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FASAB & The Financial Statements of the United States:

Comparing Budget Aggregates to Financial Statements

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INTRODUCTION

While the United States government ultimately engages in one set of financial activities, it measures and records them in different ways. On the one hand, each year, the Department of the Treasury files a Financial Report of the United States Government ("Financial Report"), which includes a variety of Financial Statements of the United States ("Financial Statements") and other explanatory documents about the government's financial activities. These Financial Statements are calculated and presented largely on an accrual basis, which records revenues when they are earned, and expenses whey they are incurred.[1]

On the other hand, each year as well, the President, through his Office of Management and Budget (OMB), prepares a budget that aggregates spending and revenues and submits that budget to the Congress, which ultimately passes a budget resolution. While that resolution might reflect differing priorities (particularly depending on which Party controls the White House and Congress), both the President's proposed budget and the Congressional budget resolution account for revenue and expenses in the same general way: largely through cash-based accounting, which records revenues when cash is received, and expenses when it is paid. This is simply a very different approach than that followed by the Financial Statements.[2]

This paper addresses both the broad differences in the accounting methods employed in producing the Financial Statements and the federal budget, and the specific numerical differences that result.

COMPARISON OF METHODS: ACCRUAL-BASED ACCOUNTING IN FINANCIAL STATEMENTS VS. CASH-BASED ACCOUNTING IN THE FEDERAL BUDGET

Background: Origins of Accounting for the US Government and the Federal Budget Process

The story of how the Federal Accounting Standards Advisory Board (FASAB) came to set accounting principles and standards, pursuant to generally accepted accounting principles (GAAP), and how the Financial Report and the Financial Statements came to be required, on the one hand, and how the budget process developed on the other hand, are somewhat different. The differing stories of origin provide insight into why the current state of affairs exists today.[3]

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[1] U.S. Gen. Accounting Office, *Budget Issues: Budgeting for Federal Insurance Programs*, Testimony by Susan J. Irving, GAO/T-AIMD-98-147 (April 23, 1998), at 2: "*Historically, government outlays and receipts have been reported on a cash basis.*" (hereinafter referred to as *Budgeting for Federal Insurance Programs*).

[2] Treasury Department, *2004 Financial Report of the US Government*, Management's Discussion & Analysis, p. 3, available online at *http://fms.treas.gov/fr/04frusg/04mda.pdf*. (hereinafter referred to as *Management's Discussion & Analysis*).

[3] As for the history of FASAB outlined by the Board itself, see in general, *FASAB News*, Issue 64, October/November 2000 (10th Anniversary Issue); available online at *http://www.fasab.gov/news.html* (hereinafter referred to as *FASAB News*).

While much activity had taken place in earlier years regarding improving financial accounting in the federal government, the story of FASAB began in 1990, when Congress passed the Chief Financial Officers Act (CFO Act).[4] Congress acted at that time in part due to concerns over highly publicized problems with financial management at a variety of federal agencies. Specifically, the failure on the part of the government to detect and address the savings and loan crisis effectively, as well as the scandal at the Department of Housing and Urban Development, played an important role in urging Congress to act, as these crises could be linked, at least in part, to inefficient financial management in federal agencies.[5]

The CFO Act required audited financial statements, in accordance with "applicable standards," for selected entities, however it did not define the source or character of these "applicable standards." In agreeing on the CFO Act itself, the parties involved had to agree on a mechanism to define those standards, which was not an easy task. In 1950, Congress had given the General Accounting Office (GAO) (now the Government Accountability Office) the authority to set accounting standards for federal agencies, through the Budget and Accounting Procedures Act of 1950.[6] Based on this authority, the GAO had published standards as "Title 2" of its Policy and Procedures Manual for the Guidance of Federal Agencies.[7] While several agencies had adopted those standards, the OMB did not require agencies to adopt them, and some OMB officials even believed that the 1950 Act was unconstitutional in that it gave a legislative agency (the GAO) the authority to define accounting standards for executive agencies. There was also debate among accountants over whether the standards were appropriate for the government, with some thinking that "Title 2" standards were too similar to commercial accounting.[8]

This tension was resolved in October of 1990.[9] At that time, the Secretary of the Treasury, the Director of OMB, and the Comptroller General of the United States (the "Principals") came together to establish FASAB via a memorandum of understanding (MOU). The purpose of FASAB was to consider and make recommendations to the Principals regarding accounting principles and standards for the federal government. According to the MOU, if the Principals agreed with the recommendations, the Comptroller General and the Director of OMB would publish the accounting principles and standards.[10]

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[4] Id. at 1. The Chief Financial Officers Act was Pub. L. 101-576, 104 Stat. 2838, and is codified, as amended, at 31 U.S.C. §§ 503, 504, 901, 902, 903. While not directly related to our discussion of the CFO Act and the creation of FASAB, per se, one other program worthy of being noted, that is aimed at improving the financial coordination among agencies, is the Joint Financial Management Improvement Program (JFMIP). It began in 1949. For information on the history of that program, see *http://www.jfmip.gov/jfmip/history.htm.*

[5] H.R. REP. No. 101-818, pt. 1, at 4031-4032 (1990).

[6] *FASAB News,* supra note 3, at 1. Pub.L. 81-784 (§112), 64 Stat. 834 (1950), codified as amended at 31 U.S.C.A. 3511 (1982).

[7] GAO formerly provided "*Policy and Procedures*," which is no longer available, as the creation of FASAB and other changes have left most of the contents in the manual out of date. GAO maintains a web page online, however, where it provides guidance regarding where to find out more information about those topics, at: *http://www.gao.gov/special.pubs/ppm.html*).

[8] *FASAB News*, supra note 3, p. 1-2.

[9] Id.

[10] The Office of Management and Budget, *Circular No. A-134, Financial Accounting Principles and Standards* (May 20, 1993); available online at *www.whitehouse.gov/omb/circulars/a134/a134.html*.

Since its creation, FASAB has developed financial accounting concepts and provided the accounting standards for federal agencies.[11] Furthermore, the Government Management Reform Act of 1994 set forth the requirement that the Secretary of the Treasury, in coordination with the Director of the OMB, shall prepare and submit to the President and the Congress the government-wide financial statement.[12] The statement must be prepared in accordance with the form and content requirements set forth by the Director of the OMB,[13] and the Comptroller General is provided with the authority to audit the financial statement.[14] As to the reporting entities, FASAB has issued statements of accounting concepts, which provides guidance for the OMB to carry out its statutory responsibilities to specify which agencies should prepare audited financial statements and the form and content thereof.[15]

The story of the budget can be said to have started in 1921, with the passage of the Budget and Accounting Act of 1921. This Act gave the President a role in the budget before congressional action on appropriations bills, requiring him to submit an annual budget and requiring agencies to submit budget requests to him. It also created the Bureau of the Budget (later renamed the Office of Management and Budget (OMB) in 1970) to assist the President in this process.[16] In 1974, another milestone year, Congress passed the Congressional Budget and Impoundment Control Act. While it did not alter the formal role of the President, it did establish the congressional budget process, along with the House and Budget Committees and the Congressional Budget Office (CBO), all of which were to assist Congress in passing an annual resolution.[17] Throughout this time, and leading up until today, this process has been conducted largely on a cash-based method of accounting.[18]

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[11] FASAB issues statements of recommended accounting standards for federal agencies and auditors (Statements of Federal Financial Accounting Standards, hereinafter referred to as SFFAS); it also issues Statements of Federal Financial Accounting Concepts (hereinafter referred to as SFFAC), that after approval by the Board's sponsors, provide general guidance to the Board itself as it deliberates on specific issues (unlike the SFFAS, which when issued by the Board's sponsors, become authoritative requirements for federal agencies and auditors) (SFFAC No.1, paragraphs 1-2, available online at *http://www.fasab.gov/pdffiles/sffac-1.pdf*). FASAB also issues Interpretations, Technical Bulletins, and Technical Releases. For more information on those, visit *www.fasab.gov.*

[12] Pub.L.101-356, § 405(c) (codified as 31 U.S.C.A. §331(e)(1) (2005)) provides that "[the financial statement shall be] *covering all accounts and associated activities of the executive branch of the United States Government. The financial statement shall reflect the overall financial position, including assets and liabilities, and results of operations of the executive branch of the United States Government*." This refers to the Financial Statements and Report noted above, and described below, in footnotes 75-79 and the accompanying text.

[13] Id. This authority of the Director of the OMB is provided by §405(a) of the 1994 Act, codified as amended 31 U.S.C.A.§3515(d): ["The Director of the Office of Management and Budget shall prescribe the form and content of the financial statements of executive agencies under this section, consistent with *applicable accounting and financial reporting principles, standards, and requirements*."] (*emphasis added*)

[14] 31 U.S.C.A. §331(e)(2) (2005).

[15] See, *Entity and Display*, SFFAC No. 2, paragraphs 2-3: "*OMB specifies the form and content of agency and governmentwide financial statements, pursuant to authority assigned in the Chief Financial Officers Act of 1990, as amended (31, U.S.C.A. §3515(d) and §331 (e) (1)) through periodic issuance of OMB Bulletins. OMB intends to base the form and content on the concepts contained in this statement*." (Footnote 1 to paragraph 3); available online at *http://www.fasab.gov/pdffiles/sffac-2.pdf.*

[16] ALLEN SCHICK, THE FEDERAL BUDGET: POLITICS, POLICY, PROCESS (Rev. ed., 2000), at 14.

[17] Id. at 18-20.

[18] *Budgeting for Federal Insurance Programs*, supra note 1, at 2: "*Historically, government outlays and receipts have been reported on a cash basis.*"

The Financial Statements of the United States Government and Accrual-Based Accounting

The Financial Report and its Statements described above, which report the transactions of the government's departments and agencies, are created using an accrual method of accounting, based on generally accepted accounting principles (GAAP).[19] These principles, in turn, are promulgated by FASAB, which is the body appointed by the American Institute of Certified Public Accountants (AICPA) to set such standards for the federal government.[20] As discussed above, FASAB now sets standards for the federal government as the Financial Accounting Standards Board (FASB) has done so for the private sector since 1973, and the Government Accounting Standards Board (GASB) has done for states and local governments since 1986, the years in which the AICPA designated those bodies as standards-setting entities as well.[21]

The accrual method, based on definitions provided by the GAO and Treasury, generally records income and expenses at the time the rights or obligations come about, rather than based on the timing of cash inflow or outflow.[22] More specifically, FASAB rules instruct the reporting of a liability any time there is a "probable future outflow or other sacrifice or resource."[23] As for the asset side, rules are more tailored to the nature of specific asset in question. For example, one rule provides that accounts receivable, a typical category of asset, "should be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date (e.g., taxes not received by the date they

[19] *Management's Discussion & Analysis*, supra note 2, at 3.

[20] See FASAB web site, Generally Accepted Accounting Principles (*http://www.fasab.gov/accepted.html*): The AICPA, in its Code of Professional Conduct, prohibits members from expressing an opinion or stating affirmatively that financial statements or other data are "in conformity with generally accepted accounting principles," if such information departs in any way from accounting principles promulgated by a body designated by the AICPA Council to establish such principles. The AICPA Council has designated FASAB as the body to establish accounting principles for federal entities. AICPA also outlined a hierarchy of generally accepted accounting principles in Statement of Auditing Standards (SAS) No. 91, The Federal GAAP Hierarchy, describing GAAP for U.S. government reporting entities. The hierarchy, in order of priority of sources that an entity should look to for accounting and reporting guidance, is: (a) officially established accounting principles, consisting of FASAB Statements (SFFAS) and Interpretations, as well as AICPA and FASB pronouncements specifically made applicable to federal governmental entities by FASAB Statements or Interpretations; (b) FASAB Technical Bulletins, and, if specifically made applicable to federal governmental entities by the AICPA and cleared by FASAB, AICPA Industry Audit and Accounting Guides and AICPA Statements of Position; (c) AICPA AcSEC Practice Bulletins if specifically made applicable to federal governmental entities and cleared by FASAB, as well as Technical Releases of the Accounting and Auditing Policy Committee of FASAB; and (d) implementation guides published by FASAB staff, as well as practices that are widely recognized and prevalent in the federal government.

[21] "The AICPA Council Designates FASAB as "Rule 203" Body, *FASAB News*, Issue 58, October 1999.

[22] U.S. Gen. Accounting Office, *A Glossary of Terms Used in the Federal Budget Process: Exposure Draft,* GAO/AFMD-2.1.1 (Jan. 1993) (hereinafter referred to as *GAO Glossary*) at 19; see also, Treas. Reg. 1.446-1(c)(1)(ii)(2002) [defining accrual method as one of "permissible methods" for federal income tax purpose, as "*Generally, under an accrual method, income is to be included for the taxable year when all the events have occurred that fix the right to receive the income and the amount of the income can be determined with reasonable accuracy. Under such a method, a liability is incurred, and generally is taken into account for Federal income tax purposes, in the taxable year in which all the events have occurred that establish the fact of the liability, the amount of the liability can be determined with reasonable accuracy, and economic performance has occurred with respect to the liability.*"]

[23] *Accounting for Liabilities of the Federal Government,* SFFAS No. 5, paragraph 19, available online at *http://www.fasab.gov/pdffiles/sffas-5.pdf.*

are due), or goods or services provided. If the exact amount is unknown, a reasonable estimate should be made."[24] These rules mandate accrual-based accounting.

FASAB rules and standards clearly show that it believes accrual-based accounting is the most accurate measure for financial reporting: "Accrual accounting recognizes the financial effects of transactions and events when they occur, whether or not cash changes hands at that time….Full accrual accounting could provide important data with respect to future cash flows and tax policy and could improve the ability to evaluate the performance of the collecting entities and the exercise of their custodial responsibilities."[25]

More specifically, accrual-based accounting is very much in line with the "matching principle." To properly measure income for any time period, it is important to match the income that comes in during specific accounting periods with the costs of generating that income that can be attributed to the same time periods. Accrual-based accounting achieves this matching, while the cash method of accounting fails to do so, as the recognition of expenses and revenue is based largely on the somewhat arbitrary circumstances of when cash is received or disbursed.[26]

Finally, in terms of guidelines for the private sector, the FASB has articulated that accrual accounting generally provides a better indication of how an entity is performing than cash-based accounting,[27] and the SEC requires businesses to use the accrual method of accounting and, more broadly, comply with GAAP.[28] While the FASB and SEC do not govern the federal government, they indicate a preference for an accrual-based system in general, and their requirements are instructive in terms of identifying accrual-based accounting as the preferred standard.

It is important to note that while the strong preference is therefore to use accrual accounting to report all governmental activities, it is not employed universally due to certain constraints faced by the government. For example, due to difficulties in estimating the amount

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[24] *Accounting for Selected Assets and Liabilities,* SFFAS No. 1, paragraph 41, available online at *http://www.fasab.gov/pdffiles/sffas-1.pdf.*

[25] *Accounting for Revenue and Other Financing Sources,* SFFAS No. 7, paragraph 168, available online at *http://www.fasab.gov/pdffiles/sffas-7.pdf.*

[26] Cheryl D. Block, *Congress and Accounting Scandals: Is the Pot Calling the Kettle Black?*, 82 NEB. L. REV. 365, 398 (2003).

[27] See, *Objectives of Financial Reporting by Business Enterprises*, Federal Accounting Standards Board, Statement of Financial Accounting Concepts No. 1, paragraph 44:

> *Information about enterprise earnings and its components measured by accrual accounting generally provides a better indication of enterprise performance than information about current cash receipts and payments. Accrual accounting attempts to record the financial effects on an enterprise of transactions and other events and circumstances that have cash consequences for an enterprise in the periods in which those transactions, events, and circumstances occur rather than only in the periods in which cash is received or paid by the enterprise. Accrual accounting is concerned with the process by which cash expended on resources and activities is returned as more (or perhaps less) cash to the enterprise, not just with the beginning and end of that process. It recognizes that the buying, producing, selling, and other operations of an enterprise during a period, as well as other events that affect enterprise performance, often do not coincide with the cash receipts and payments of the period.*

[28] 17 C.F.R. 210.4-01(a)(1)(2002) ["*Financial statements filed with the Commission which are not prepared in accordance with generally accepted accounting principles will be presumed to be misleading or inaccurate, despite footnote or other disclosures, unless the Commission has otherwise provided…*"]

of revenue that will be generated through taxes and duties, federal entities collecting such monies are permitted to use a modified cash basis for those revenues.[29]

The Federal Budget Process and Cash-Based Accounting

Unlike the Financial Report and Financial Statements, neither the President's proposed budget to Congress nor the congressional budget resolution is subject to FASAB-promulgated GAAP or related standards.[30] This can in part be explained based on the differences between the nature of budgeting and financial accounting; private companies, for example, are not required to GAAP rules in budgeting, only in accounting.[31] Even if one can accept this distinction, government budget materials serve a very important function to the public (far more than private sector budget materials), and the budget receives a great deal of public scrutiny.[32] Given this, it seems unclear why it should not be provided in compliance with basic accounting principles.

This lack of compliance is most clearly exemplified by the idea that accrual-based accounting is a core part of FASAB and generally accepted accounting principles, and the federal budget, rather than following this principle of accounting, instead largely employs cash-based accounting.[33] The Government Accountability Office (GAO) and Treasury Department definitions of cash accounting both reflect the central concept that the cash method follows the flow of cash itself: income is reported when cash is received and expenses are reported when cash is paid out.[34]

The federal budget process, however, is not purely a cash-based process. It can also be described as obligation-based in that it focuses on controlling the legal obligations or commitments entered into during a period, regardless of when cash is paid or received (or when

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[29] SFFAS No. 7, supra note 25, at paragraph 169, refers to the "inherent limitation (in applying the accrual accounting application to taxes and duties)," by noting "*Unfortunately, the degree of accrual accounting that is practicable to perform for taxes and duties is limited by difficulties in ascertaining the amount of revenue arising from the underlying events and by the assessment processes used to manage the collecting functions. Taxpayers may not ascertain taxable income until after the underlying events. They may not file returns on their due dates, and due dates are generally set by the administrative processes after the occurrence of the underlying event. Also, the extent of non-compliance is a function of the laws establishing these entities and the expectations by the Congress and the Administration about how diligently the collecting entities should perform their collection functions. These inherent limitations on the ability to perform accrual accounting were considered by the Board.*" Therefore, a major source of income for the federal government, tax revenue, is not subject to accrual accounting.

[30] *Objectives of Federal Financial Reporting*, SFFAC No. 1, paragraph 46, states: *"…the FASAB does not recommend standards for the budget or budget concepts, [but] part of its mission is to recommend accounting principles that will help provide relevant and reliable financial information to support the budget process."*

[31] See, Block, supra note 26, at 392.

[32] For example, Allen Schick emphasizes the significance of the budget not only as the internal management/planning tool as in the private sector, but also as "one of the principal means of communicating with citizens." SCHICK, supra note 16, at 259 (2000).

[33] See FASAB web site, supra note 20, at the web page Generally Accepted Accounting Principles (*http://www.fasab.gov/accepted.html*); see SFFAS No. 5, supra note 23, at paragraph 19; see SFFAS No. 1, supra note 24, at paragraph 41; see also *Budgeting for Federal Insurance Programs,* supra note 1, at p. 2, and accompanying text.

[34] See *GAO Glossary,* supra note 22, at 19; see also, Treas. Reg. 1.446-1(c)(1)(i)(2002) [defining "Cash receipts and disbursements method" as "*Generally, under the cash receipts and disbursements method in the computation of taxable income, all items which constitute gross income (whether in the form of cash, property, or services) are to be included for the taxable year in which actually or constructively received. Expenditures are to be deducted for the taxable year in which actually made*."]

resources acquired are to be received or consumed).[35] This type of budgeting involves three steps. First, Congress must enact budget authority before officials can obligate the government to make outlays. Second, government officials can then commit the government to make such outlays by entering into agreements that are legally binding. Third, outlays (cash disbursements) are made, thus liquidating these obligations.[36] Therefore, in each budget resolution, not only aggregates for outlays, but also aggregates for budget authority are listed.[37] Ultimately, however, the amounts to be obligated are measured on a cash, or cash-equivalent, basis, and the unified budget deficit or surplus - which is a major focus of the policy debate - represents the difference between cash receipts and outlays in a given year, not any measure of budget authority.[38] Indeed, as described later, budget authority is recorded neither in the final unified budget deficit or surplus number, nor in the Financial Report and Financial Statements, and thus does not have an effect on that comparison - the comparison that is at the center of this paper. Nonetheless, given that our system can be described as largely "obligation-based," it is important to include and discuss that concept.

Indeed, while the popular press often focuses on the final budget surplus or deficit number, the budget authority concept is an important one in the budget process. In addition to budget authority numbers being included along with outlay aggregates in the congressional budget resolution, they are also included in the conference report for the budget resolution.[39] Additionally, in the appendix to the President's annual budget, in the Program and Financing section, it starts off discussing budget authority, before detailing budget outlays.[40] Indeed, according to those involved in the process as well, budget authority is very important. Budget authority is tracked carefully by Members of Congress, by the OMB, and by advocates because it creates finite possibilities for what the federal government can do; when advocates and Members of Congress are debating over spending initiatives, they are usually talking about budget authority.[41] The press's attention to the bottom line budget deficit might be one reason the importance of budget authority is commonly understated compared to budget outlays.

In the sense that obligation-based budgeting takes into account the long run rather than just short-term outlays, its perspective can be thought of as being somewhere in between the short-term focus of cash-based budgeting, and the longer-run view taken by accrual budgeting.

It is also important to note that while the federal budget is largely compiled under a cash-based method of accounting, it also occasionally employs accrual-based accounting as well, including interest payments and outlays for federal credit programs.[42] Up until the Federal

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[35] US Gen. Accounting Office, *Accrual Budgeting: Experiences of Other Nations and Implications for the United States*, GAO/AIMD-00-57, at 9, 32 (Feb. 2000) (hereinafter referred to as *GAO Accrual Budgeting*).
[36] US Gen. Accounting Office, *Fiscal Exposures: Improving the Budgetary Focus on Long-Term Costs and Uncertainties,* GAO-03-213, at 7, (Feb. 2003) (hereinafter referred to as *Fiscal Exposures).*
[37] SCHICK, supra note 16, at 110.
[38] *Fiscal Exposures*, supra note 36, at 7.
[39] SCHICK, supra note 16, at 112-113.
[40] Budget of the United States Government, Fiscal Year 2006-Appendix, Explanation of Estimates, available online at *http://www.whitehouse.gov/omb/budget/fy2006/pdf/appendix/dbe.pdf.*
[41] Telephone Interview with Phillip Lovell, Vice President of Public Policy, America's Promise (April 28, 2005).
[42] *GAO Accrual Budgeting*, supra note 35, at 32, Footnote 5: for *"credit programs…[the] budget authority, obligations, and outlays are measured on an accrual basis. Certain interest payments are also measured on an*

Credit Reform Act of 1990, under cash-based budgeting, Congress had recorded loans in direct loan programs as expenses, even though most of those loans were likely to be repaid; likewise, the cost of loan guarantee programs were not reflected in the budget until the government was required to pay in the event of the recipient's default, even though at least some level of default was expected. Thus, this approach was both overstating the real economic cost of direct loan programs and underestimating the real economic cost of loan guarantee programs in the years those loans were made.[43] With the passage of this legislation, the government now reports estimated recoveries from borrowers and estimated expenses from defaults on a present value, accrual basis.[44]

Assessing the Current Cash-Based Method of Accounting in the Federal Budget

Given the existing framework, it is important to now analyze the benefits and drawbacks of each system of accounting. First, it is clear that the cash method of accounting has both advantages and disadvantages as used within the federal budget.

One major advantage is that the cash method is very easy to measure and track.[45] Second, for many government activities, including salary and grant payments, the length of time between the transaction itself and the payment of cash is relatively short, meaning that switching to an accrual-based system would not differ significantly from the current cash-based system, at least for these items.[46] Finally, it is also not clear that moving to an accrual-based method would make the process more transparent; indeed, by some calculations, it would make budgeting more complicated.[47]

Indeed, Susan J. Irving, Associate Director of Budget Issues in the GAO, commented in testimony before the Budget Task Force of the House Committee on the Budget:

> "As a general principle, decision-making is best informed if the government recognizes the costs of its commitments at the time it makes them. For many programs, cash-based budgeting accomplishes this. And…because it reflects the government's actual borrowing needs (if in a deficit situation), it is a good proxy for the government's effect on credit markets. In general, then, the arguments for cash-based budgeting are convincing, and deviations should not be lightly undertaken."[48]

However, there are a host of disadvantages of the cash method as well. First, since cash-based accounting only records expenses when the cash is paid, Congress can incur large liabilities through authorizing legislation without having them appear in the federal budget until

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accrual basis." See generally, Federal Credit Reform Act of 1990, Pub. L. No. 101-508, 13201(a), 104 Stat. 1388-610 (1990); codified at 2 U.S.C. §§661, 661a-661f (2000).

[43] H.R. Rep. No. 101-964 at 1161 (1990).

[44] 2 U.S.C. §661a (5)(2000) ["The cost of a direct loan/loan guarantee program shall be the net present value."] Such costs shall be accounted in the President's Budget and must be appropriated before the cost incurred. See §661c.

[45] *GAO Accrual Budgeting*, supra note 35, at 35; see also, U.S. Gen. Accounting Office, *Budget Issues: Budgeting for Federal Insurance Programs*, GAO/AIMD-97-16, at 2-3. (1997) (hereinafter referred to as GAO, *Budgeting for Federal Insurance Programs, 1997*).

[46] Id.; see also, Block, supra note 26, at 407.

[47] Professor Block (supra note 26, at 407) points out: "*Many accrual-based judgments require estimates, assumptions, and projections that could make budget computations more complicated.*"

[48] *Budgeting for Federal Insurance Programs*, supra note 1, at 2.

the cash is actually paid. This can result in an economic picture somewhat divorced from reality. Moreover, cash-based accounting does not provide accurate information about the long-term budgetary impacts of short-term decisions, as long-term obligations can be entered into without being reflected in the budget.

Cash-based accounting therefore can result in a great deal of timing gimmickry on the part of Congress.[49] As noted in many of the earlier papers in the class, perhaps the largest problem with the cash-based method of budgeting is the incentive to manipulate the timing of legislation to allow for the rosiest picture to be drawn about the current state of budgetary affairs. While steps have been taken to avoid back-loading revenue losses and speeding up legislative gains, it is still possible for legislators to game the system and meet deficit targets through sophisticated legislative drafting.[50] Specifically, since expenditures are only reported when paid, the cash method does not adequately account for unpaid obligations; it allows Congress to avoid addressing or reflecting potentially massive future payments in the current budget,[51] like Social Security or Medicare.

There are other disadvantages of the cash method of accounting as well, including its treating the purchase and sale of capital assets and inventory inaccurately. Under the cash method, a purchase of an asset is treated as a current expense, and receipts of sales of assets are treated as income. So, for example, if the government purchases $100 of gold, using $100 in cash, while in reality, it is simply transferring wealth from one form to another, the pure cash method of accounting would indicate that the government is $100 poorer. Accrual accounting would avoid this problem. The cash method also distorts decision-making is by incentivizing the sale of assets in the short run. As an example, under the cash method, the sale of a national park would be reflected as an increase in wealth, while in reality, it is merely transforming wealth from one form to another. Given that there is no lower limit, however, the cash method always leads to the predisposition to sell federal assets.[52]

Cash-based accounting also creates incentives for distorted decision-making in the context of a balanced budget amendment and in general.[53] For example, assume there is a choice between two ways to solve a problem: one would cost $40 billion, but would solve the problem for 40 years, and the other would cost $4 billion, but would solve the problem for only one year. Under the cash method of accounting, the former would have a far larger budgetary impact in the immediate year, and so even though the latter is clearly a less prudent option, lawmakers concerned either with balancing the budget or with appearing fiscally responsible to constituents might opt for that course of action.[54] Again, an accrual-based system would accurately reflect the relative financial merits of the two options.

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[49] Elizabeth Garrett, *Harnessing Politics: The Dynamics of Offset Requirements in the Tax Legislative Process*, 65 U. CHI. L. REV. 501, 527-28 (1998).
[50] Elizabeth Garrett, *Accounting for the Federal Budget and its Reform*, 41 Harv. J. LEGIS. 187, 190-192 (Winter 2004).
[51] Theodore P. Seto, *Drafting a Federal Balanced Budget Amendment That Does What it is Supposed to Do (And No More)*, 106 YALE L. J. 1449, 1483-1484 (1997). Professor Seto discusses the cash method from the perspective of developing a balanced budget amendment.
[52] Id. at 1485-1486.
[53] Id. at 1486.
[54] Id. Gokhale and Smetters offer another example of the misleading nature of the excessive focus on the cash-based concepts of "Deficit" and "Surplus." Their example is the personal account as a part of the Social Security benefit

Finally, to the extent that cash-based accounting allows distortion and gimmickry, the goals of accountability and transparency are arguably also not served.[55] Reports from other countries, such as New Zealand, where once cash-based budget systems were transformed into accrual-based systems, suggest that there are advantages to the accrual approach in terms of accountability and transparency.[56]

Comparing the Accrual Basis with the Cash Basis in Federal Budgeting, and Exploring Potential Applications

As noted above, the accrual method of accounting is thought to more accurately reflect economic income, and both private companies, and more importantly, the federal government in its Financial Statements, use accrual-based accounting. There are also many disadvantages associated with the cash-based method. Given this, an obvious question is why the accrual method is not generally used in the federal budget process.[57] The answer is two-fold: first, as described above, there are some advantages to the cash-based method; second, the accrual method has its own set of challenges. These combine to make reform difficult, at least with regard to the vast majority of governmental programs.

One major challenge associated with the accrual method is the difficulty in estimating liabilities or potential losses in the future. This helps explain that while there have been many calls for reforming the federal budget process by switching to accrual-based accounting, only once - regarding federal direct loan programs and loan guarantees - did the budget process switch to accrual-based system for a major set of programs. This is also a reason behind the difficulty in transforming the accounting methodology to accrual-based regarding federal insurance programs.[58] Pursuant to a request by Congress, OMB and the CBO studied the question of on which basis federal deposit, life, pension, and other insurance programs should be treated in terms of budgetary accounting.[59] Going one step further, there have been several legislative proposals to switch from cash-based to accrual-based accounting for federal insurance programs, but none has passed as of yet.[60] Such proposals have been included in the Pension Security

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regime. It would reduce a person's Social Security benefit one dollar in present value for each payroll tax dollar that the person is allowed to invest in his or her personal account. A person receives the same (or hopefully a bit better) level of benefits as an aggregate, yet the federal government must borrow one dollar more in order to pay current retiree benefits. Even though this reform is neutral in the long-term fiscal balance (or even improves it when future benefits (i.e., Government's obligations) are discounted by the higher rate than the government's borrowing rate), the short-term deficit (the level of publicly held debt) is increased, and thus this would be avoided by a policymaker who employs cash-based accounting. See, JAGADEESH GOKHALE & KENT SMETTERS, FISCAL AND GENERATIONAL IMBALANCES (AEI PRESS, 2003), at 21-2.

[55] See, Block, supra note 26, at 407.

[56] *GAO Accrual Budgeting*, supra note 35, at 80.

[57] See, Block, supra note 26, at 406.

[58] Id. at 408.

[59] See Congressional Budget Office, *Budgetary Treatment of Deposit Insurance: A Framework for Reform* (May 1991); Office of Mgmt. & Budget, *Budgeting for Deposit Insurance* (June 1991) (referred to by Block, supra note 26, at 409).

[60] 2 U.S.C. § 661e(a) (2000) explicitly excludes other credit or insurance activities of the Federally-chartered corporations, including Federal Deposit Insurance Corporation, National Credit Union Administration, and others. More general calls to switch to accrual-based budgeting were heard as early as 1967, in the report of the presidential budget commission. See U.S. President's Comm. on Budget Concepts, *Report of the President's Commission on Budget Concepts*, 7, 36-46 (1967).

Accounting Act, which had its origins in President Bush's 1992 budget,[61] the Comprehensive Budget Process Reform Act of 1998[62] (which came out of a Task Force on Budget Process Reform),[63] and the Comprehensive Budget Reform Act of 1999.[64]

The lack of action on these proposals can be explained, in part, by this difficulty in estimating future losses inherent in insurance programs, as expressed by witness testimony before the House Budget Committee. The witnesses all agreed that the cash-flow approach currently employed by the government for federal insurance (and many other) governmental programs was fundamentally flawed, as it created a distorted picture of the federal government's financial position.[65] Indeed, witnesses, such as Rudolph Penner, Senior Fellow at the Urban Institute, praised the 1990 budget reforms that applied to federal loan and federal guarantee programs, and pointed out that the same accounting issues were involved with federal insurance.[66] Yet they also acknowledged major potential implementation problems that would result in switching to accrual-based budgeting for federal insurance programs - largely the difficulty of estimating or predicting future losses that would be insured.[67] Based on that reasoning, one can argue that there are differences that explain why the federal government would use accrual-based accounting rather than cash-based accounting for loan programs but not for insurance and pension guarantees, noting that the magnitude and timing of the liabilities for the latter are simply far more difficult to forecast.[68]

Any proposed shift to accrual-based budgeting would face difficulties in the accounting for assets as well. First, under accrual accounting, acquired (or renovated) assets (often referred to as "Property, Plant, and Equipment" (PP&E)) must be capitalized and depreciated/amortized over their useful life.[69] While this seems to be an advantage of accrual-based accounting, in practice, there is room for accounting maneuvers over this capitalizing/expensing process, similar to the gimmickry we see in cash-based accounting. For example, FASAB pointed to concerns affecting the objectivity and accuracy of any capitalized cost for internally-developed software in general PP&E: "The Board was concerned that costs could be overcapitalized thus understating expense for the period and that it would be difficult to provide for the removal or write-off of costs related to unsuccessful projects and/or cost overruns."[70] When budgeting (i.e., the actual distribution of funds and real politics) is concerned, it is likely that the difficulties with

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[61] Enhanced Economic Growth and Job Creation Act of 1992, H.R. 4200, 102d Cong., tit. II (1992).
[62] H.R. 4837, 105th Congress, tit. V (1998); see H.R. 105-840.
[63] H.R. 105-844, Activities and Summary Report of the Comm. on the Budget during the 105th Cong., at 15 (1999).
[64] H.R. 853, 106th Cong., tit. V (1999) (referred to by Block, supra note 26, at 410).
[65] Block, supra note 26, at 410.
[66] Hearings before the House Budget Comm., 105th Cong. (1998).
[67] Block, supra note 26, at 411. The CBO report also made a similar point: "*Adopting a full credit reform approach [the shift from cash-based to accrual accounting of the costs of the program] to deposit insurance has one major advantage and one major disadvantage compared with all other alternatives. The advantage is that only the accrual recognition of costs will provide an early warning of financial disaster in the budget. The disadvantage is that estimating the cost of deposit insurance – when cost is incurred – is very difficult. The Congressional Budget Office makes no recommendation about which of these approaches should be adopted …*" (CBO, *Budgetary Treatment of Deposit Insurance: A Framework for Reform*, at xiii.).
[68] See, Block, supra note 26, at 412.
[69] Find a discussion of PP&E in *Accounting for Property, Plant, & Equipment*, SFFAS No. 6 (June 1996), available online at *http://www.fasab.gov/pdffiles/sffas-6.pdf.*
[70] Id. at paragraph 140.

these types of potential maneuvers would be even worse than under accounting for financial reporting purposes only.

Another difficulty with accrual-based budgeting is related to the discount rate of future costs and benefits. In theory, the future benefits from assets[71] must be discounted at the appropriate interest rate to adjust for the time value of money.[72] In practice, this could be extremely difficult, especially with assets associated with federal government-specific programs that have no comparable private-sector or state and local government counterparts. Also, the concern over discount rates is a factor in accounting for other governmental activities as well; for example, FASAB explicitly rejects the discount rate approach regarding estimating cleanup costs.[73] These difficulties must be addressed in an accrual-based system.[74]

COMPARISON OF COMPONENTS & NUMBERS: THE FEDERAL BUDGET VS. FINANCIAL STATEMENTS OF THE UNITED STATES

The above-described methods, in addition to describing the key distinction in approach taken by the federal budget and the financial statements, also imply differences in the components and numbers of the documents themselves. That implication is borne out, as seen in the 2004 budget and financial statements, the most recent year for which both sets of actual numbers are available.

Financial Statements of the United States Government: Their Components and How They are Calculated

The Financial Report, including a series of Financial Statements, is compiled annually by the Department of the Treasury to give the President, Congress, and the American public information about the financial position of the federal government. The Financial Report, using accrual-based accounting as prescribed by GAAP and FASAB, provides a broad, comprehensive view of the federal government's finances: it states the government's financial position and condition, its revenues and costs, assets and liabilities, and other obligations and commitments.

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[71] For this purpose, assets are defined as "*Tangible or intangible items owned by the Federal Government which would have probable economic benefits that can be obtained or controlled by a Federal Government entity.*" (See, Appendix E to the SFFAS No.6)

[72] See, FASB, Statement of Financial Accounting Standards, *Employers' Accounting for Pensions*, No.87, p.99.

[73] SFFAS No. 6, supra note 69, at paragraph 188: "*With regard to estimating cleanup cost, the Board concluded that the estimate would be based on the current cost to perform the cleanup. Current cost should be based on existing laws, technology and management plans. An alternative to current cost would have been to estimate costs in the future, factoring in expected inflation, and discounting this amount to current dollars. The Board did not believe that this approach offered any greater degree of accuracy in return for the additional effort involved in making the estimate.*" Cleanup costs are defined as "*the costs of removing, containing, and/or disposing of (1) hazardous waste (See paragraph 86) from property, or (2) material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&E.*"(SFFAS No.6, paragraph 85).

[74] The OMB provides guidelines and discount rates for benefit-cost analysis of federal programs by issuing Circular No. A-94 (available online at *http://www.whitehouse.gov/omb/circulars/a094/a094.html*): The choice of discount rate can dramatically affect policy choices. See, Coleman Bazelon & Kent Smetters, "Discounting Inside the Washington D.C. Beltway," *Journal of Economic Perspectives*, Vol.13, No.4 (Fall 1999), pp.213-228.

As noted above, it is required by the Government Management Reform Act of 1994, is to be submitted to Congress by March 31 of each year, and is subject to audit by the GAO. [75]

The Financial Report consists of (a) Management's Discussion and Analysis, (b) Financial Statements (including (1) Statements of Net Cost, (2) Statements of Operations and Changes in Net Position, (3) Reconciliations of Net Operating Cost and Unified Budget Deficit, (4) Statements of Changes in Cash Balance from Unified Budget and Other Activities, and (5) Balance Sheets), (c) Stewardship Information (*Notice that information on the long-term solvency of Social Security and Medicare is incorporated here, not in the Financial Statement, as explained below*), and (d) Notes to the Financial Statements and Supplemental Information. The Financial Report and these Financial Statements discussed in this paper are for FY 2004, the latest year for which a complete Report and Statements are available.

Here, in more detailed form, are the components of the Financial Statements relevant to our discussion:

Net Cost [= Gross cost - Earned Revenue]

One key statement is the Statement of Net Cost. Costs and earned revenues in the Statements of Net Cost are presented by department on an accrual basis.[76] This is composed of gross cost (the full cost of all the departments and entities), less earned revenue (revenue the government earned by providing goods and services to the public at a price), to arrive at net cost.[77] As seen in Appendix 1, the total net cost for the government in FY 2004 was $2,524.9 billion.

Net Operating Cost = [Unearned Revenue - Net Cost +/- Unreconciled Transactions]

To arrive at net operating cost, treated as a bottom line of sorts of the Financial Statements, one must take the unearned revenues (largely revenue brought in through the government's power to tax, levy duties, and assess fines), and subtract the above-discussed net cost (gross cost less earned revenue) from that.[78] Then, one must add or subtract from that number, the unreconciled transactions - adjustments for instances such as improper recording of intra-governmental transactions. The result is the net operating cost. For FY 2004 - the year ending September 30, 2004 - that number was $-615.6 billion.[79] See Appendix 2 for the Statement of Operations and Changes in Net Position, which outlines the unearned revenue (largely taxes) and subtracts the net cost to arrive at net operating cost (in the statement).

The Federal Budget: Its Components and How They Are Calculated

The federal budget, like the Financial Statements just described, is compiled on an annual basis, for the variety of reasons discussed above, including to provide a framework for spending and revenue-generation for the federal government each year. The President, working with

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[75] Treasury Department, *2004 Financial Report of the United States Government* (hereinafter referred to as "Financial Report"), p. 3, 33; available at *http://fms.treas.gov/fr/index.html.*

[76] Treasury Department, *Financial Statements of the United States Government for the Years Ended September 30, 2004 and September 30, 2003* [hereinafter referred to as "Financial Statements"], at 55; available at *http://fms.treas.gov/fr/index.html*.

[77] Id. at 55.

[78] Id. at 55-56.

[79] Id.

OMB, drafts a budget proposal each year and submits it Congress.[80] Congress, using this proposal as a starting point, then develops and passes its own budget resolution. The budget resolution includes allocations to committees as well as functional allocations of both budget authority and outlay aggregates for spending.[81]

There are therefore numerous ways to represent the components and aggregates that are in the federal budget. One can look at the president's budget, prepared by OMB and submitted to Congress, that results in an overall unified budget deficit. For the purposes of comparing aggregate numbers from this standpoint, see Appendix 3, in which the unified budget deficit can best be described as simply the difference between the total outlays of the federal government during a given year (including discretionary spending, mandatory spending, and net interest) and the total receipts (including taxes, social insurance and retirement receipts, duties, and miscellaneous other receipts).[82]

One can also represent the components and aggregates of the federal budget in terms of the congressional budget resolution as passed, or the bills that pass out of the individual appropriations subcommittees. Attached as Appendix 4 is a House Budget Committee report on the Congressional Budget Resolution, a document far more concise and clear than the full resolution.[83] In addition, included in Appendix 5 are tables representing the budget totals in the President's 2006 budget proposal, including allocations for congressional subcommittees.

Net Operating Cost vs. Unified Budget Deficit

While there are various ways to represent the federal budget, the key question before us is how the federal budget and its aggregates compare to the Financial Statements. The clearest way to make that comparison is to examine the Financial Statements and budget from a given year, and compare both their components and aggregate numbers - identifying the elements of one that are not included in the other and vice versa (keep in mind that both of these numbers - the Net Operating Cost and the unified budget deficit - represent the extent to which the federal government's economic position has changed within the fiscal year).

The Financial Report for FY 2004 does just this, in its Reconciliations of Net Operating Cost and Unified Budget Deficit table. The Department of the Treasury itself publishes that table which reconciles the net operating cost (of the Financial Statements) and the unified budget deficit (from the President's budget).[84] It is important to note that this unified budget deficit

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[80] SCHICK, supra note 16, at 30-31.
[81] Id., at 32-33.
[82] See, OMB, *Analytical Perspectives, Budget of the United States Government*, Fiscal Year 2006 at 426 [Glossary of Budget Terms]: "*Budget totals mean the totals included in the budget for budget authority, outlays, and receipts. Some presentations in the budget distinguish on-budget totals from off-budget totals. On-budget totals reflect the transactions of all Federal Government entities except those excluded from the budget totals by law. The off-budget totals reflect the transactions of Government entities that are excluded from the on-budget totals by law. Under current law, the off-budget totals include the Social Security trust funds (Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds) and the Postal Service Fund. The budget combines the on- and off-budget totals to derive unified or consolidated totals for Federal activity.*"
[83] The report is also preferable to the full Congressional budget resolution because as of April 16, the Congressional Budget Resolution for FY 2006 has not yet passed the Conference (source: CQ.com Budget Tracker (*http://www.cq.com/budgettracker.do*)).
[84] Financial Statements, supra note 76 at 56.

number, $-412 billion, to which the net operating cost is compared, rather than coming from the President's proposed budget or the congressional budget resolution of a given year, is the actual unified budget deficit, based on what Congress actually spent during the course of the year. This is mandated by FASAB, which required this reconciliation statement as part of the annual Financial Report in SFFAS No. 24 issued in 2003.[85] Furthermore, the line items listed, rather than specific categories from the President's budget or the congressional budget resolution, are simply broad categories set forth by the Department of the Treasury, in the Treasury Financial Manual.[86] This table is reprinted below, on page 18.

This table notes where, largely as a result of the differences in accounting methods, some components are included in determining net operating cost that are not part of the unified budget deficit, and some components are included in creating the unified budget deficit that do not contribute to the net operating cost.

Components of Net Operating Cost Not Part of the Budget Deficit

As can be seen in the table below, the components of net operating cost that are not part of the unified budget deficit are largely liabilities, and also include benefits and accounts payable, depreciation, and taxes receivable, among other entries. These are accounting entries (based on accrual accounting) that are not accompanied by cash flows; therefore, they are reflected in the net operating cost but not in the unified budget deficit (that follows cash-based accounting).

Specifically, these liabilities include "Increase in Liability for Military Employee Benefits," such as increases in military pension liabilities, military health liabilities, and other military benefits; "Increase in Liability for Veterans Compensation and Burial Benefits," such as increase/decrease in liability for veterans, increase in liability for survivors, and increase/decrease in liability for burial benefits; "Increase in Liability for Civilian Employee Benefits," including increase in civilian pension liabilities, increase in civilian health liabilities, and increase in other civilian benefits; "Decrease in Environmental Liabilities," including decrease in energy's environmental liabilities and increase in all others' environmental liabilities; and miscellaneous other entries.

As a general proposition, and as noted above, these are all included because they are taken into account by the accrual method of accounting employed by the US Treasury in compiling the Financial Statements (and thus are included in the net operating cost), and not considered by the cash-based accounting method utilized to compile the federal unified budget (and thus are not included in the unified budget deficit). Because of that, any increases in liabilities lowered the net operating cost figure, while not being incorporated into the unified budget deficit figure, and therefore have to be added back to get to the unified budget deficit figure. Likewise, any decrease in liabilities would have to be accounted for in the opposite way.

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[85] *Selected Standards for the Consolidated Financial Report of the United States Government*, SFFAS No. 24, p. 12 (Jan. 2003), available online at *http://www.fasab.gov/pdffiles/sffas-24.pdf.*

[86] *Treasury Financial Manual, Part II: Central Accounting & Reporting:* Chapter 4700: Agency Reporting Requirements for the Financial Report of the United States Government; available online at *http://www.fms.treas.gov/tfm/vol1/index.html#Part%202.*

Similarly, the depreciation expense figure listed had been taken into account by the accrual method in calculating the net operating cost (it had lowered that figure), but had not been recorded into the unified budget deficit, and thus must be added back as well in order to reconcile the two numbers.

While this summary does not cover every line item in the table below, it is representative of the contents and of the reasoning behind why the items are incorporated into the net operating cost and not into the unified budget deficit, and why they are reconciled in the manner shown.

Components of the Budget Deficit Not Part of Net Operating Cost

While the difference in accounting methods leads to the inclusion of certain components in the net operating cost that are not incorporated into the unified budget deficit, this difference also leads to the inclusion of other components in the unified budget deficit that are not accounted for in the net operating cost. Specifically, these include increase in other assets and increase/decrease in inventory. The reasoning behind the inclusion of these here and how they are reconciled is relatively straightforward.

Since the unified budget deficit is calculated largely on a cash basis, every inflow or outflow of cash is recorded. Cash flows, by themselves, however, are not recorded in an accrual-based system, and therefore in the components making up the net operating cost. For example, the purchase of a vehicle (an asset) for $100 increases the unified budget deficit (lowering the figure) by that amount, but accrual accounting conceives of this as a mere shift of the asset-holding structure from cash to another asset, thus not resulting in any net costs. To reconcile the increases in assets and inventory (which result in increasing the unified budget deficit - making it more negative), therefore, their value would have to be subtracted from the net operating cost to arrive at the unified budget deficit.

By the same token, the increase in securities and investments held by the federal government, acquired in exchange for cash outflows, also accounts for a gap between the net operating cost (as it is not recorded in calculating that figure) and the cash-based unified budget deficit (as it is recorded as an outlay, lowering that figure - making it more negative). This item is shown as an increase in other assets (based on Note 8 of the Financial Statements), and therefore the increase in those securities and investments must be offset in this reconciliation by subtracting that amount from the net operating cost to arrive at the unified budget deficit.[87] Again, this is a sampling of the contents and of the reasoning behind why certain items are incorporated into the unified budget deficit but not into the net operating cost, and why they are reconciled in the way shown.

[87] Financial Statements, supra note 76, at 62.

United States Government
Reconciliations of Net Operating Cost and Unified Budget Deficit
for the Years Ended September 30, 2004, and September 30, 2003

(In billions of dollars)	2004	2003
Net operating cost[1]	(615.6)	(667.6)
Components of Net Operating Cost Not Part of the Budget Deficit:		
Increase in Liability for Military Employee Benefits (Note 11):		
Increase in military pension liabilities	98.7	9.0
Increase in military health liabilities	42.3	91.0
Increase in other military benefits	2.4	1.1
Increase in liability for military employee benefits	143.4	101.1
Increase in Liability for Veterans Compensation and Burial Benefits (Note 11):		
(Decrease)/increase in liability for veterans	(39.7)	93.3
Increase in liability for survivors	9.6	12.5
Increase/(decrease) in liability for burial benefits	0.1	(0.2)
(Decrease)/increase in liability for veterans compensation	(30.0)	105.6
Increase in Liability for Civilian Employee Benefits (Note 11):		
Increase in civilian pension liabilities	39.8	60.6
Increase in civilian health liabilities	21.7	23.0
Increase in other civilian benefits	7.2	0.3
Increase in liability for civilian employee benefits	68.7	83.9
Decrease in Environmental Liabilities (Note 12):		
Decrease in energy's environmental liabilities	(1.7)	(26.2)
Increase in all others' environmental liabilities	1.0	3.1
Decrease in environmental liabilities	(0.7)	(23.1)
Depreciation expense	89.9	71.2
Property, plant, and equipment disposals and revaluations	0.2	13.0
Increase in benefits due and payable (Note 13)	2.9	4.7
(Decrease)/increase in taxes receivable (Note 5)	1.6	(1.5)
Increase in other liabilities (Note 14)	32.3	25.1
Seigniorage and sale of gold	(0.7)	(0.6)
(Decrease)/increase in accounts payable (Note 9)	(2.1)	6.4
Components of the Budget Deficit Not Part of Net Operating Cost:		
Capitalized Fixed Assets:		
Department of Defense	(83.2)	(67.5)
Civilian agencies	(28.9)	(34.5)
Total capitalized fixed assets	(112.1)	(102.0)
Increase in accounts receivable (Note 3)	(1.3)	(1.8)
Increase/decrease in inventory (Note 6)	(8.8)	17.5
Increase in other assets (Note 8)	(11.7)	(12.3)
Principal repayments of precredit reform loans	8.5	9.1
Net amount of all other differences	23.2	(3.5)
Unified budget deficit	(412.3)	(374.8)

[1] 2003 numbers have been restated to reflect a change in presentation for immaterial prior period adjustments previously published as adjustments to net position.

The accompanying notes are an integral part of these financial statements.

Source: Financial Statements, p.62

Note on Accounting for Social Security

One might wonder why the increase in some pension/benefit liabilities (such as for military, veterans, and civilian employees) is listed, while any increase in the two biggest such items - Social Security and Medicare - is not. In fact, these items are listed, but are only provided with a line item in the notes. In *Note 13: Benefits Due and Payable*, Social Security and Medicare are listed, as displayed here:

Benefits Due and Payable as of September 30

(In billions of dollars)	2004	2003
Federal Old-Age and Survivors Insurance	37.1	35.9
Grants to States for Medicaid	19.3	17.8
Federal Hospital Insurance (Medicare Part A)	15.0	15.0
Federal Supplementary Medical Insurance (Medicare Part B)	14.8	15.3
Federal Disability Insurance	12.8	12.0
Supplemental security income	1.8	1.5
Unemployment insurance	1.1	1.5
Other benefits	1.0	1.0
Total benefits due and payable	102.9	100.0

Source: Notes to the Financial Statements, p.126

One might wonder, even seeing that Social Security (Federal Old-Age and Survivors Insurance, or OASDI) is listed here, why it is that the numbers are smaller than the numbers listed for military and other pension liabilities (that are listed on the reconciliation table itself). As described in detail in FASAB's SFFAS No. 17, *Accounting for Social Insurance*, the numbers listed for Social Security are simply those amounts that are due and payable by the end of the fiscal year (September 30), but for which the outlays have yet to be made. Since Social Security is accounted for under a cash basis in the unified budget deficit, the only amounts that are not included in that figure, but that are included in the Statement of Net Cost, is the amount due and payable that has yet to be paid.[88] After much discussion and debate, FASAB ultimately decided that having this information provided in the Financial Statements themselves and having a great deal of additional information in a supplemental section was the best way to take into account the existence of the massive potential future liabilities under Social Security without inserting such a large number into the Financial Statements themselves.[89]

[88] *Accounting for Social Insurance,* SFFAS No. 17, available online at *http://www.fasab.gov/pdffiles/sffas-17.pdf.* The Standard refers to this as "social insurance benefits due and payable to or on behalf of beneficiaries at the end of the reporting period." (SFFAS No. 17, paragraphs 22 & 30).

[89] Due to the difference of opinions over the recognition point for expenses and liabilities for future benefits in social insurance programs, FASAB decided not to call for a drastic change in the accounting for social insurance (Id. at paragraphs 64-81). As a compromise, FASAB provided an additional requirement for information on the actuarial present value (APV) of the future benefits, and required other information as well, to be reported in a supplementary section. This information is treated, however, as "supplementary" (paragraphs 24, 27, 30-32) or "expanded" (paragraphs 40-43). See also, Howell E. Jackson*, Accounting for Social Security and Its Reform*, 41 HARV. J. ON LEGIS. 59, 149 (2004): "*The final FASAB Statement on Social Insurance mandates that financial statements of government insurance programs include an elaborate system of supplementary information, known as Required Supplementary Stewardship Information (RSSI), which includes specific disclosures about the actuarial value of future benefits as well as a substantial amount of additional material about program sustainability. With respect to*

The numbers for Social Security are therefore far smaller than those reported in the Statement of Net Costs and the reconciliation statement for military, civilian, and other pension liabilities because the latter numbers take into account, on an accrual basis, all of the liabilities incurred to date for pensions and other benefits of civilians, veterans, and other employees - something not done regarding Social Security. FASAB justified this difference because with employees, true liabilities are incurred because they are based on a past transaction event - exchange transactions.[90] Employees work for their employers, and accrue these pension and other benefits, hence providing a rationale for why they would be accounted for under an accrual system. These accrued liabilities are, in turn, based on actuarial estimates of the employees' life-spans.[91] With Social Security, the benefits do not accrue in the same manner, as the system is not based on pure exchange transactions,[92] and hence FASAB reasoned it was justified in not accounting for Social Security in the same accrual-based way on the Financial Statements.[93]

The Inclusion of other prominent programs

Social Security and Medicare are not the only items left out of the main reconciliation statement. The Pension Benefit Guaranty Corporation (PBGC) and the Federal Deposit Insurance Corporation (FDIC) are major liabilities for the federal government, but are nowhere to be seen on the reconciliation statement either. As seen below, PBGC is listed directly in *Note 14: Other Liabilities* (with a reference to Note 15 as well). FDIC is also listed, but only in the description under this table in the Notes, as one of the components of "Other miscellaneous liabilities:"[94]

Social Security, FASAB rules require disclosure of the actuarial present value of all future benefits payable to participants eligible to receive retirement benefits (those sixty-two years of age or older). The Social Security RSSI also must include separate disclosures of the actuarial present value of future benefits to be paid and taxes to be received from those currently in the system (those fifteen to sixty-one years old) and those not yet in the system but projected to join the system over the next seventy-five years."

[90] SFFAS No. 5, supra note 23, at paragraph 19, provides: "*A liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events.*"

[91] See, e.g., "*Separate boards of actuaries for OPM [Office of Personnel Management] and DOD [Department of Defense] determine the actuarial assumptions used in calculating the pension liability and the post-retirement health benefit liability for the civilian and military personnel. Both boards use generally accepted actuarial methodologies.*" (Note 11 to the Financial Statements, at 121).

[92] Social insurance (including Social Security) is understood as being based on "nonexchange transactions," (SFFAS No. 17, at paragraphs 62, 63, 192), and for such transactions, the recognition of expenses and liabilities is generally deferred (unlike for exchange transactions, where liabilities are recognized when one party receives goods or services in return for a promise to provide money or other resources in the future) (Id., at paragraphs 61, 191). Therefore, the Standard does not include the actuarially-estimated future costs of Social Security in the "liability" for purpose of the Financial Statements. Moreover, the expected costs of Social Security under the present-law may be changed by Congress at any time as a matter of law, and in fact Social Security benefits experienced large reductions in the 1977 and 1983 Social Security Amendments. Therefore, scheduled future benefits do NOT represent a fixed legal contractual obligation. See, Stephen C. Goss, *"Social Security: Accounting and Financial Challenges"* (Presentation at Government & Nonprofit Section American Accounting Association 2005 Midyear Meeting (April 1, 2005, Kennedy School of Government, Harvard University)).

[93] SFFAS No. 7, supra note 25, paragraphs 242-246. See also SFFAS No. 17, paragraph 56 [excluding unemployment insurance for federal employees, covered by SFFAS No. 5, from the scope of SFFAS No. 17].

[94] Notes to the Financial Statements, p. 127

Other Liabilities as of September 30

(In billions of dollars)	2004	2003
Insurance Programs:		
Pension Benefit Guaranty Corporation	60.9	44.5
All other insurance programs	6.8	25.1
Accrued wages and benefits	38.2	44.0
Deferred revenue	25.0	29.2
Gold certificates	10.9	10.9
Other actuarial liabilities	10.4	9.8
Accrued grant liability	10.2	3.7
Exchange stabilization fund	9.4	9.2
Other debt	9.1	8.6
Deposit funds and undeposited collections	8.5	8.2
D.C. pension liability	8.4	8.3
Custodial liabilities	6.5	5.2
Other accrued liability	6.0	5.8
Other miscellaneous liabilities	50.0	15.5[1]
Total other liabilities	260.3	228.0[1]

[1] Restated – See Note 17.

Source: Note 14 to the Financial Statements, p.127

Per SFFAS No. 24, as issued by FASAB, the goal of the reconciliation statement is to provide a comparison between the net operating cost and the federal budget deficit among the whole government - not just specific agencies, as was required by SFFAS No. 7.[95] In light of that, it makes sense that FASAB called for a statement based on categories set forth by the Department of the Treasury that were broad - broad enough to enable the comparison to be done within a single page. Unfortunately, this causes individual programs (indeed, quite large programs) to be obscured through inclusion in these broad categories, as their names are relegated to Notes further back in the Financial Report. While this situation is less than ideal, it is easy to understand and possibly preferable, given the goals of the reconciliation statement. Additional, multi-page statements that break out key programs might be a better way to balance the need to represent the information in a holistic way without understating the importance of key programs.

CONCLUSION

The comparison between the Financial Statements of the United States Government and budget aggregates, or the federal budget in general, can be described on two levels: the broad difference in accounting methods employed, and the more specific differences in components and numbers. This paper has attempted to explore both, examining the specific differences through the lens of the more general one.

[95] SFFAS No. 24, supra note 85 at paragraphs i & 1.

APPENDIX

Appendix 1:
Statements of Net Cost, 2004 Financial Report of the United States Government

United States Government
Statements of Net Cost
for the Years Ended September 30, 2004, and September 30, 2003

(In billions of dollars)	Gross Cost 2004	Earned Revenue 2004	Net Cost 2004	Gross Cost 2003	Earned Revenue 2003	Net Cost 2003
Department of Defense[1,2]	672.1	22.3	649.8	562.2	12.5	549.7
Department of Health & Human Services[1,2]	583.9	33.4	550.5	542.3	29.7	512.6
Social Security Administration	534.9	2.6	532.3	512.6	0.3	512.3
Interest on Treasury Securities held by the public	158.3	-	158.3	156.8	-	156.8
Department of Agriculture[1,2]	84.1	7.6	76.5	95.0	10.7	84.3
Department of the Treasury[1,2]	79.2	4.0	75.2	79.0	2.6	76.4
Department of Education	63.9	4.8	59.1	59.0	5.0	54.0
Department of Labor	58.6	-	58.6	68.1	-	68.1
Department of Transportation[1,2]	56.7	0.6	56.1	63.3	1.2	62.1
Department of Veterans Affairs	51.1	3.2	47.9	175.7	2.1	173.6
Department of Housing and Urban Development	41.8	1.3	40.5	44.1	2.0	42.1
Department of Homeland Security	45.7	5.7	40.0	27.5	2.6	24.9
Department of Justice[1]	35.4	0.8	34.6	30.7	1.3	29.4
Department of Energy[1]	27.3	4.9	22.4	2.0	5.3	(3.3)
National Aeronautics and Space Administration	17.3	0.1	17.2	12.9	0.1	12.8
Department of the Interior	18.8	2.2	16.6	16.0	4.7	11.3
Pension Benefit Guaranty Corporation	16.9	3.9	13.0	12.3	1.2	11.1
Department of State	13.9	1.3	12.6	12.7	1.4	11.3
Agency for International Development	10.7	0.1	10.6	10.3	0.1	10.2
Railroad Retirement Board	9.3	-	9.3	9.6	-	9.6
Environmental Protection Agency	9.5	0.3	9.2	9.5	0.4	9.1
Office of Personnel Management	22.3	13.9	8.4	0.3	-	0.3
Department of Commerce[1]	9.1	1.4	7.7	8.8	1.3	7.5
Federal Communications Commission	7.6	0.8	6.8	7.1	1.2	5.9
National Science Foundation	5.2	-	5.2	4.8	-	4.8
Small Business Administration[2]	2.1	0.5	1.6	5.0	0.7	4.3
Federal Deposit Insurance Corporation	0.8	0.2	0.6	(0.2)	0.2	(0.4)
Nuclear Regulatory Commission	0.8	0.5	0.3	0.7	0.5	0.2
Tennessee Valley Authority[2]	8.6	8.3	0.3	8.0	7.0	1.0
National Credit Union Administration	0.2	0.1	0.1	0.2	0.5	(0.3)
General Services Administration[1]	-	0.5	(0.5)	0.8	0.3	0.5
Export-Import Bank of the United States[2]	1.3	2.7	(1.4)	(0.3)	0.3	(0.6)
U.S. Postal Service	54.0	68.0	(14.0)	81.5	67.6	13.9
All other entities	30.6	11.1	19.5	34.6	2.0	32.6
Total	2,732.0	207.1	2,524.9	2,652.9	164.8	2,488.1

[1] These agencies reorganized and transferred various programs and operations to the newly created Department of Homeland Security. The majority of the assets and expenses transferred were in fiscal year 2003, immaterial transfers have taken place in fiscal year 2004.
[2] 2003 numbers have been restated to reflect a change in presentation for immaterial prior period adjustments previously published as adjustments to net position.

The accompanying notes are an integral part of these financial statements.

Source: Financial Statement, p.60

Appendix 2:
Statement of Operations and Changes in Net Position,
2004 Financial Report of the United States Government

United States Government
Statements of Operations and Changes in Net Position
for the Years Ended September 30, 2004, and September 30, 2003

(In billions of dollars)	2004	2003
Revenue:		
Individual income tax and tax withholdings	1,512.3	1,481.3
Corporation income taxes	183.8	128.2
Unemployment taxes	36.8	31.2
Excise taxes	72.5	67.6
Estate and gift taxes	24.8	21.9
Customs duties	21.0	19.0
Other taxes and receipts	47.7	39.8
Miscellaneous earned revenues	13.8	7.0
Total revenue	1,912.7	1,796.0
Less net cost of Government operations[1]	2,524.9	2,488.1
Unreconciled transactions affecting the change in net position (Note 16)	(3.4)	24.5
Net operating cost	(615.6)	(667.6)
Net position, beginning of period	(7,094.2)	(6,820.2)
Change in accounting principle (Note 17)	-	383.1
Prior period adjustments (Note 17)	-	10.5
Net operating cost	(615.6)	(667.6)
Net position, end of period	(7,709.8)	(7,094.2)[1]

[1] 2003 numbers have been restated to reflect a change in presentation for immaterial prior period adjustments previously published as adjustments to net position.

The accompanying notes are an integral part of these financial statements.

Source: Financial Statement, p.61

Appendix 3:
OMB Budget Summary

OFFICE OF MANAGEMENT AND BUDGET

Budget Summary by Category
(In billions of dollars)

	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Outlays:							
Discretionary:							
DOD military	436	443	424	426	445	466	483
Non-DOD	459	487	497	491	488	486	488
Total, Discretionary	895	930	922	917	932	952	971
Proposed Supplemental	—	35	25	18	2	1	—
Mandatory:							
Social Security	492	515	540	567	596	630	665
Medicare	265	290	340	381	407	433	460
Medicaid and SCHIP	181	194	199	209	225	245	266
Other	299	337	331	319	324	328	351
Total, Mandatory	1,237	1,337	1,410	1,476	1,551	1,635	1,743
Net Interest	160	178	211	245	272	294	314
Total Outlays	**2,292**	2,479	2,568	2,656	2,758	2,883	3,028
Receipts	**1,880**	2,053	2,178	2,344	2,507	2,650	2,821
DEFICIT	**−412**	−427	−390	−312	−251	−233	−207
On-budget deficit	−567	−589	−560	−506	−466	−463	−460
Off-budget surplus	155	162	170	194	215	230	252

Source: www.whitehouse.gov/omb/budget/fy2006/tables.html

Appendix 4:
House Budget Committee Report on the Congressional Budget Resolution

Fiscal Year 2006 Budget Resolution
As Reported by the House Budget Committee
Total Spending and Revenues
(In billions of dollars)

Fiscal year			2005	2006	2007	2008	2009	2010	2006-2010
Summary									
Total Spending		BA	2,471.111	2,553.527	2,630.115	2,761.537	2,894.637	3,010.943	13,850.759
		OT	2,451.244	2,570.621	2,635.179	2,742.732	2,864.079	2,987.327	13,799.938
	On-Budget	BA	2,070.357	2,135.290	2,199.074	2,314.562	2,430.359	2,527.892	11,607.177
		OT	2,052.551	2,154.404	2,206.300	2,298.338	2,402.719	2,507.365	11,569.126
	Off-Budget	BA	400.754	418.237	431.041	446.975	464.278	483.051	2,243.582
		OT	398.693	416.217	428.879	444.394	461.360	479.962	2,230.812
Revenues	Total		2,057.446	2,194.781	2,331.157	2,496.038	2,634.611	2,784.345	12,440.932
	On-Budget		1,483.971	1,589.905	1,693.266	1,824.251	1,928.663	2,043.903	9,079.988
	Off-Budget		573.475	604.876	637.891	671.787	705.948	740.442	3,360.944
Surplus/Deficit (-)	Total		-393.798	-375.840	-304.022	-246.694	-229.468	-202.982	-1,359.006
	On-Budget		-568.580	-564.499	-513.034	-474.087	-474.056	-463.462	-2,489.138
	Off-Budget		174.782	188.659	209.012	227.393	244.588	260.480	1,130.132
Debt Held by the Public (end of year)			4,685	5,071	5,389	5,649	5,891	6,105	na
Debt Subject to Limit (end of year)			7,958	8,635	9,264	9,862	10,464	11,060	na
By Function									
National Defense (050)		BA	500.621	441.562	465.260	483.730	503.763	513.904	2,408.219
		OT	497.196	475.603	460.673	471.003	489.220	505.908	2,402.407
International Affairs (150)		BA	32.085	31.718	34.835	35.197	35.237	34.928	171.915
		OT	32.166	35.097	33.359	32.397	32.115	31.643	164.611
General Science, Space,		BA	24.413	24.735	25.171	25.545	25.851	26.162	127.464
and Technology (250)		OT	23.594	23.894	24.610	24.922	25.242	25.565	124.233
Energy (270)		BA	2.564	3.147	2.362	2.445	2.056	1.754	11.764
		OT	0.794	2.027	1.212	0.551	0.652	0.543	4.985
Natural Resources and		BA	32.527	30.513	30.883	30.952	31.706	31.248	155.302
Environment (300)		OT	31.168	32.276	32.046	32.402	32.663	32.254	161.641
Agriculture (350)		BA	30.151	29.480	27.190	25.334	25.691	25.417	133.112
		OT	28.550	28.507	25.999	24.281	24.796	24.687	128.270
Commerce and Housing		BA	13.004	6.172	4.874	6.440	6.867	10.465	34.818
Credit (370)		OT	7.502	0.962	-0.271	0.650	-0.032	2.293	3.602
	On-budget	BA	16.804	10.772	10.074	10.040	10.667	14.565	56.118
		OT	11.302	5.562	4.929	4.250	3.768	6.393	24.902
	Off-budget	BA	-3.800	-4.600	-5.200	-3.600	-3.800	-4.100	-21.300
		OT	-3.800	-4.600	-5.200	-3.600	-3.800	-4.100	-21.300
Transportation (400)		BA	72.506	70.007	70.130	70.501	70.911	72.254	353.803
		OT	67.703	70.393	72.421	74.167	75.500	77.356	369.837
Community and Regional		BA	23.007	14.179	14.196	14.283	14.421	14.441	71.520
Development (450)		OT	20.756	18.461	17.413	15.727	14.491	14.140	80.232
Education, Training, Employment		BA	94.001	91.978	89.925	89.980	90.194	89.652	451.729
and Social Services (500)		OT	92.798	90.981	90.360	88.864	88.363	88.181	446.749
Health (550)		BA	257.469	262.151	275.220	295.010	317.113	336.523	1,486.017
		OT	252.770	262.513	274.801	293.810	313.625	335.574	1,480.323
Medicare (570)		BA	292.587	331.181	371.875	395.312	420.234	448.111	1,966.713
		OT	293.587	330.944	372.167	395.364	419.828	448.442	1,966.745
Income Security (600)		BA	339.057	347.218	352.416	365.343	374.529	383.590	1,823.096
		OT	347.754	354.055	359.566	370.830	378.609	386.978	1,850.038
Social Security (650)		BA	522.557	546.967	572.120	600.260	632.747	668.078	3,020.172
		OT	520.496	544.947	569.958	597.679	629.829	664.989	3,007.402
	On-budget	BA	15.849	15.891	17.704	19.768	21.743	24.029	99.135
		OT	15.849	15.891	17.704	19.768	21.743	24.029	99.135

Appendix 4 (Continued)

Fiscal Year 2006 Budget Resolution
As Reported by the House Budget Committee
Total Spending and Revenues
(In billions of dollars)

Fiscal year		2005	2006	2007	2008	2009	2010	2006-2010
Off-budget	BA	506.708	531.076	554.416	580.492	611.004	644.049	2,921.037
	OT	504.647	529.056	552.254	577.911	608.086	640.960	2,908.267
Veterans Benefits and	BA	69.448	68.881	66.321	69.448	69.961	70.059	344.670
Services (700)	OT	68.873	68.148	66.014	69.258	69.672	69.787	342.879
Administration of Justice (750)	BA	39.817	40.840	41.390	42.031	42.602	42.860	209.723
	OT	39.501	42.268	42.463	42.650	42.779	42.803	212.963
General Government (800)	BA	16.748	18.017	17.956	17.570	17.587	17.408	88.538
	OT	17.656	18.308	17.999	17.555	17.378	17.216	88.456
Net Interest (900)	BA	176.942	213.979	254.097	280.694	297.562	311.572	1,357.904
	OT	176.942	213.979	254.097	280.694	297.562	311.572	1,357.904
On-budget	BA	267.942	310.479	359.797	397.194	426.162	453.172	1,946.804
	OT	267.942	310.479	359.797	397.194	426.162	453.172	1,946.804
Off-budget	BA	-91.000	-96.500	-105.700	-116.500	-128.600	-141.600	-588.900
	OT	-91.000	-96.500	-105.700	-116.500	-128.600	-141.600	-588.900
Allowances (920)	BA	-3.135	47.903	-10.368	-9.641	-9.193	-8.738	9.963
	OT	-3.304	24.359	-2.845	-10.363	-13.636	-14.484	-16.969
Undistributed Offsetting	BA	-65.258	-67.101	-75.738	-78.897	-75.202	-78.745	-375.683
Receipts (950)	OT	-65.258	-67.101	-76.863	-79.709	-74.577	-78.120	-376.370
On-budget	BA	-54.104	-55.362	-63.263	-65.480	-60.876	-63.447	-308.428
	OT	-54.104	-55.362	-64.388	-66.292	-60.251	-62.822	-309.115
Off-budget	BA	-11.154	-11.739	-12.475	-13.417	-14.326	-15.298	-67.255
	OT	-11.154	-11.739	-12.475	-13.417	-14.326	-15.298	-67.255

Source: http://www.house.gov/budget/fy06totlspendrevar031105.pdf

Appendix 5:
OMB Budget Summary for Appropriations Subcommittees

Discretionary Proposals By Appropriations Subcommittee
(Net budget authority in billions of dollars)

Appropriations Subcommittee	2004 Actual	2005 Enacted	2006 Request	Change 2005–2006
Agriculture and Rural Development	17.8	18.3	16.9	−1.4
Commerce, Justice, State and the Judiciary	39.2	40.8	44.1	3.2
Defense	366.4	390.4	407.6	17.3
District of Columbia	0.5	0.6	0.6	*
Energy and Water Development	27.4	28.3	27.2	−1.0
Foreign Operations	17.5	19.5	22.8	3.3
Homeland Security	27.9	29.0	29.3	0.3
Interior and Related Agencies	20.2	20.2	19.7	−0.5
Labor, Health and Human Services, and Education	140.9	142.4	141.0	−1.4
Legislative Branch	3.5	3.5	4.0	0.5
Military Construction	9.4	10.0	12.1	2.0
Transportation, Treasury, and General Government	27.7	26.3	25.0	−1.4
Veterans Affairs, Housing and Urban Development	91.6	93.5	90.5	−3.0
Allowances	—	—	−0.4	−0.4
Total, excluding supplemental and emergency funding	**790.1**	**822.7**	**840.3**	**17.6**

Source: www.whitehouse.gov/omb/budget/fy2006/tables.html

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LEGISLATION & LEGISLATIVE HISTORY

22. Chief Financial Officers Act, Pub. L. 101-576, 104 Stat. 2838 (codified, as amended, at 31 U.S.C. §§ 503, 504, 901, 902, 903).
   - Requires audited financial statements, in accordance with applicable standards, for selected entities.

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BUDGET-RELATED DOCUMENTS

26. Budget of the United States Government, Fiscal Year 2006-Appendix, Explanation of Estimates, available online at *http://www.whitehouse.gov/omb/budget/fy2006/pdf/appendix/dbe.pdf*.

27. Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2006* (at 426).
    - Provides a glossary of budget terms, along with a variety of other information about the budget.

FASAB-RELATED STANDARDS, CONCEPTS, & INFORMATION

Statements of Federal Financial Accounting Concepts (SFFAC) (all are available online at: *http://www.fasab.gov/concepts.html*)

28. FASAB, *Objectives of Federal Financial Reporting,* SFFAC No. 1, paragraphs 1-2, 46.

29. FASAB, *Entity and Display*, SFFAC No. 2, paragraphs 2-3.

Statements of Federal Financial Accounting Standards (SFFAS) (all are available online at: *http://www.fasab.gov/standards.html*)

30. FASAB, *Accounting for Selected Assets and Liabilities,* SFFAS No. 1, paragraph 41.

31. FASAB, *Accounting for Liabilities of the Federal Government*, SFFAS No. 5, paragraph 19.

32. FASAB, *Accounting for Property, Plant, and Equipment*, SFFAS No. 6, paragraphs 85, 140, 188.

33. FASAB, *Accounting for Revenue and Other Financing Sources*, SFFAS No. 7, paragraphs 168-169, 242-246.

34. FASAB, *Accounting for Social Insurance*, SFFAS No. 17, paragraphs 22, 24, 27, 30-32, 40-43, 56, 61-81, 191-194.

35. FASAB, *Selected Standards for the Consolidated Financial Report of the United States Government*, SFFAS No. 24, paragraphs i & 1, Appendix B.

Statements of Financial Accounting Concepts

36. Federal Accounting Standards Board, Statement of Financial Accounting Concepts No. 1: *Objectives of Financial Reporting by Business Enterprises*, paragraph 44.