not be recognized as assets in the financial statements. Federal agencies own and maintain a number of items where they are not required by Federal Accounting Standards to report a value on the balance sheet. We believe that if items meet the definition and recognition criteria in this Concepts Statement, they should be recognized. This may require changes to Federal Accounting Standards to ensure they are aligned with this Concepts Statement.

2. The proposed Concepts Statement defines five elements of accrual-basis financial statements: *assets, liabilities, net position, revenues* and *expenses*. (See paragraphs 2, 3, 35-37, and 56.)

- a) Are there additional elements of accrual-basis financial statements that should be defined in the Concepts Statement? If so, what are they and what are their essential characteristics? Alternatively, what are they and how would you define them?

**DOL-OIG Response:** The Concepts Statement addresses only the proprietary side of the accrual-based financial statements and excludes the budgetary resources that make up Federal financial statements. We believe that the statement should also make reference to budgetary accounts since budgetary reporting is required in Federal Financial Statements. For example, the Concepts Statement could define the major sections of the Statement of Budgetary Resources (Budgetary Resources, Status of Budgetary Resources, and Relationship of Obligations to Outlays) and the Statement of Financing. Alternatively, the Concepts Statement could refer to OMB Circular A-11, Part 4 for these definitions.

Some constituents believe that because of the unique nature of the Federal Government additional elements are needed for certain transactions and other events. For example, certain intangible resources, long-term social obligations, and other commitments are viewed by these constituents as requiring a different element or elements than those identified in this proposed Concepts Statement.

- b) Do you agree or disagree that there are additional elements that need to be defined? If you agree, what are the essential characteristics of these elements? Please provide examples of the types of transactions that align with these additional elements.

**DOL-OIG Response:** We strongly disagree that FASAB should include additional elements for certain unique transactions and events. While there are a number of unique transactions and events in the Federal Government, these unusual transactions and events will meet the criteria for one of the defined elements. They may need to be specifically identified or disclosed in the financial statements, but those differences in presentation are covered by the Standards

and should not be dealt with in this Concepts Statement. While these unique transactions and events may be reported separately, they still should be recognized in the financial statements in accordance with one of the defined elements contained in this Concepts Statement.

3. The proposed Concepts Statement addresses the government's ability to change laws in the future as stated in paragraph 44 as follows:

To meet the definition of a liability, the Federal Government's contract or other agreement to provide assets or services to another entity must be based on *existing* conditions, including current law, because an essential characteristic of a liability is that the government has a *present* obligation, even if conditions may change before settlement is due. For example, the Congress may change a law under which the Federal Government has incurred a present obligation and erase the obligation or otherwise enable the government to avoid settlement. Alternatively, the Government may be able in the future to renegotiate the obligation with the payee or recipient of the promised services. However, liabilities and all other elements of accrual-basis financial statements are based on transactions or events that already have occurred. The government's power to change existing conditions does not preclude what otherwise would be a present obligation and recognized as a liability.

Members with an alternative view believe that the government's power to modify the law to change or withdraw future benefits related to nonexchange transactions could affect the existence of a present obligation. Consequently, these Board members believe that the government's ability to change the law may provide additional evidence about whether a present obligation exists and, in some instances, may preclude recognition of a liability. Therefore, they disagree with paragraph 44.

- a) Do you agree with the position taken in (1) the proposed Concepts Statement or (2) the Alternative View concerning the potential effect of the government's ability to change laws on the recognition of a liability? Please explain the reasons for your position.

**DOL-OIG Response:** We strongly agree with the position taken in the proposed Concepts Statement concerning the potential effect of the government's ability to change laws on the recognition of a liability. If and until the Government changes the law, the financial statements should reflect the current state of affairs. OMB Circular A-136 specifically requires Federal agencies to disclose the Government's ability to change laws on the recognition of a liability within the summary of significant policies of the financial statement footnotes. This footnote clearly discloses the Government's ability to change law and we believe no additional discussion is needed in the Concepts Statement.

4. The proposed Concepts Statement identifies two, and only two, characteristics that are *fundamental* or *essential* to *all* Federal Government assets: (a) An asset embodies economic benefits or services that can be used in the future and (b) the government can control access to the economic benefits or services and therefore, can obtain them and deny or regulate the access of other entities. (See paragraphs 19 and 21–34.)

- a) Do you agree that these two characteristics are essential characteristics of all Federal Government assets? If not, please give an example of a resource that you believe is an asset but does not possess one or both of these characteristics.

**DOL-OIG Response:** We agree that the two characteristics are essential for all Federal Government assets.

- b) Are there any *additional* characteristics that are *fundamental* or *essential* to all Federal Government assets?

**DOL-OIG Response:** We did not identify any additional characteristics that are fundamental and essential to all Federal Government assets.

5. The proposed Concepts Statement identifies two, and only two, characteristics that are *fundamental* or *essential* to all Federal Government liabilities: (a) A liability is a present obligation to provide assets or services to another entity and (b) the Federal Government and the other entity have an agreement or understanding as to when settlement of the obligation is to occur. (See paragraphs 37 and 40–48.)

- a) Do you agree or disagree that these two characteristics are essential characteristics of all Federal Government liabilities? Please provide the reasons for your views. If you disagree, please give an example of an obligation or commitment that you believe is a liability but does not possess one or both of these characteristics.

**DOL-OIG Response:** We agree that the two characteristics are essential for all Federal Government liabilities.

- b) Are there any *additional* characteristics that are *fundamental* or *essential* to all Federal Government liabilities?

**DOL-OIG Response:** We cannot identify any additional characteristics that are fundamental and essential to all Federal Government liabilities. We believe, however, that FASAB should use the Concept's statement to address inconsistencies within the SFFAS. For example, the DOL is required to recognize an actuarial liability for the FECA program. Under SFFAS No 17, DOL is only required to recognize the current year liability for the Black Lung Program. This treatment is inconsistent since the population is known for both programs and an actuarial estimate can easily be made.

6. As indicated in Question 1a), the first principle of the Board's approach to defining elements is that the definitions of assets and liabilities should derive from their essential characteristics, and the definitions of net position, revenues, and expenses should derive from the definitions of assets and liabilities.

- a) Do the definitions of assets and liabilities adequately convey the essential characteristics from which they are derived? (See paragraphs 17 and 38.) If not, how would you modify the definitions?

**DOL-OIG Response:** We believe the Concepts Statement does adequately define and convey the essential characteristics of assets and liabilities.

- b) Do the definitions of net position, revenues, and expenses adequately convey their relationship to assets and liabilities? (See paragraphs 50, 52, and 53.) If not, how would you modify the definitions

**DOL-OIG Response:** We believe that the Concepts Statement conveys the relationship of net position, revenues and expenses to the associated assets and liabilities.

7. The proposed Concepts Statement establishes two conditions (“recognition criteria”) that should be met for an item to be recognized in the body of a financial statement: (1) The item must meet the definition of an element and (2) the item must be measurable. (See paragraphs 4 and 5.)

- a) Are there *other* criteria that should be established as conditions for recognition? If so, what recognition criteria would you add or delete?

**DOL-OIG Response:** We did not identify any other criteria the FASAB should establish as a condition for recognition.

8. The proposed Concepts Statement neither explicitly requires nor precludes an assessment of probability when deciding whether an item meets the definition of an element, nor does the Statement establish an explicit threshold of probability at the definition stage. Rather, the Statement indicates that conclusions about the *existence* of an element require judgment as to whether, based on the available evidence, an item possesses the essential characteristics of an element. The Statement indicates that when an element is considered for *recognition*, measurement of the element may require an assessment of the probability of future inflows or outflows of resources to or from the element to enhance the reliability of amounts recognized in the financial statements. In addition, the Statement explicitly acknowledges that assessments of the materiality and benefit versus cost of recognizing the results of the measurement of elements may constrain recognition. Members believe that this framework permits future standard setters to adequately address uncertainty with respect to recognition decisions in establishing future standards. (See paragraphs 7, 8, 18, and 39.)

Members with an Alternative View believe that, in deciding whether an item meets the definition of an element and considering related uncertainties, there is implicitly an assessment of the probability of whether an item meets the definition of an element and that, because there is a decision to be made, that there is implicitly a probability threshold where an item would not meet the definition of an element. These members believe that the proposed Concepts Statement should explicitly state that (1) the probability that an item meets the definition of an element should be assessed as part of determining whether an item meets the definition of an element (“existence probability”), and (2) there exists a threshold where such probability is so low that an item would not meet the definition of an element. Thresholds to be applied would, as appropriate, be established in specific standards. In the view of these members, the lack of an explicit acknowledgement of the need for an existence probability assessment and a probability threshold at the definition stage would be likely to result in many more items being recognized in the financial statements, including items with a low probability of being assets or liabilities

- b) Do you agree with the position taken in (1) the proposed Concepts Statement or (2) the Alternative View concerning the need for an explicit requirement for an assessment of probability and a related probability threshold when determining whether an item meets the definition of an element? Please explain the reasons for your position.

**DOL-OIG Response:** We disagree with the Alternative View concerning the need for an explicit requirement. An explicit requirement to assess the probability and the related probability threshold could have the effect of reducing the use of management judgment of whether they believe items should or should not be recognized as part of these elements.

9. The proposed Concepts Statement defines “measurable” as “means quantifiable in monetary units.” (par. 5) The proposed Concepts Statement does not explicitly discuss an assessment of probability when deciding whether, based on the available evidence, an item is measurable or that there is a point or threshold at which an item is not measurable. The Statement does discuss the consideration of uncertainty, cost-benefit and materiality and how these factors influence standard setting. (See paragraphs 57-61)

Members with an Alternative View believe that, in deciding whether an item is measurable and considering related uncertainties, there is implicitly an assessment of the probability of whether an item is measurable and that, because there is a decision to be made, that there is implicitly a probability threshold where an item would not be measurable. These members believe that the proposed Concepts Statement should explicitly state that (1) the probability that an item is measurable should be assessed as part of determining whether an item is measurable (“measurability probability”), and (2) there exists a threshold where such probability is so low that an item would not be measurable. Thresholds to be applied would, as appropriate, be established in specific standards. In the view of these members, the lack of an explicit acknowledgement of the need for a measurability probability assessment and a probability threshold would be likely to result in many more items being recognized in the financial statements, including items with a low probability of being assets or liabilities.

- a) Do you agree with the position taken in (1) the proposed Concepts Statement or (2) the Alternative View concerning the need for an explicit requirement for an assessment of probability and a probability threshold when determining whether an item is measurable? Please explain the reasons for your position.

**DOL-OIG Response:** We disagree the Concepts Statement should explicitly state the probability that an item is measurable and where the threshold exists for that item to be measurable. An explicit requirement would only take into consideration the quantitative characteristics for each measurable item. Management should also take into account the qualitative characteristics of each reported line item as well. Line items not quantitatively material could have qualitative aspects requiring that they be reported in the financial statements.

10. SFFAC 1, *Objectives of Federal Financial Reporting*, par. 156, states that “Financial reporting is the means of communicating with those who use financial information. For this communication to be effective, information in financial reports must have these basic characteristics: understandability, reliability, relevance, timeliness, consistency, and



comparability.” These six characteristics are defined in SFFAC 1 and are not altered by this Statement. Members supporting the proposed Concepts Statement do not believe that repeating the qualitative characteristics in this Statement would be useful and doing so could cause confusion regarding the status and application of the characteristics. These members believe that if the application of the characteristics requires explanation, the explanation should be approached in a comprehensive manner.

The members expressing an alternative view point out that the proposed Concepts Statement does not include a consideration of the qualitative characteristics of financial statements as part of determining whether an item meets the recognition criteria. Members with an alternative view believe that the ED should require a consideration of all of the qualitative characteristics of financial reporting in determining whether an item meets the recognition criteria; i.e., meets the definition and is measurable. In the view of these members, the lack of a consideration of the qualitative characteristics in determining whether an item meets the recognition criteria will likely result in the recognition of items that do not meet the qualitative characteristics (e.g., not relevant or reliable.)

- a) Do you agree with the position taken in (1) the proposed Concepts Statement or (2) the Alternative View concerning the need for a consideration of the qualitative characteristics of financial statements as part of determining whether an item meets the recognition criteria? Please explain the reasons for your position.

**DOL-OIG Response:** We disagree with the Alternative View that qualitative characteristics should be considered in determining whether management should recognize an item in the financial statements. The characteristics in SFFAC 1 relate to the statements taken as a whole. We don’t believe these necessarily relate to whether or not individual components are recognized in the financial statements.

**A. Biography**

**Daniel L. Fletcher, CPA**

Mr. Fletcher is the Director for the Office of Financial Management ( Deputy Chief Financial Officer) with the Department of the Interior, which he joined in April of 2004. He represents the Department of Interior across a broad range of financial matters including financial reporting, financial systems, and is directing the implementation of revised OMB A-123 across the department. Prior to joining DOI he was a senior financial manager with the Office of Personnel Management's CFO, where he had experience in managing both financial and performance management operations. He was also with the Office of Inspector General at OPM as a senior audit manager, and previously worked with KPMG. He is a Certified Public Accountant with a BS in Business Administration and is currently pursuing a Masters in Information Technology. He is a member of the American Institute of Certified Public Accountants and the Association of Government Accountants.

**B. Statement or Remarks**

Statement of Daniel L. Fletcher  
Deputy Chief Financial Officer – United States Department of the Interior  
Before the Federal Accounting Standards Advisory Board  
Regarding the Exposure Draft Entitled  
“Definition and Recognition of Accrual Basis Financial Statements”

Thank you for the opportunity to comment on the Proposed Statement on Federal Financial Accounting Concepts, “Definition and Recognition of Accrual Basis Financial Statements.” I am Daniel Fletcher, Deputy Chief Financial Officer.

The Chief Financial Officers Council's, Standardization Committee developed a Federal accounting Standards Advisory Board (FASAB) Response Group to facilitate and address communication with the Federal accounting operations community as a whole. This group looks forward to working with FASAB staff in the future development of concepts and standards related to Federal Government accounting. In addition, we believe improving interaction with this group accomplishes the Board's need to involve stakeholders and keeps those stakeholders better informed about potential impacts.

As a community we have a keen interest in ensuring that practical and useful standards are developed within the FASAB framework. We appreciate the difficulty of developing standards that are applicable to such a broad and diverse business and government environment. We witnessed this challenge first hand in coordinating the comments of the governmentwide CFOs. As such, we were able to develop a standard response for this Exposure Draft and have twenty (20) Agency CFOs sign off and concur with the view expressed in the alternative view portion of the draft with another member in support that responded directly for a total of twenty-one (21). In addition, we encouraged all members to respond and believe three (3) dissenting opinions were forwarded directly and only two (2) members from the council not accounted for. We also forwarded responses to the questions that were attached in which we attempted to present the collective opinions of the council in support and dissent. We concurred with the alternative view of several board members and the CFO community affirms the following concerns with this concept statement:

- Modification of the existing definitions of assets and liabilities in the proposed manner could lead to a significant addition to the numbers of items reported on the financial statements.
- These additional items could lead to inconsistent treatment across entities and jeopardize the quality of information provided to readers.
- The drastic change in definition differs significantly from the approach taken by other standard setting bodies such as FASB.

### Significant Additional Items to be Reported

Definition and recognition criteria are *so broad* that the resulting financial statements would require numerous additional recognitions and threaten the qualitative characteristics of reporting: relevance, reliability, cost vs. benefit and representational faithfulness. *Many new items with a low existence probability could be recognized such as the following:*

- Social Security Liability;
- Medicare/Medicaid Liability;
- Economic Price Subsidies as a Liability (Farm Price Support); and,
- Entitlement Programs.

### Information Quality

Recognition Criteria: (1) the item must meet the definition of an element, and (2) the item must be measurable, meaning quantifiable in monetary units. Recognition criteria for asset and liability will *no longer consider probability* – used only as a measurement tool. The fundamental classification of transactions for government entities as “exchange,” “non-exchange,” “government-related,” and “government-acknowledged” has been considered for possible elimination. The explicit requirement for both an assessment of probability and measurability increases the consistency of implementation of concepts in the standards across organizations.

### Deviation of Approach from other Standard Setters

FASB Statement of Financial Accounting Concepts No. 6

#### Con 6 Highlights

“The Board expects most assets and liabilities in present practice to continue to qualify as assets or liabilities under the definitions in this Statement. **The Board emphasizes that the definitions neither require nor presage upheavals in present practice, although they may in due time lead to some evolutionary changes in practice or at least in the ways certain items are viewed.** They should be especially helpful in understanding the content of financial statements and in analyzing and resolving new financial accounting issues as they arise.”

In closing we propose that the Board take a conservative approach to revising the element definitions. The definitions and concepts contained in current standards should be maintained and improved upon with the collaborative stakeholder approach intended for public comment. This will provide an environment that limits the potential for inappropriate and inconsistent reporting and ensures that meaningful information is provided to the financial report readers.

C. Comment Letter Previously Submitted



United States Department of the Interior

OFFICE OF THE SECRETARY  
Washington, DC 20240



AUG 16 2006

Wendy M. Comes, Executive Director  
Federal Accounting Standards Advisory Board  
Mailstop 6K17V  
441 G Street, NW, Suite 6814  
Washington, DC 20548

RE: FASAB Exposure Draft, *Definition and Recognition and Measurement of Elements of Accrual-Basis Financial Statements*, dated June 7, 2006

Dear Ms. Comes:

Enclosed is the Chief Financial Officers Council – Standardization Committee's FASAB Response Work Group consolidated the responses from the Council members on the subject Exposure Draft.

If you have any individual concerns that need my personal attention do not hesitate to contact me at 202-208-5225.

Sincerely,

Daniel L. Fletcher  
Director  
Office of Financial Management

Enclosure

Question 1(a):

Should the definitions of assets and liabilities derive from their fundamental or essential characteristics? Please provide the reasons for your position and any alternative approach(s) you would take to define assets and liabilities.

Response 1(a):

Yes, the definitions of assets and liabilities should derive from their fundamental or essential characteristics. Ignoring the fundamental nature of assets and liabilities may result in definitions that are arbitrary and subject to interpretation. By defining assets and liabilities according to characteristics, agencies are given more specific guidance to help identify assets and liabilities in order to prepare financial statements in accordance with OMB Circular A-136 "Financial Reporting Requirements." Definition and recognition are not as easily segregated for financial statements of governments and the validity and usefulness to readers must be weighed to avoid burdening the readers with too much information.

Question 1(b):

Should the definitions of net position, revenues, and expenses derive from the definitions of assets and liabilities? Please provide the reasons for your position and any alternative approach(s) you would take to define net position, revenues, and expenses.

Response 1(b):

Yes, the definitions of net position, revenues, and expenses should derive from the definitions of assets and liabilities. The inflows and outflows of an entity are a direct result of the management of the assets and liabilities as they relate to the production of goods or services of the entity.

Net Position: The proposed definition (in short, difference between total assets and total liabilities) is acceptable. Some members believe, however, that the definition should be expanded as stated in our answer to question 6 (b). The expanded information (elaborating on the two primary components of Net Position – Unexpended Appropriations, and Cumulative Results of Operations) is important, common to all or most federal entities, and is currently included in SFFAC No. 2, paragraph 84.

Revenues and expenses result from changes in assets and liabilities and net position is equal to total assets less total liabilities. Therefore, deriving net position, revenues, and expenses from assets and liabilities is logical from an accounting standpoint. Additional clarification is requested for the recognition of imputed costs because under the entity concept (paragraph 12), some members could interpret to mean only the component-level agency will recognize the liability and expense. This deviates substantially from previous FASAB standards that require cost recognition without matching liabilities to achieve full-cost accounting. This issue is also discussed in response 6(b).

Expenses: Some members believe this definition is unclear, and have recommended revised wording in the answer to question 6 c).

Question 1 (c):

If an item meets the definition of an asset is it an asset even if it is not recognized in the body of a financial statement because, for example, it is not measurable or its amount is not material? Please provide the reason for your position.

Response 1(c):

Yes, if an item meets the definition of an asset it should be considered an asset even though it would not be recognized on the financial statements. The proposed Concepts Statement states that "An asset that is not recognized in the body of the financial statements would be a CANDIDATE for disclosure in the notes," but this statement does not question the validity of the element. It is important to other financial and management controls to identify assets regardless of its financial statement treatment.

Currently, agencies are required to reference a note on the balance sheet that discloses information about heritage assets and stewardship land, but no asset dollar amount should be shown. The note disclosure provides minimum reporting requirements, including a description of major categories, physical unit information for the end of the reporting period, physical units added and withdrawn during the year, a description of the methods of acquisition and withdrawal, and condition information. Generally, valuation is difficult if not impossible but presentation and disclosure have been required.

In addition, an item can also be an asset and not disclosed in the financial statement or footnotes, if it can't be measured or is immaterial. Reporting these items would be excessive to preparers of financial statements and would result in less relevant information for readers of the financial statements. For example, property or equipment not meeting minimum capitalization threshold or useful life requirements should be expensed rather than capitalized. Expensing items below the threshold does not change the characteristics of the resource but allows preparers to weigh the cost of tracking the details of those items against the benefits of matching that utility to future periods in a precise manner. Therefore the members agree that definition and recognition are separate concepts that must be clearly defined.

Question 2(a):

Are there additional elements of accrual-basis financial statements that should be defined in the Concepts Statement? If so, what are they and what are their essential characteristics? Alternatively, what are they and how would you define them?

Response 2(a):

Recognizing that FASAB has a project related to social insurance and the applicability of liability definitions, there should be an expectation that additional elements may be contained

there. Perhaps this Concepts Statement should refer to these other projects and possibly recognize the inherent complexities of Federal accounting such as exchange, non-exchange, government-acknowledged and government-related.

Some members believe that, consistent with FASAB standards (SFFAS No. 7 and SFFAS No. 21), there could be two additional elements of accrual-basis financial statements for Federal entities – a) Other Financing Sources (the word other is used in SFFAS No. 7 to distinguish this from revenues); and b) Prior Period Adjustments. Both of these categories are different in important ways from the five proposed elements. The members believe it is of significant benefit to readers of Federal financial statements to continue to treat Other Financing Sources and Prior Period Adjustments as distinct categories. For example, Appropriations Used, and Imputed Financing, is unique and substantially different than traditional revenue reported on a financial statement.

In addition, some members would like consideration to be given to the unique treatment of gains and losses that may be required in a government entity even though they are tied to revenues and expenses in presentation.

Question 2(b):

Do you agree or disagree that there are additional elements that need to be defined? If you agree, what are the essential characteristics of these elements? Please provide examples of the types of transactions that align with these additional elements.

Response 2(b):

Although most items can be categorized as an asset or a liability, the nature of some items do not fit the stringent definitions of either. The nature of social insurance obligations is different than a traditional liability. Future scheduled social insurance payments may not be present obligations of the federal government and they may not be contractual commitments of the federal government. Benefits for individuals do not represent exchange transactions because they are not directly tied to taxes they have paid. Consequently, benefit entitlements are non-exchange transactions. We believe that the FASAB should consider additional elements to provide a basis for further reporting requirements related to commitments and resources that do not meet the definitions of assets and liabilities. Furthermore, we are proposing additions to the definitions of assets and liabilities or their presentation in order to be more inclusive and more informative than when presented on the face of existing financial statements.

Question 3(a):

Do you agree with the position taken in (1) the proposed Concepts Statement or (2) the Alternative View concerning the potential effect of the government's ability to change laws on the recognition of a liability? Please explain the reasons for your position.



Response 3(a):

Due to the fact that the federal government has the right to alter scheduled benefits in any manner at any time, some members support the alternative view that the government's power to change laws affects the existence of a present obligation. However, some members do believe that the presentation of obligations should be based upon information known at the time of preparation and not effected by possible changes in law. All members have not been given the opportunity to judge the possibility of alternative approaches to the presentation of these unusual elements and we hope this project can include those possibilities.

Some members have stated an entity's balance sheet provides a snap shot of its financial position at a specific point in time. In order to provide open and full disclosure and accurately present the financial position of an entity at that given point in time, financial statements must be based on present laws, regulations, and generally accepted accounting principles regardless of whether or not that position may change in the future. Providing this full and open disclosure allows stakeholders to respond in a manner that could improve the future financial position of the entity ( i.e. force change in current laws and regulations that may increase assets or reduce obligations of the Federal government).

Question 4(a):

Do you agree with the proposed Concepts Statement that there are two characteristics that are essential characteristics of all federal government assets? If not, please give an example of a resource that you believe is an asset but does not possess one or both of these characteristics.

Response 4(a):

Yes, we agree that there are two characteristics that are essential characteristics of all federal government assets; (1) it is a resource that embodies economic benefits or services; and (2) the federal government can control it. It is very important that the federal government can control the asset. An agency may have title to an asset but not control it and if that is the case, the asset should not be recognized on the entity's balance sheet. In the ED, proposed concept example under paragraph 30 should be removed as it is confusing. It raises more questions than it answers and does not follow the exception back to the guidance. It may be more appropriate to do an example of the general rule versus the exception.

Some members contend that the two proposed essential characteristics of assets do not fully encompass all types of assets. For example, accounts receivable and loans receivable represent a claim to future resources and benefits. However, there is no time-frame specified in the asset characteristics as there is in the definition of a liability and many assets embody future and not current economic benefits. The discussion of the capitalization of leases is too broad and may result in agencies capitalizing large dollars in operating lease expenses as capital leases. Clarification is needed in accounting for lessor/lessee activity. The language stating that the party who manages and utilizes the asset should record the asset (paragraph 13) is not consistent with current accounting standards. The use of asset control as a determining factor for lease capitalization creates ambiguity and will require further guidance.

Question 4(b):

Are there any additional characteristics that are fundamental or essential to all federal government assets?

Response 4(b):

No, there are no additional characteristics that are fundamental or essential to all federal government assets. Although we do not believe there are fundamental or essential characteristics affecting all assets some receivables clearly encompass a need to recognize a probable future economic benefit such as accounts receivable, notes receivable and capital leases.

Question 5(a):

Do you agree with the proposed Concepts Statement that there are two characteristics that are essential characteristics of all federal government liabilities? Please provide the reasons for your views. If you disagree, please give an example of an obligation or commitment that you believe is a liability but does not possess one or both of these characteristics.

Response 5(a):

We agree with the alternative view that the probability of existence of a liability, as in the case of contingencies, should be a component of the definition of a liability as presented in this Concepts Statement. By ignoring probability of existence, the federal government will have to accrue a contingent liability for which it disputes regardless of the probability of a negative outcome. Further, the language that states that a liability can only exist if two or more entities are involved does not take into account situations where an agency may have a liability to itself as is the case with environmental cleanup liabilities. The entity concept is not well defined. These new guidelines will remove the need to accrue liabilities for "government-acknowledged events" because the circumstances giving rise to these events generally do not involve a second entity or a specified date. While the Concept Statement will reduce the need to recognize certain liabilities that are currently recognized, the proposed definition of a liability is more closely aligned with that preferred by legal council.

While we recognize the intent of the proposed concept paragraph 36 for all federal government liabilities, we feel this definition actually increases the grayness of the definition rather than providing clarity to it since the paragraph will only increase the level of debate more than it is currently between a legal liability and accounting liability. Therefore, we feel that the proposed concept under paragraph 36 should be removed.

Dramatic Expansion of the Definition of Liability:

The last sentence of Exposure Draft, paragraph No. 41 states the following, “A present obligation is incurred when the government takes a specific action that commits or binds the government and affects another entity.”

This sentence dramatically expands the definition of a liability, and could include undelivered orders (i.e. purchase orders, contracts, memorandum of agreement/understanding) and possibly commitments where goods or services have not yet been received or the underlying event has not taken place. This definition of a liability is entirely inconsistent with traditional accrual-basis accounting for liabilities including accrual-basis accounting for liabilities as currently defined by FASAB in SFFAC No. 2, paragraph 84 and SFFAS 5, paragraph 19, and as defined by the Financial Accounting Standards Board (FASB), and as defined by the Governmental Accounting Standards Board (GASB). An undelivered order or commitment, while being a commitment of the government, should not be a liability (amount owed) of the government because the providing entity has not yet met its commitment or the underlying event has not yet taken place. The existence of a Federal liability is contingent upon the providing entity adequately providing the goods/services or the underlying event taking place. Until the providing entity adequately provides the goods/services or the underlying event takes place, the Federal Government is not liable to pay for those goods/services.

Some members are very concerned about this dramatic expansion of a liability, because they believe that (consistent with private sector and state/local practice) readers of financial statements expect liabilities to be amounts owed by the government for goods/services received or underlying events that have taken place. To have liabilities include, for example, undelivered orders and possibly commitments, may cause liabilities as reported on the Balance Sheet to not be meaningful or useful to readers.

In layman's terms, some members believe that most readers of financial statements understand “liability” to be an amount “owed,” and, an undelivered order, would not generally be considered an amount “owed,” as the exchange of value in exchange for a promise of future payment has not yet taken place.

The federal government's definition of a liability would not be consistent with the private sector and state/local accounting for liabilities.

The reason or benefit of this significant departure from established practices across the spectrum for accrual-basis accounting has not been explained or justified by FASAB in the Exposure Draft.

“Present Obligation” Definition Should Include “Probable:”

Some members believe that the “present obligation” is an essential characteristic that needs to be “probable,” for consistency with SFFAS 5, paragraph 19 (see below) and FASB accrual-basis accounting for liabilities.

SFFAS 5, paragraph 19: "A liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events. General purpose federal financial reports should recognize *probable* and measurable future outflows or other sacrifices of resources arising from (1) past exchange transactions, (2) government-related events, (3) government-acknowledged events, or (4) non-exchange transactions that, according to current law and applicable policy, are unpaid amounts due as of the reporting date."

FASB: "Probable future sacrifices of economic benefits arising from present obligation of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions and events."

This dramatic expansion of the definition of "liability" may cause the liability recognition of many new items that do not reach the definition of "probable" and may threaten important qualitative characteristics of reporting such as relevance, reliability, cost versus benefit, and representational faithfulness.

If "probable" is omitted from the definition of a liability, the federal government's definition of a liability would not be consistent with the current FASB definition and would not appear to be consistent with the proposed GASB definition clause "with little or no discretion to avoid."

The reason or benefit of this significant departure from established has not been explained or justified by FASAB in the Exposure Draft.

#### "Settlement" Essential Characteristic

Some members believe that "settlement" is not an essential characteristic of a liability. If there is no agreement on when a liability will be paid, the liability still exists (i.e. the amount is still owed regardless of whether agreement or settlement has been reached or not).

With regard to a situation when the government is free to decide whether to settle the obligation, members agree with SFFAC No. 2, which states "...Also, because the Federal Government is a sovereign entity, it can abrogate at any time many of its liabilities arising from other than contracts. This does not, however, eliminate the existence of, and therefore the need to report, liabilities incurred by the reporting entity." These members believe that a liability should be recorded based on current conditions and current law.

#### Question 5(b):

Are there any additional characteristics that are fundamental or essential to all federal government liabilities?

Response 5(b):

No, there are no additional characteristics that are fundamental or essential to all federal government liabilities but further clarification may be needed such as “probable future outlay of resources as a result of past actions or laws.”

Question 6(a):

Do the definitions of assets and liabilities adequately convey the essential characteristics from which they are derived? If not, how would you modify the definitions?

Response to 6(a):

Members believe that the definition for liabilities in SFFAS 5 is superior to the definition shown in the Exposure Draft, and that the definition of Liability in the Exposure Draft is a dramatic expansion of the definition of a Liability that has not been adequately explained or addressed (please also see answer to question 5).

We agree with the Alternative View that the removal of the term “probable” greatly impacts the definitions of assets and liabilities and opens the door for immaterial and other unusual items to be recognized in the financial statements.

Question 6(b):

Do the definitions of net position, revenues, and expenses adequately convey their relationship to assets and liabilities? If not, how would you modify the definitions?

Response 6 (b):

The new definitions of revenues, expenses, and net position imply that imputed costs will no longer be recognized because the underlying liability is not at an agency-component level. According to the guidelines stated in the entity concept (paragraph 12), imputed costs such as pension and post-retirement benefit liabilities will be incurred by the Office of Personnel Management (OPM) rather than the individual agencies. Some members believe this definition is inconsistent with FASAB SFFAS 4 which requires agencies to record imputed costs as part of recognizing the full cost of the entity.

Net Position Definition:

No. The definition for net position described in SFFAC No.2 paragraph No.84 includes a more precise definition which elaborates on the primary components of Unexpended Appropriations and Current Results of Operations as follows: “Net position is the residual difference between assets and liabilities. It is generally composed of unexpended appropriations and the cumulative results of operations. Included in the former would be appropriations not yet obligated or expended, including undelivered orders. Included in the latter would be the amounts accumulated over the years by the entity from its financing

sources less its expenses and losses, which would include donated capital and transfers in the net investment of the Government in the reporting entity's assets; and an amount representing the entity's liabilities for such things as accrued leave, credit reform subsidies, and actuarial liabilities not covered by available budgetary resources.”

**Revenue Definition:**

Members generally agree with the Exposure Draft definition of Revenue.

**Expense Definition:**

Some members believe that the definition of expense is very unclear, and respectfully recommends the following rewording: “An expense is a decrease in assets, an increase in liabilities, the consuming or adjusting of assets, or a combination of the above from the receipt of goods or services or any other activities during the reporting period.”

**Question 7(a):**

Are there other criteria that should be established as conditions for recognition? If so, what recognition criteria would you add or delete?

**Response 7(a):**

None other than the current conditions, in order for an item to be recognized in the financial statements, an assessment of both the probability of existence and the probability of measurement should be made. We concur with the Alternative View that the qualitative characteristics of financial reporting should be considered when determining whether or not an element should be recognized. Probability of existence and probability of measurement both have a direct impact on the reliability of the financial reports.

**Question 8(a):**

Do you agree with the position taken in (1) the proposed Concepts Statement or (2) the Alternative View concerning the need for an explicit requirement for an assessment of probability and a related probability threshold when determining whether an item meets the definition of an element? Please explain the reasons for your position.

**Response to 8(a):**

We concur with the Alternative View that there needs to be an explicit requirement for an assessment of probability and a related probability threshold when determining whether an item meets the definition of an element. Some items are improbable and should not be required to be disclosed in the body of the financial statements or the footnotes.

Question 9 (a):

Do you agree with the position taken in (1) the proposed Concepts Statement or (2) the Alternative View concerning the need for an explicit requirement for an assessment of probability and a probability threshold when determining whether an item is measurable? Please explain the reasons for your position.

Response to 9(a):

We concur with the Alternative View concerning the need for an explicit requirement for an assessment of probability threshold when determining whether an item is measurable. If the item does not meet the probability threshold then it is unreliable; and therefore, is also irrelevant regardless of whether or not it is measurable.

Question 10 (a):

Do you agree with the position taken in (1) the proposed Concepts Statement or (2) the Alternative View concerning the need for a consideration of the qualitative characteristics of financial statements as part of determining whether an item meets the recognition criteria? Please explain the reasons for your position?

Response 10(a):

We concur with the Alternative View concerning the need for consideration of the qualitative characteristics of financial statements as part of determining whether an item meets the recognition criteria. By making probability of both existence and measurability part of the recognition criteria, the integrity of the financial statements will be enhanced because of the direct impact of probability on certain qualitative characteristics of financial reporting such as reliability.