



**April 14, 2016**

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Financial Reporting Model – **Tab D<sup>1</sup>**

## **MEETING OBJECTIVES**

The objective of the meeting is to discuss a draft exposure draft (ED) concepts statement. The ED provides concepts for the government-wide and component reporting entity reporting models.

## **BRIEFING MATERIALS**

The briefing materials include this memo which provides background information and questions for the Board and the following attachments:

Attachment I: Draft ED provides conceptual guidance that the Board is currently considering. The draft presents the changes since the February 25, 2016 version and includes 'placeholders' for sections that will be completed as the project progresses.

Attachment II: Draft ED – Clean Version provides the draft ED with the "track changes" removed.

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

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## BACKGROUND

During the February 25, 2016 meeting, the Board discussed key terms used in the ED to clarify the concepts intended. The Board agreed that federal GAAP includes both basic financial statements and required supplementary information (RSI) and GAAP directly affects performance information and presentation of budgetary results. In addition, staff would review the budgetary terms used in the ED and make clear the budgetary information that users need.

In addition, the Board discussed the definition of general purpose financial reports. The ED proposes that the government-wide and component reporting entity financial reports are a type of general purpose financial report. While the reports are intended to be comprehensive, they may not be a “single” source of information. Also, constituents and other standards-setters may use the term general purpose financial report differently from the approach used in the ED. Consequently, staff would research the use of the term and revisit its use in the ED.

Also, the ED proposed that component reporting entities provide program level information to show users the amounts expended on programs of interest. The Board determined that this proposal needed explanation, given the different perspectives on the term “program.” Thus, staff would develop language to explain the intent of the proposal.

Moreover, the Board made the following determinations during the meeting:

- Staff would revise the list of items in paragraph 37 of the ED to ensure that the categories do not overlap. For instance, tax expenditures could be a part of the revenue category. Also, expenditures and budgetary legislation are listed separately but may involve the same information.
- The ED would not incorporate Statement of Federal Financial Accounting Concepts (SFFAC) 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements* and SFFAC 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*.
- The ED should note that more disaggregated data can provide additional information that may be useful to users. However, guidance for how to disaggregate data could be addressed in standards.
- The ED should include a high-level discussion about financial position and financial condition. The current concepts include a discussion on the relationship between sustainability and financial condition.
- The proposed concepts should be understandable to ED respondents and summarized headings and diagrams could be used where appropriate. Readers of the ED will need to understand the proposals to provide their comments or responses to questions.

## **NEXT STEPS**

Staff will consider Board member comments and propose revisions and complete additional sections.

## **MEMBER FEEDBACK**

Please contact me as soon as possible to convey your questions or suggestions. Communication before the meeting will help make the meeting more productive. You can contact me by telephone at 202-512-2512 or by e-mail at [simmsr@fasab.gov](mailto:simmsr@fasab.gov) with a cc to [paynew@fasab.gov](mailto:paynew@fasab.gov)

## Questions for the Board

### 1. Required Information

The revised ED uses the term *required information* instead of general purpose federal financial report (GPFFR) to better reflect the focus of the ED. The ED focuses on information required by generally accepted accounting principles (GAAP) and its relationship to other information the government presents. Required information is the term that the Board has used to refer to basic financial statements, disclosures, and required supplementary information. For example, Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display* as amended by SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*, discusses required information.

In federal financial reporting, the term GPFFR can refer to a variety of reports, such as Summary Performance and Financial Reports, Performance and Accountability Reports, Agency Financial Reports, or the Financial Report of the U.S. Government (FR). Although these reports could include information required by GAAP, they also include other information, such as information on improper payments and systems and controls. Accordingly, referring to GPFFRs may be too broad, given the focus of the ED, and referring to required information instead would reduce the likelihood of ambiguity.

**Question 1:** Does the Board agree or disagree with using the term required information rather than GPFFRs when discussing the role of GAAP and how GAAP based information relates to other information?

### 2. Revised List of Required Information for the Government-wide Reporting Entity

Paragraph 37 of the ED lists information useful for assessing the government-wide reporting entity's results of operations, financial position, financial condition, and operating performance. Staff revised the February 2016 list to minimize overlap among the different categories of information presented.

**Question 2:** Does the Board agree or disagree with paragraph 37, listing of information useful for assessing the government-wide reporting entity's results of operations, financial position, financial condition, and operating performance?

### **3. Revised List of Required Information for Component Reporting Entities**

Paragraph 39 of the ED presents a list of information useful for assessing a component reporting entity's results of operations, financial position, financial condition, operating performance, and adherence to budgetary legislation. Staff revised the February 2016 list to minimize overlap and to clarify the information needed to assist users in assessing the component's adherence to budgetary legislation.

**Question 3:** Does the Board agree or disagree with paragraph 39, listing of information useful for assessing the component reporting entity's results of operations, financial position, financial condition, operating performance, and adherence to budgetary legislation?

### **4. Level of Disaggregation for Component Reporting Entity Information**

The February 2016 draft ED discussed that component reporting entities should provide additional detailed information at the program level and cost for "major" programs. However, specifying a level of disaggregation in a concepts statement may constrain the Board when developing standards and there are several views on the definition of the term "program." Accordingly, in paragraph 42 of the ED, staff provided some criteria that the Board could consider when developing standards for disaggregating component reporting information.

**Question 4:** Do members have comments or changes with respect to paragraph 42 of the ED, the discussion on disaggregating component reporting entity information?

### **5. Discussion on Financial Position and Financial Condition**

The Board indicated that the ED should include a high-level discussion on financial position and financial condition. Staff has included language in paragraphs 43-45.

**Question 5:** Do members have comments or changes with respect to the financial position and financial condition discussion in the ED?

### **6. Concepts that Apply to both the Government-wide and Component Reporting Models**

The revised ED has a new section (paragraphs 43-47) for concepts that pertain to both government-wide and component reporting entities. Although the ED provides distinct concepts for the government-wide and component reporting entity models, staff noted that some concepts could apply to both models. Rather

than repeating these concepts in the discussions for both models, staff moved them to a new section that discusses common concepts.

**Question 6:** Does the Board agree or disagree that a section (paragraphs 43-47) is needed to discuss concepts that pertain to both the government-wide and component reporting entities?

## **7. Performance Results**

The February 2016 ED included an outline for a Performance Results section and the staff has now replaced the outline with a discussion on performance results. Accordingly the revised ED provides a more complete Performance Results section (paragraphs 48-54).

**Question 7:** Does the Board have comments or suggested changes regarding the Performance Results Section of the ED (paragraphs 48-54)?

## **8. Summary Level Information**

The February 2016 ED included an outline for a Summary Reporting section and the staff has now replaced the outline with a discussion on Summary Level Information. Accordingly the revised ED provides a more complete section (paragraphs 55-59).

**Question 8:** Does the Board have comments or suggested changes regarding the Performance Results Section of the ED (paragraphs 53-57)?

## **9. Other**

Based on the Board's comments during the February 2016 meeting and the change from GPFRs to *required information*, staff made edits throughout the document. The edits were primarily intended to facilitate the flow of the discussion and better reflect the focus of the ED.

**Question 9:** Does the Board have additional comments regarding the revised ED?



Federal Accounting Standards Advisory Board

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**TITLE**  
SUBTITLE

**Statement of Federal Financial Accounting Concepts**

**Exposure Draft**

Written comments are requested by [date 90 days after issuance]

Month day, year

Working Draft – Comments Are Not Requested on This Draft

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## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an Exposure Draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- ["Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board."](#)
- ["Mission Statement: Federal Accounting Standards Advisory Board"](#), [exposure drafts](#), [Statements of Federal Financial Accounting Standards and Concepts](#), [FASAB newsletters](#), and other items of interest are posted on FASAB's website at: [www.fasab.gov](http://www.fasab.gov).

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### Contact us:

Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814  
Mail stop 6H19  
Washington, DC 20548  
Telephone 202-512-7350  
FAX – 202-512-7366  
[www.fasab.gov](http://www.fasab.gov)





## Federal Accounting Standards Advisory Board

### ISSUE DATE

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

Your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Concepts, entitled **TITLE**, are requested. Specific questions for your consideration appear on page 7 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by DUE DATE.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by e-mail to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to e-mail your responses, we encourage you to fax the comments to (202) 512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
Mailstop H19  
441 G Street, NW, Suite 6814  
Washington, DC 20548

We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at 202.512.7350 to determine if your comments were received.

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. **or** A public hearing has been scheduled at 9:00 AM on Month Day, Year, in Room 7C13 at the GAO Building, 441 G Street, NW, Washington, D.C.

Notice of the date and location of any public hearing on this document will be published in the Federal Register and in the FASAB's newsletter.

Sincerely,

Chairman

## STATEMENTS OF FEDERAL FINANCIAL ACCOUNTING CONCEPTS

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Statements of Federal Financial Accounting Concepts (SFFAC) set forth objectives and fundamentals on which financial accounting and reporting standards are based. The objectives identify the goals and purposes of financial reporting and the fundamentals are the underlying concepts of financial accounting—concepts that guide the selection of transactions, events, and circumstances to be accounted for; their recognition and measurement; and the means of summarizing and communicating them to interested parties.

Concepts statements guide the Board's development of accounting and reporting standards by providing the Board with a common foundation and basic reasoning on which to consider the merits of alternatives. Also, knowledge of the objectives and concepts the Board considers should help users and others who are affected by or interested in federal financial accounting and reporting standards to understand better the purposes, content, and qualitative characteristics of information provided by federal financial accounting and reporting.

The conceptual framework addresses many of the fundamentals needed to support standards setting. FASAB developed the core of its conceptual framework in the early 1990s. At that time, financial management legislation and administrative directives focused on component level reporting. Hence, the FASAB's second concept statement, Entity and Display, focused on the basis for defining a reporting entity and the display of component financial statements. Other concepts statements address financial reporting objectives; qualitative characteristics of information; the intended audience for the financial report of the U.S. Government (FR); elements of accrual basis statements and their measurement attributes; communication methods; and managerial cost accounting.

Through its ongoing conceptual framework project, the FASAB has reviewed its early concepts statements and is establishing new statements as needed. The FASAB Handbook of Accounting Standards and Other Pronouncements, As Amended (FASAB Handbook) provides a full discussion of FASAB's SFFACs and can be accessed at <http://www.fasab.gov/accounting-standards/authoritative-source-of-gaap/accounting-standards/fasab-handbook/>.

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## INTRODUCTION

### PURPOSE

1. This Statement discusses concepts to assist the FASAB in developing reporting models for the government-wide and component reporting entities. Also, the proposed concepts may help preparers and users understand the purposes of information required by generally accepted accounting principles (GAAP). Hereafter, this information will be referred to as required information and the proposed concepts may help preparers and users understand its relationship to other information used in financial reporting.
2. Current concepts have not led to required information that meets users' need to understand: the relationships among budget, cost, and performance information about federal programs and services; and whether the government's financial condition improved or deteriorated during the reporting period. Challenges also remain in understanding component budgetary information and the relationship between the government-wide and component reporting entities' basic financial statements.
3. Moreover, the means of preparing reports and information has evolved and the volume and type of reports that can be prepared has grown since FASAB developed the earlier concepts statements. For instance, the federal government makes a range of information available to the public, including reports that comprise required information, budgetary information, non-financial performance information, and information on systems and controls, and enhancements in technology have expanded access to this information. Users need to understand the relationship between required information and the variety of other information, so they can access data from multiple sources, drill-down through different levels of aggregated data, and use the data to develop their own analysis.
4. Consequently, some existing FASAB concepts statements will need to be reemphasized, amended, or rescinded to clarify users' needs and better address the:
  - a. content and presentation of required information and how the information relates to other information;
  - b. availability and impact of electronic data and systems on financial reporting;
  - c. financial reporting objectives specific to the government-wide and component reporting entities; and
  - d. reporting objectives for budgetary and performance information, cost accounting, and summary reporting, as they relate to required information.
5. Revisiting FASAB concepts statements will ensure that the Board fully considers the concepts that are most important to addressing users' needs.

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## SCOPE

6. As intended, the overall financial reporting objectives discussed in SFFAC 1 are broad. ~~They reflect the needs of federal financial information users and are intended~~ to improve the quality (for example, relevance and consistency) of data available for a wide variety of applications. However, the breadth of the reporting objectives combined with the growth in data sources raise questions regarding the ~~role of FASAB, a GAAP standards-setting body~~.<sup>1</sup> particularly with regard to setting standards needed to meet the budgetary integrity and systems and controls objectives. ~~These objectives~~ are viewed as unconventional objectives for a GAAP standards-setting body.
7. This Statement clarifies SFFAC 1 by emphasizing those objectives most relevant for ~~required information~~ and, therefore, most important for ~~FASAB~~.
8. The Board is charged with giving consideration to “the budgetary information needs of executive agencies and the needs of users of federal financial information”<sup>2</sup> and has committed to supporting efforts to ensure the accuracy and reliability of reporting on the budget. While budgetary and financial accounting information are presented on different bases of accounting, the information is, in effect, about different aspects of the same transaction. Thus, users ~~should be provided information to assist their understanding of those aspects and their~~ relationship.
9. With respect to the FASAB’s focus, the Board develops GAAP for reporting on the results of operations, financial position, ~~financial condition, and operating performance~~ of the federal government and its component reporting entities ~~and their adherence to budgetary legislation~~. This implies a variety of financial measures and other information that complements the information available in the budget. ~~Required information that includes, information on budgetary activity and results~~ will provide a more comprehensive and insightful understanding of the government’s financial position, results of operations, ~~financial condition, and operating performance~~ than ~~budgetary and financial information~~ individually. While ~~required information is a~~ part of a larger body of information available to users, this concept statement is limited to the mission of the FASAB and how ~~information required by~~ GAAP ~~relates to~~ and supplements this larger body of information.
10. Figure 1: Information for Assessing Accountability and for Decision-Making illustrates the larger body of information available to users and the information directly and indirectly affected by GAAP.

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<sup>1</sup> The American Institute of Certified Public Accountants (AICPA) designated FASAB’s as the source of GAAP for federal reporting entities.

<sup>2</sup> FASAB Memorandum of Understanding, October 2009.

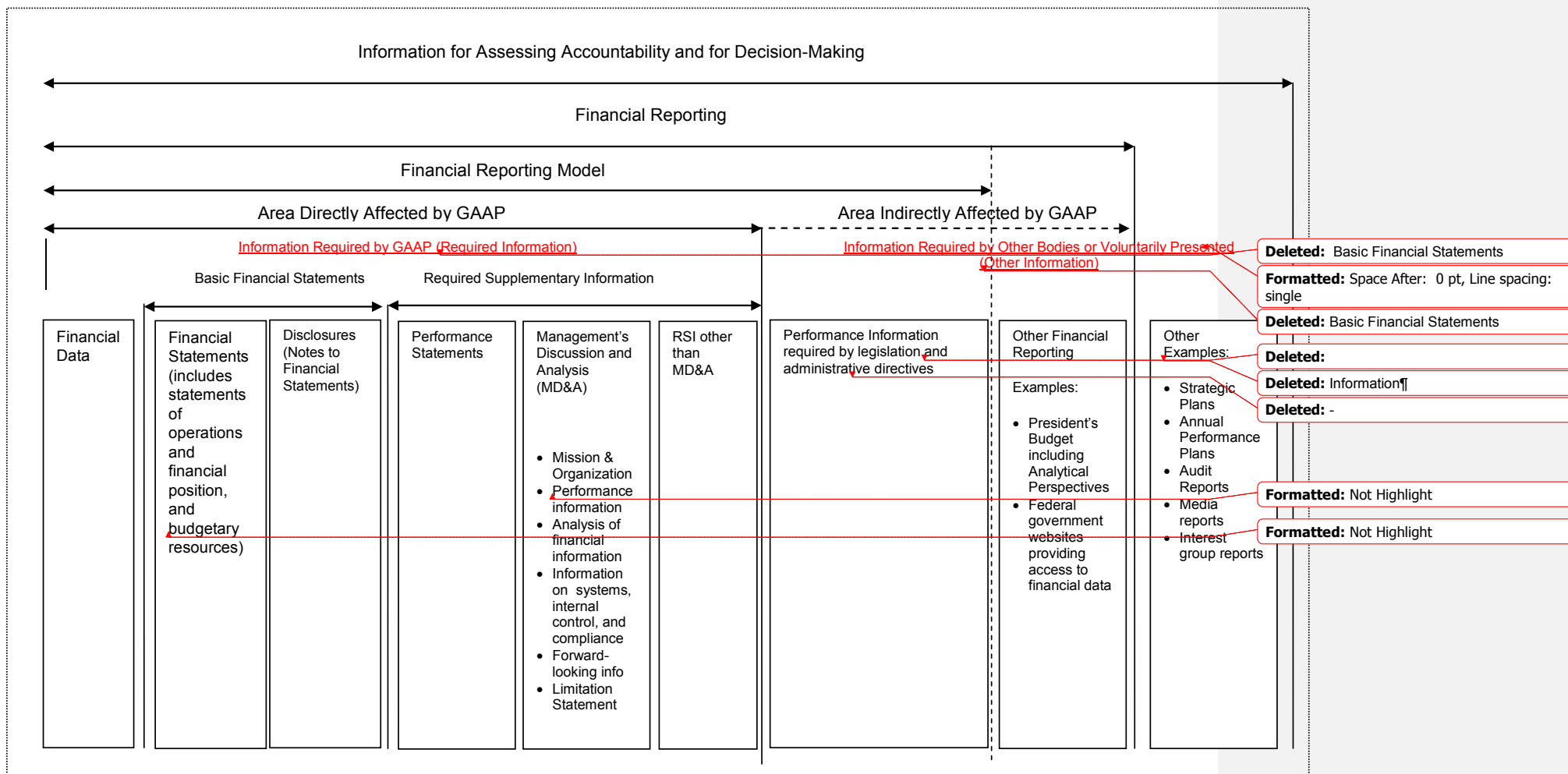


FIGURE 1: INFORMATION FOR ASSESSING ACCOUNTABILITY AND FOR DECISION-MAKING

11. Consequently, this Statement primarily focuses on concepts to support achieving the operating performance and stewardship objectives. Also, this Statement provides concepts for reporting budgetary information. The concepts will guide the development of standards to assist users in assessing the results of operations, financial position, financial condition, and operating performance of the government-wide and component reporting entities, and support achievement of the budgetary integrity objective.
12. This Statement rescinds the section: Relationship of Financial Reporting to Budgeting in SFFAC 1, paragraphs 186 to 191.

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## PROPOSED CONCEPTS

### FEDERAL FINANCIAL REPORTING OBJECTIVES

1. The needs of federal financial information users differ from the needs of private sector financial information users. Private sector entities primarily obtain their resources through voluntary transactions with individuals or other organizations. However, the federal government primarily obtains its resources from the involuntary payment of taxes. Consequently, users of federal financial information are concerned about matters such as how did the government use the resources it obtained, did the government adhere to legislation regarding the acquisition and use of the resources, what will the public receive from the resources provided, were the resources provided sufficient to cover costs, and did the government's ability to provide services improve or deteriorate.
2. Statement of Federal Financial Accounting Concepts (SFFAC) 1: *Objectives of Federal Financial Reporting* (Objectives) discusses the types of users of **federal** financial information, their financial information needs, and the objectives of reporting financial information. The overall financial reporting objectives are:
  - a. Budgetary Integrity. Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government's budget for a particular fiscal year and related laws and regulations.
  - b. Operating Performance. Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities.
  - c. Stewardship. Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future.
  - d. Systems and Controls. Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that: transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with federal accounting standards; assets are properly safeguarded to deter fraud, waste, and abuse; and performance measurement information is adequately supported.
3. These objectives are the foundation for all other concepts and other concepts flow logically from them.

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4. FASAB's report, *Clarifying FASAB's Near-Term Role in Achieving the Objectives of Federal Financial Reporting*, confirmed these objectives and clarified that the Board's primary focus should be on the Operating Performance and Stewardship objectives. Also, with respect to the Stewardship objective, the Board's focus is on the government's financial condition.
5. SFFAC 2: *Entity and Display* identifies the financial information needed to meet the objectives and recognizes that some of the identified information should be required information to assist users in assessing the financial position, results of operations, financial condition, and operating performance of the government-wide and component reporting entities.

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## REQUIRED INFORMATION

Information required by GAAP or required information assists users in assessing the results of operations, financial position, financial condition, and operating performance of the federal government and its component reporting entities and their adherence to budgetary legislation. Required information includes explanatory material to help users understand the relationship among the items of information. GAAP results from an open and deliberative process involving agreement on criteria for categorizing, recognizing and measuring and depicting the government's financial activities.

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6. Required information is intended to assist federal financial information users in assessing the results of operations, financial position, financial condition, and operating performance of the federal government and its component reporting entities and their adherence to budgetary legislation. It includes basic financial statements, disclosures, and required supplementary information (RSI). These different categories of information are needed due to the nature of users' information needs.

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7. Federal financial information users need a range of information to assess the government's finances. However, due to space limitations and other constraints, it may not be reasonable to present all the needed information on the face of basic financial statements. Also, the degree in which individual items meet certain qualitative characteristics and cost-benefit considerations may vary and the item may need to be subjected to different procedures under generally accepted government auditing standards (GAGAS). For example, an item of information might be highly relevant to assessing the government's financial condition, but there may be concerns regarding its reliability. Consequently, the item may be categorized as RSI and subjected to certain procedures specified by GAGAS.

8. Also, an item may be important to assessing an entity's operating performance, but there may be different views on how to classify the item and facilitate consistent reporting. Thus, the item can be categorized as RSI so that users understand the associated level of assurance and, as more experience is gained, FASAB may revisit the categorization.

9. FASAB develops GAAP using an open and deliberative process that facilitates agreement on criteria for categorizing, recognizing, measuring, and depicting the government's financial activities. Also, GAAP:

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a. Is based on a common understanding of terms and elements as well as the relationships among them.

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b. Ensures that the required information is complete; and

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c. Helps guide the exchange of information.

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10. Basic financial statements are prepared using:

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a. Accrual basis for statements regarding results of operations and financial position;

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b. Budgetary basis for budgetary statements; and

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c. Projections for forward-looking statements.

11. When using the accrual basis, costs are recognized when resources are consumed. The costs reflect the resources consumed in the period that the government provided the services. The accrual basis is useful for assessing the government's results of operations, financial position, and operating performance.

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12. With respect to the budgetary basis, events are recognized when the government enters into agreements which obligate the government to make payments in the future, such as awarding a contract. The budgetary basis is useful for assessing the government's adherence to budgetary legislation.

13. Projections involve the calculation of future data based on trends and are intended to depict the results that may occur under various conditions. Projections are useful for assessing the government's financial condition.

14. Required information includes explanations to assist users in understanding the differences among the bases of accounting and the information the basic statements provide and the use of projections. The explanations also assist users in understanding the relationships among the items of information presented and narrative and graphic depictions can be used.

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## OTHER INFORMATION AND ITS RELATIONSHIP TO REQUIRED INFORMATION

Other information may be presented voluntarily or to comply with legislation and administrative directives. Other information may assist users in assessing the results of operations, financial position, financial condition, and operating performance of the government-wide reporting entity and component reporting entities. However, there are caveats to consider when relying on other information. For instance, in contrast to information required by GAAP, other information might not be subjected to certain procedures required by GAGAS.

15. The government-wide and component reporting entities may present information that is not required by FASAB. They may present this information voluntarily, such as to assist users in assessing the financial condition of the reporting entity, or to comply with legislation and administrative directives, such as performance plans and reports. Consequently, the government-wide reporting entity and component reporting entities may report other information in addition to the information required by GAAP. Hereafter this information will be referred to as *other information*.

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16. Other information may be prepared using the same accounting bases as required information and may accompany or be presented with required information. For example, to comply with an administrative directive regarding the use of budgetary resources, component reporting entities may make information on budgetary resources available on websites or in documents that also present information on budgetary resources required by GAAP. Both presentations on budgetary resources may use the budgetary basis.

17. Also, both other information and required information may be arrayed in ways to facilitate users' research. For example, both may be presented in a hierarchical structure that permits users to review highly aggregated data and different levels of detail or disaggregated data. The different levels of data help provide different users with the item of information relevant to their particular needs. Thus, a user may review the highly aggregated data to

- a. obtain an overview of the information being presented.
- b. answer some of their most basic questions.
- c. highlight important issues, and
- d. determine where they may go to find additional data.

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18. A user may also review the disaggregated data to

- a. facilitate their analysis.
- b. answer more specific questions, and
- c. become better informed about issues identified.

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19. For both other information and required information, users may employ electronic technology to assist them in drilling-down to different levels of the hierarchical structure and assessing different levels of disaggregated data or comparing data from different component reporting entities. For example, users may drill-down from the government-wide reporting entity basic financial statements to information in schedules disclosed in component reporting entity financial statements.

20. Narrative descriptions or graphic depictions may enhance the user's understanding of the other information and required information presented and where they might look to answer questions.

21. While information required by GAAP focuses on the common needs of different users, other information may be presented to meet the specific needs of a user or user group. For example, a component reporting entity may present information to address a specific Congressional concern, such as the entity's efforts to identify and reduce improper payments. However, GAAP requires information to assist users in assessing the entity's results of operations, financial position, financial condition, and operating performance.

22. Other information can be a candidate for required information if the information

- a. helps to achieve the financial reporting objectives;
- b. meets the qualitative characteristics of required information; and
- c. meets cost-benefit considerations.

23. Other information can also assist users in assessing a reporting entity's results of operations, financial position, financial condition, and operating performance. For instance, information on the risks that stem from major natural disasters or implicit guarantees may assist users in assessing the government-wide reporting entity's financial condition.

24. Also, there are caveats to consider with respect to other information. For instance, other information might not

- a. be exposed to the same level of discipline as required information;
- b. be consistent with GAAP standards for required information;
- c. meet the qualitative characteristics of required information; and
- d. be subjected to certain procedures required by GAGAS as is the case with required information.

## CONCEPTS FOR REQUIRED BUDGETARY INFORMATION

*Users of federal financial information need budgetary information to help them assess the government's adherence to budgetary legislation. While the budget process involves determining the government's priorities and resource allocations, budget execution involves monitoring the use of the resources acquired. Congress enacts laws to provide component reporting entities with the authority to incur obligations for specific purposes. Thus, component reporting entities should provide information to assist users in assessing adherence to budgetary legislation.*

25. The budget process is the government's principal mechanism for reaching agreement on goals, for allocating resources among competing uses, and for assessing the government's fiscal effects on economic stability and growth. While most attention is paid to the future-oriented roles of the budget process, budget execution is designed to monitor tax receipts and the use of resources according to the purposes for which budget authority was approved.

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BUDGETARY REPORTS¶

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26. In developing budget legislation, Congress decides on targets for: spending and receipts; the amount of the deficit or surplus; and the limit on debt. Upon determining the targets, Congress provides component entities with budget authority and enacts changes in laws affecting receipts and spending.<sup>6</sup>
27. Budget authority provided by annual appropriation acts is considered discretionary spending. Appropriations provide components with the authority to incur obligations for specific purposes. An appropriation can be limited to a single year, multiple years, or be available indefinitely.
28. Budget authority provided by permanent laws is considered mandatory spending.
29. Budget authority includes:
- a. Appropriations - Provided in appropriations acts or authorizing laws, permit agencies to incur obligations and make payment;
  - b. Borrowing Authority - Usually provided in permanent laws, permits agencies to incur obligations but requires them to borrow funds, usually from the general fund of the Treasury;
  - c. Contract Authority - Usually provided in permanent law, permits agencies to incur obligations in advance of a separate appropriation of the cash for payment or in anticipation of the collection of receipts that can be used for payment; and
  - d. Spending Authority from Offsetting Collections - Usually provided in permanent law, permits agencies to offset collections against an expenditure account, incur obligations, and make payment using the offsetting collections.<sup>7</sup> Offsetting collections are deductions from spending to reflect the government's net transactions with the public. They may result from business-like transactions with the public, intragovernmental transactions, voluntary gifts and donations, and offsetting governmental transactions or collections from the public that are governmental in nature such as tax receipts.<sup>8</sup>

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30. When components engage in transactions that require either an immediate or future outlay of cash, they use budget authority. While the use of budget authority does not affect the government-wide reporting entity resources, the outlay of cash does.

31. Budget authority is not always used in a single year. For example, budget authority enacted for the construction of a capital asset may include the estimated total cost for the project at the time the project begins. However, the component may outlay cash for the project over several years. Thus, the outlay of cash may relate to budget authority provided in previous years as well as the current year.

<sup>6</sup> Analytical Perspectives p.92.

<sup>7</sup> Analytical Perspectives pp.102-103.

<sup>8</sup> Analytical Perspectives pp. 99-100.

32. Budgetary resources include new budget authority, unobligated balances, direct spending authority, and obligation limitations.<sup>9</sup>

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## CONCEPTS FOR GOVERNMENT-WIDE AND COMPONENT REPORTING ENTITIES

*Users need different items of information about the government-wide and component reporting entities. The government-wide reporting entity has unique capabilities to finance the services provided. In contrast, component reporting entities receive budget authority to incur obligations for specific purposes and are not independent economic entities. Judgment is needed in determining the level of detail that should be presented and materiality should be considered in determining how best to achieve the reporting objectives. Also, the relationship among the government-wide and component reporting entities should be explained to assist users in locating and using the information they need.*

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<#>Other reporting also includes special purpose financial reports. Federal financial reporting objectives are intended to improve the data available for various applications and they apply to both internal and external financial reports. ¶

<#>Internal financial reports are prepared for special purposes and help internal users, such as federal managers, to plan and conduct their responsibilities in an efficient and effective manner. ¶

<#>External financial reports are prepared for special purposes as well. For example, external special purpose reports may provide economic data about the nation or analyses of the impact of policy proposals.¶

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REQUIRED SCHEDULES AND ELECTRONIC ACCESS¶

<#>In addition, components present schedules required by the Office of Management and ...

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### THE GOVERNMENT-WIDE REPORTING ENTITY

33. The federal government is responsible for the nation's defense and general welfare and is a single economic entity composed of components that provide services to people.
34. The federal government has unique capabilities to finance the services provided and accomplish its objectives. It has the power to levy taxes, charge fees, and borrow.
35. Also, the federal government may accomplish its objectives without outlaying funds. For example, to encourage home ownership and stimulate residential construction, the federal government may approve tax provisions that reduce the tax liability for taxpayers who have to incur the costs associated with mortgage interest and local property taxes.
36. The federal government can continue to provide services even when the cost of providing those services exceeds the amount of revenues received.
37. Given the operations of the government-wide reporting entity, information useful for assessing its results of operations, financial position, financial condition, and operating performance may include:
- information on the sources and amounts of resources received;
  - information on how resources were used;
  - information about the government's net results;
  - information that helps users identify the resources of the government and the obligations as of the reporting date;

<sup>9</sup> GAO A Glossary of Terms Used in the Federal Budget Process

- e. Information that helps users to understand the legislative processes for determining the level of resources to raise from taxes, how the budget resources will be used, and the different measures that may be used to control funds; and,
- f. information to assess the level of future resources needed to sustain public services required by law and policy and to meet obligations as they come due.

Also, when developed, information such as national indicators may help users in assessing the government's operating performance.

#### COMPONENT REPORTING ENTITIES

38. Component reporting entities receive budget authority through appropriations made in the legislative process. Their missions and reporting requirements are established in various laws enacted over time resulting in a complex network of operations and services. Components across the federal government are diverse and the scope and nature of each component's activities can be diverse and at times overlap.

39. In light of the reporting objectives, information useful for assessing a component reporting entity's results of operations, financial position, financial condition, operating performance, and adherence to budgetary legislation may include:

- a. information about the different sources and amount of funding;
- b. information about the use of funding for specific goals or services;
- c. information on the net cost of services;
- d. information on the gross cost of services;
- e. information on the budgeted use of resources in relation to the actual use of resources;
- f. information about resources available to provide current and future services;
- g. information about the obligations (liabilities) that must be met in the future; and
- h. information about the entity's accomplishments.

40. Component reporting entity information users need this information to evaluate the operations of the entity, such as its compliance with budget laws and future resource needs, and the cost of services provided and their performance.

41. Component reporting entity information may be aggregated and categorized by strategic goals. Users need to understand the results that the component plans to achieve and strategic goals reflect those results.

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42. Information on the component reporting entity's funding and costs needs to be disaggregated in ways to assist users in their analyses and further their understanding of the entity's operating performance. Thus, the process of disaggregating component reporting entity information should consider users' need to better understand

- a. the purposes for the budget authorities provided, such as budget authority provided to enhance domestic preparedness for an infectious disease and preventing its spread,
- b. the needs of the citizens that the component reporting entity is trying to address and the constructs for addressing them, and
- c. the component reporting entity's progress in achieving the purposes for which budget authorities were provided or in addressing the needs of the citizens.

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#### BOTH THE GOVERNMENT-WIDE AND COMPONENT REPORTING ENTITIES

43. Government-wide and component reporting entities should provide information to assist users in assessing their financial position.

44. To assess a reporting entity's financial position, users need information on the status of its resources and obligations and the difference between the two or net position.

- a. For the government-wide, financial position provides information such as whether resources exceed the obligations or whether obligations exceed the resources.
- b. For components, financial position provides information such as unexpended appropriations, extent of dedicated collections, and cumulative results of operations.
- c. However, financial position with respect to a component is not as meaningful as for the federal government because a component is not an independent economic entity. The government-wide reporting entity can tax and borrow funds while budget authority specifies the amount, purpose, and duration of a component reporting entity's funding.

**Comment [RS2]:** The Board decided that guidance for disaggregating budgetary and cost information should be discussed in a standard rather than this concepts statement.

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[Placeholder for guidance on classifying or disaggregating funding (budgetary) and costs information].¶  
[Placeholder for discussion: the manner in which financial position and financial condition should be presented.]

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45. Financial condition is a projection of the change in financial position over time resulting from the monies coming in and the monies going out as a percent of gross domestic product (GDP). Financial condition is relevant for the government-wide reporting entity and for component reporting entities that receive budget authority to provide social insurance. The public relies on social insurance for their long-term planning and are concerned about its sustainability.

46. Preparers should consider materiality and how best to meet the reporting objectives and not simply engage in a compliance exercise. Preparer judgment regarding context and the level of detail to be presented is needed.

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<#>A third "net position" reflecting national indicators for the country could be presented.¶

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47. The relationship among the government-wide and component reporting entities should be explained to assist users in locating and using the information they need.

## PERFORMANCE RESULTS

Users of federal financial information need performance results information to assist them in understanding what was obtained for the costs incurred. Performance results may be based on financial and nonfinancial information and may have limitations, such as performance measures alone cannot reveal why performance is at the level presented. Consequently, explanations may be needed to reveal matters such as why results did not achieve the desired target. Presenting multiple periods of performance information can help identify improving or declining performance.

48. Performance results information shows what was obtained for the costs incurred. The different types of performance information include:

- a. Inputs – resources provided. These measures may be based on financial and nonfinancial information. For instance, the financial information needed may include the cost of salaries or equipment or other resources used. The nonfinancial information needed may include the number of full-time equivalent employees or the number of capital assets used.
- b. Outputs – the quantity of a service or product provided. These measures may be based on nonfinancial information.
- c. Outcomes – the accomplishments or results that occurred because of the service. These measures may be based on nonfinancial information and are useful when compared with previous periods, established goals, or other comparable entities.

49. Performance may not be adequately described by a single measure and performance measures alone may not describe why performance is at the level presented.

50. Including explanations with the performance results information may help users understand the presented performance measures and the factors that impact the performance presented. Explanations may include: external factors affecting results, such as the environment, economy, and social conditions; and internal factors affecting results, such as funding levels, legal requirements, significance of results, explanations of trends, reasons why the results did not achieve the target and plans for achieving the target, and reasons for significantly exceeding the target.

51. Although performance results often do not occur in the year costs were incurred, it is important to show the relationship. Relating performance results to costs assist users in assessing the effectiveness of the service provided.

52. To be useful for decision-making, performance information should be timely, presented as soon as possible after the end of the reporting period. The characteristic of timeliness should not preclude the use of important measures for which results are not readily

**Deleted:** <#>Components' summary information should be for strategic goals, because they reflect the purposes of components. ¶  
<#>Components' detail information should be at the program level to show users the amounts expended on programs of interest.¶  
<#>Explain relationship between programs and services¶  
<#>Make distinction between program activities and programs.¶  
<#>Comparisons of actual to budget resources provide an understanding of how budget resources are used.¶  
<#>Costs, with costs of at least the major programs when possible, is necessary¶  
<#>Types of costs to be encompassed¶  
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available. Users rely on estimates of important information which require professional judgment.

53. Communicating the sources of the entity's goals would assist users in determining how the entity established them and where users may go for more detailed information.

54. Presenting information for multiple periods help to reveal long-term trends, when appropriate. Trend information can be helpful for demonstrating improving or declining performance and for evaluating services and planning future services.

## SUMMARY LEVEL INFORMATION

Summary level information may assist citizens in assessing the reporting entity's results of operations, financial position, financial condition, operating performance, and adherence to budgetary legislation. Citizens may rely on highly aggregated information and pictorial presentations for their analysis and need to understand: how the information presented should be used, and where to find additional detailed information.

55. Presenting levels or layers of information may be useful for communicating a reporting entity's results of operations, financial position, financial condition, operating performance, and adherence to budgetary legislation. Different levels help users locate the level of detail they may need for their specific analysis. The top level may provide highly aggregated information while lower levels provide increasingly more detailed information.

56. The highly aggregated top level or summary level may be most useful to citizens and it is likely the level where they will begin their review. Citizens need a succinct and comprehensive picture of the reporting entity's activities. They may not have extensive knowledge of accounting and budgeting concepts to understand disaggregated financial and nonfinancial information and the relationship among different items.

57. With respect to data, citizens may rely on pictorial rather than tabular presentations and extensive narratives.

58. To help inform users of the reporting entity's finances, the summary level information should address

- a. the purpose or the intent of the summary level, informing users of what information they might expect to review.
- b. the scope of the summary level so that users understand what items of information the level includes or its completeness.
- c. an analysis of results for the period and challenges facing the entity so that users understand the information being provided, how it might be used, and important matters that may impact the entity's goals.

**Deleted:** Inputs – resources provided

**Deleted:** Outputs - the quantity of a service or product provided.¶  
Outcomes – the accomplishments or results that occurred because of the service.¶  
Performance results might not occur in the year the costs were incurred. ¶  
Information nonetheless important to show relationship.¶  
Characteristics of performance information.¶  
<#>Sources of performance information¶  
<#>Importance of timeliness and acceptability of estimates.¶

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**Comment [RS3]:** Discussed in Other Information Section

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<#>Electronic reporting—how it can be used to expand the extent of information made available.¶

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d. consistent with the purpose of the summary level, items of information that may have decision-making implications, such as ▼

i. basic performance goals and measures

ii. net costs

iii. results of operations

iv. the status of resources and obligations.

v. sustainability information, and

vi. the status of budgetary resources

e. multiple periods of information to assist users in identifying trends.

59. A presentation of other levels, including their relationships, may assist users in identifying sources for additional analysis.

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## APPENDIX A: BASIS FOR CONCLUSIONS

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This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

### PROJECT HISTORY

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- A1. This project is a part of the Board's conceptual framework initiative. After several years of progress in federal financial reporting, FASAB decided to revisit its conceptual framework with a focus on ensuring that accounting standards are based on a sound framework of objectives and concepts. At that time, Board members were concerned that the reporting objectives were broad and some members sought to better determine the role of GAAP-based financial statements in achieving them. Accordingly, the Board began the conceptual framework initiative by revisiting the reporting objectives and engaging the federal reporting community in the discussions.

#### User Needs and Reporting Community Outreach

- A2. FASAB staff conducted a series of roundtable discussions to determine whether the objectives remained valid and appropriate and to help define the role of the Board in achieving them. Roundtable participants provided views on whether the objectives continued to reflect the information needs of users and whether they are being achieved. The participants believed the reporting objectives remained valid and they noted that the objectives could be accomplished by reports and similar materials other than financial statements. Consequently, in 2006, the Board agreed to retain the broad objectives and issue its Strategic Directions report that discusses the Board's primary and secondary focuses relative to the reporting objectives.
- A3. Next, the Board began discussing the need for conceptual guidance that describes the reporting model and how it relates to the reporting objectives. The concepts would guide the Board in determining the financial statements necessary for achieving the reporting objectives and help focus on "what should be" versus "what is." The former would ensure that the objectives are adequately addressed and the statements are useful to readers. Also, members were concerned about whether a relationship should exist among financial statements, such as the balance sheet and a statement of net cost, and how the model compares with other reporting models. As a result, staff began researching the diverse needs of users and how they access information; surveying other countries and their reporting models; and conducting discussions with preparers, citizen intermediaries, congressional staff, program managers, executives, auditors, state and local government planners and analysts, and experts in federal financial reporting.

- A4. Meanwhile, the Board continued its deliberations on social insurance and long term sustainability reporting, projects that would significantly impact the existing reporting model and raise conceptual questions that should be addressed in the conceptual framework initiative. Board members discussed conceptual issues such as the purpose of the balance sheet and its elements and eventually the Board determined that the conceptual framework needed to better explain unique accounting issues such as why:
- a. the power to tax is not an asset but nonetheless is relevant to assessing the sustainability or the financial condition of the federal government;
  - b. current deficits are indeed bad and have short and long-term implications;
  - c. the timing of a cash flow problem is important; and
  - d. the point estimates on the balance sheet have limitations for assessing financial condition.
- A5. Accordingly, the Board decided to consider these and other reporting concepts in the reporting model project.
- A6. FASAB staff provided the Board with a series of reports and discussion papers. In summary, staff noted that users needed information regarding:
- a. The cost of programs.
  - b. The performance of programs
  - c. The sustainability of programs
  - d. How actual spending compared to the budget
- A7. Also, users needed plain-language, understandable information, and the ability to access information and prepare their own reports.

#### Task Forces and Additional Research

- A8.** The Board organized the Reporting Model Task Force to consider the user needs and reporting community results and provide suggestions for the reporting model. In 2010, the task force completed its work and presented recommendations to enhance the reporting model. In general, the task force focused on what could be accomplished in the near term and on the Financial Report of the U.S. Government (CFR) because the public would likely start with the CFR to learn about the fiscal health of the federal government. Consequently, they recommended the adoption of a centralized, web-based method of reporting financial and performance information, recommended changes to particular financial statements, and recommended additional disclosures. They believed that the success of these recommendations require raising public awareness of federal financial reporting.
- A9. In 2011, the Board discussed the task force recommendations and members discussed systems constraints and challenges and noted that many of the recommendations could be adopted voluntarily by preparers. However, members did note that the conceptual framework that should guide accounting standards remained incomplete and not current.

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Also, at that time, the Board discussed its priorities and plans and revisited its Strategic Directions report. The Board reaffirmed its conclusions in the Strategic Directions report and noted factors that would likely influence federal financial reporting. Those factors included the notion that citizens and citizen intermediaries are the primary audience for the CFR, which implies that FASAB standards should focus on the CFR and should primarily consider citizens' information needs. Additionally, the factor implies that component reporting entity reports should support the needs identified for the CFR.

- A10. Later in 2011, the Board discussed the report, *The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General (CFO Act Report)*. The report recommended that Congress consider directing FASAB, the Office of Management and Budget (OMB), and the Government Accountability Office (GAO) to evolve the financial reporting model. Consequently, the Board decided to review the reporting model of component reporting entities and conduct discussions with CFOs and various groups to help the Board determine the information of value to users.
- A11. Also, other countries were reporting on service performance as well as financial performance. Given the range of issues, the Board decided that the project needed to be segmented into three separate projects – improving cost, performance, and budgetary reporting – and task forces would be organized for each project. This approach would allow members to better focus on issues that needed to be addressed.
- A12. In 2012, the three task forces proceeded to discuss issues and subsequently recommended that the Board revisit SFFAS 4, *Managerial Cost Accounting Standards and Concepts*. The task forces believed that adequate cost guidance is needed to support users of budget and performance information and provide cost information that meets the expectations of financial information users. Upon reviewing the task force results, the Board determined that the recommended project would involve matters outside of the Board's domain and would require coordination with the OMB and the Department of the Treasury. Also, members again raised concerns about systems constraints and challenges in presenting integrated cost, budget, and performance information.
- A13. Subsequently, the Board engaged the National Academy of Public Administration (NAPA) to help learn more about the needs of executives and managers and preparers' needs for resources to guide financial information development. The research informed the Board on the availability of financial and related information, the effective use of financial data by senior managers, the current and desired role of the CFO, and, if gaps exist, what options are most likely helpful in closing those gaps. The NAPA team conducted interviews with federal executives and senior managers with operating responsibility for agencies, bureaus, offices, divisions, or comparable organizational units.
- A14. NAPA's report, *Financial and Related Information for Decision-Making: Enhancing Management Information to Support Operational Effectiveness and Priority Goals* discussed that
- a. Data generally are highly accurate and granular, but federal agencies face challenges in analyzing and transforming data into readily understood, actionable information for executive decision-making— especially the linking of budget, costs, and performance.

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- b. The degree to which financial data are effectively used for decision-making is heavily driven by each organization's revenue source (user fee-based versus appropriation-based) and operational approach.
- c. CFO organizations will increasingly need to offer valuable decision-making support to executives and senior managers, including sophisticated cost and performance analysis.

#### Developing Ideal Reporting Models without Constraints

- A15. At this point, members noted that models of the ideal presentation are needed to serve as the end-goal for the project and help guide their direction. Also, given that raising concerns about existing systems and challenges directed the discussions away from "what should be," the Board determined that development of ideal models would not be constrained by considering existing systems and what the Board could accomplish immediately. In addition, the models will take a holistic view and consider the other conceptual issues discussed previously and include explanations on why the resulting construct should be considered ideal. Consequently, the Board decided to develop conceptual, ideal models that integrate budget, cost, and service performance information.

#### Flow Information: The Starting Point for Developing Ideal Models

- A16. During the April 2014 meeting, FASAB members developed and presented their views of ideal reporting models. The presentations addressed the Budgetary Integrity objective, in general, and each of the sub-objectives of the Operating Performance objective. Also, with respect to the Stewardship objective, the Board decided to focus on the federal government as the entity rather than the nation's economy. In addition, in June, the Board decided not to revisit the reporting objectives or clarify the role of FASAB with respect to the objectives. Instead, the Board decided to begin developing the ideal reporting model by focusing on the flows and the flow statements that would help achieve the reporting objectives.
- A17. Users needed to better understand flow information, such as costs and budgetary information, and how they relate. The Board would consider how cost and budgetary information should be disaggregated and address how to reconcile cost and budget at a level that would be understandable to users.
- A18. However, members expressed concern about whether the concepts should include illustrations of financial statements and whether concepts should reflect an 'aspirational' reporting model or simply describe current practice. Consequently, the Board decided to: develop an inventory of concepts and topics that might be included in the concepts statement; and upon completing the inventory, deliberate which items should be retained in the concepts statement.

#### Inventory of Concepts and Framework for an Exposure Draft

- A19. In February 2015, the Board began developing an inventory of concepts that would help guide development of the reporting models and in December 2015 decided on a framework or outline to guide development of an exposure draft concepts statement.

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The Board agreed that the framework needed to be comprehensive and include new and existing concepts and topics that members had suggested during the project.

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## APPENDIX B: AMENDMENTS TO SFFAC 1

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The following text is rescinded:

### Relationship Of Financial Reporting To Budgeting

186. “The budget” is a broad term that may include, among other things, a projection of spending authorities and means of financing them for a future period and a report of the actual spending and associated financing for a past period. The FASAB’s recommendations may influence the reporting of actual budgetary data.

187. The Budget of the United States Government is the most widely recognized and used financial report of the federal government. The budget process is the government’s principal mechanism for reaching agreement on goals, for allocating resources among competing uses, and for assessing the government’s fiscal effects on economic stability and growth. Most attention is paid to these future-oriented roles of the budget.

188. Budget execution is designed to control and track tax receipts and the use of resources according to the purposes for which budget authority was approved. Actual receipts, obligations, and outlays are recorded by account, as is the status of budgetary resources at the end of each fiscal year.

189. Budgetary measurement is designed to assist in the control and allocation of resources by showing the cash outlays implied by each decision when the decision is made. In some cases, the budget now also includes accruals for costs in advance of the required cash outlay. Budgetary concepts are under continual review. They may be changed by law or, after consultation with the Congress, in the annual revision of OMB Circular A-11, “Preparation and Submission of Budget Estimates.”

190. The Board’s authority does not extend to recommending budgetary standards or budgetary concepts, but the Board is committed to providing reliable accounting information that supports budget planning and formulation. The Board also supports efforts to ensure the accuracy and reliability of reporting on the budget.

191. The Board’s own focus is on developing generally accepted accounting standards for reporting on the financial operations, financial position, and financial condition of the federal government and its component entities and other useful financial information. This implies a variety of measures of costs and other information that complements the information available in the budget. Together with budgetary reports, these reports will provide a more comprehensive and insightful understanding of the government’s financial position, results of operations, and financial condition than either set of reports alone.

## APPENDIX C: ABBREVIATIONS

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FR	Financial Report of the U.S. government
ED	Exposure draft
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GASB	Governmental Accounting Standards Board
IPSASB	International Public Sector Accounting Standards Board
OMB	Office of Management and Budget
SFAS	Statement of Financial Accounting Standards (FASB)
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

## APPENDIX D: GLOSSARY

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**Federal Accounting Standards Advisory Board**

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<p><b>TITLE</b> SUBTITLE</p>
----------------------------------

**Statement of Federal Financial Accounting Concepts**

**Exposure Draft**

Written comments are requested by [date 90 days after issuance]

Month day, year

Working Draft – Comments Are Not Requested on This Draft

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## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an Exposure Draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- [“Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.”](#)
- [“Mission Statement: Federal Accounting Standards Advisory Board”](#), [exposure drafts](#), [Statements of Federal Financial Accounting Standards and Concepts](#), [FASAB newsletters](#), and other items of interest are posted on FASAB’s website at: [www.fasab.gov](http://www.fasab.gov).

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### Contact us:

Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814  
Mail stop 6H19  
Washington, DC 20548  
Telephone 202-512-7350  
FAX – 202-512-7366  
[www.fasab.gov](http://www.fasab.gov)



## Federal Accounting Standards Advisory Board

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### ISSUE DATE

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

Your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Concepts, entitled **TITLE**, are requested. Specific questions for your consideration appear on page 7 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by DUE DATE.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by e-mail to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to e-mail your responses, we encourage you to fax the comments to (202) 512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
Mailstop H19  
441 G Street, NW, Suite 6814  
Washington, DC 20548

We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at 202.512.7350 to determine if your comments were received.

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. **or** A public hearing has been scheduled at 9:00 AM on Month Day, Year, in Room 7C13 at the GAO Building, 441 G Street, NW, Washington, D.C.

Notice of the date and location of any public hearing on this document will be published in the Federal Register and in the FASAB's newsletter.

Sincerely,

Chairman

## STATEMENTS OF FEDERAL FINANCIAL ACCOUNTING CONCEPTS

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Statements of Federal Financial Accounting Concepts (SFFAC) set forth objectives and fundamentals on which financial accounting and reporting standards are based. The objectives identify the goals and purposes of financial reporting and the fundamentals are the underlying concepts of financial accounting—concepts that guide the selection of transactions, events, and circumstances to be accounted for; their recognition and measurement; and the means of summarizing and communicating them to interested parties.

Concepts statements guide the Board's development of accounting and reporting standards by providing the Board with a common foundation and basic reasoning on which to consider the merits of alternatives. Also, knowledge of the objectives and concepts the Board considers should help users and others who are affected by or interested in federal financial accounting and reporting standards to understand better the purposes, content, and qualitative characteristics of information provided by federal financial accounting and reporting.

The conceptual framework addresses many of the fundamentals needed to support standards setting. FASAB developed the core of its conceptual framework in the early 1990s. At that time, financial management legislation and administrative directives focused on component level reporting. Hence, the FASAB's second concept statement, Entity and Display, focused on the basis for defining a reporting entity and the display of component financial statements. Other concepts statements address financial reporting objectives; qualitative characteristics of information; the intended audience for the financial report of the U.S. Government (FR); elements of accrual basis statements and their measurement attributes; communication methods; and managerial cost accounting.

Through its ongoing conceptual framework project, the FASAB has reviewed its early concepts statements and is establishing new statements as needed. The FASAB Handbook of Accounting Standards and Other Pronouncements, As Amended (FASAB Handbook) provides a full discussion of FASAB's SFFACs and can be accessed at <http://www.fasab.gov/accounting-standards/authoritative-source-of-gaap/accounting-standards/fasab-handbook/>.

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## INTRODUCTION

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### PURPOSE

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1. This Statement discusses concepts to assist the FASAB in developing reporting models for the government-wide and component reporting entities. Also, the proposed concepts may help preparers and users understand the purposes of information required by generally accepted accounting principles (GAAP). Hereafter, this information will be referred to as *required information* and the proposed concepts may help preparers and users understand its relationship to other information used in financial reporting.
2. Current concepts have not led to required information that meets users' need to understand: the relationships among budget, cost, and performance information about federal programs and services; and whether the government's financial condition improved or deteriorated during the reporting period. Challenges also remain in understanding component budgetary information and the relationship between the government-wide and component reporting entities' basic financial statements.
3. Moreover, the means of preparing reports and information has evolved and the volume and type of reports that can be prepared has grown since FASAB developed the earlier concepts statements. For instance, the federal government makes a range of information available to the public, including reports that comprise required information, budgetary information, non-financial performance information, and information on systems and controls, and enhancements in technology have expanded access to this information. Users need to understand the relationship between required information and the variety of other information so they can access data from multiple sources, drill-down through different levels of aggregated data, and use the data to develop their own analysis.
4. Consequently, some existing FASAB concepts statements will need to be reemphasized, amended, or rescinded to clarify users' needs and better address the:
  - a. content and presentation of required information and how the information relates to other information;
  - b. availability and impact of electronic data and systems on financial reporting;
  - c. financial reporting objectives specific to the government-wide and component reporting entities; and
  - d. reporting objectives for budgetary and performance information, cost accounting, and summary reporting, as they relate to required information.
5. Revisiting FASAB concepts statements will ensure that the Board fully considers the concepts that are most important to addressing users' needs.

## SCOPE

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6. As intended, the overall financial reporting objectives discussed in SFFAC 1 are broad. They reflect the needs of federal financial information users and are intended to improve the quality (for example, relevance and consistency) of data available for a wide variety of applications. However, the breadth of the reporting objectives combined with the growth in data sources raise questions regarding the role of FASAB, a GAAP standards-setting body;<sup>1</sup> particularly with regard to setting standards needed to meet the budgetary integrity and systems and controls objectives. These objectives are viewed as unconventional objectives for a GAAP standards-setting body.
7. This Statement clarifies SFFAC 1 by emphasizing those objectives most relevant for required information and, therefore, most important for FASAB.
8. The Board is charged with giving consideration to “the budgetary information needs of executive agencies and the needs of users of federal financial information”<sup>2</sup> and has committed to supporting efforts to ensure the accuracy and reliability of reporting on the budget. While budgetary and financial accounting information are presented on different bases of accounting, the information is, in effect, about different aspects of the same transaction. Thus, users should be provided information to assist their understanding of those aspects and their relationship.
9. With respect to the FASAB’s focus, the Board develops GAAP for reporting on the results of operations, financial position, financial condition, and operating performance of the federal government and its component reporting entities and their adherence to budgetary legislation. This implies a variety of financial measures and other information that complements the information available in the budget. Required information that includes information on budgetary activity and results will provide a more comprehensive and insightful understanding of the government’s financial position, results of operations, financial condition, and operating performance than budgetary and financial information individually. While required information is a part of a larger body of information available to users, this concept statement is limited to the mission of the FASAB and how information required by GAAP relates to and supplements this larger body of information.
10. Figure 1: Information for Assessing Accountability and for Decision-Making illustrates the larger body of information available to users and the information directly and indirectly affected by GAAP.

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<sup>1</sup> The American Institute of Certified Public Accountants (AICPA) designated FASAB’s as the source of GAAP for federal reporting entities.

<sup>2</sup> FASAB Memorandum of Understanding, October 2009.

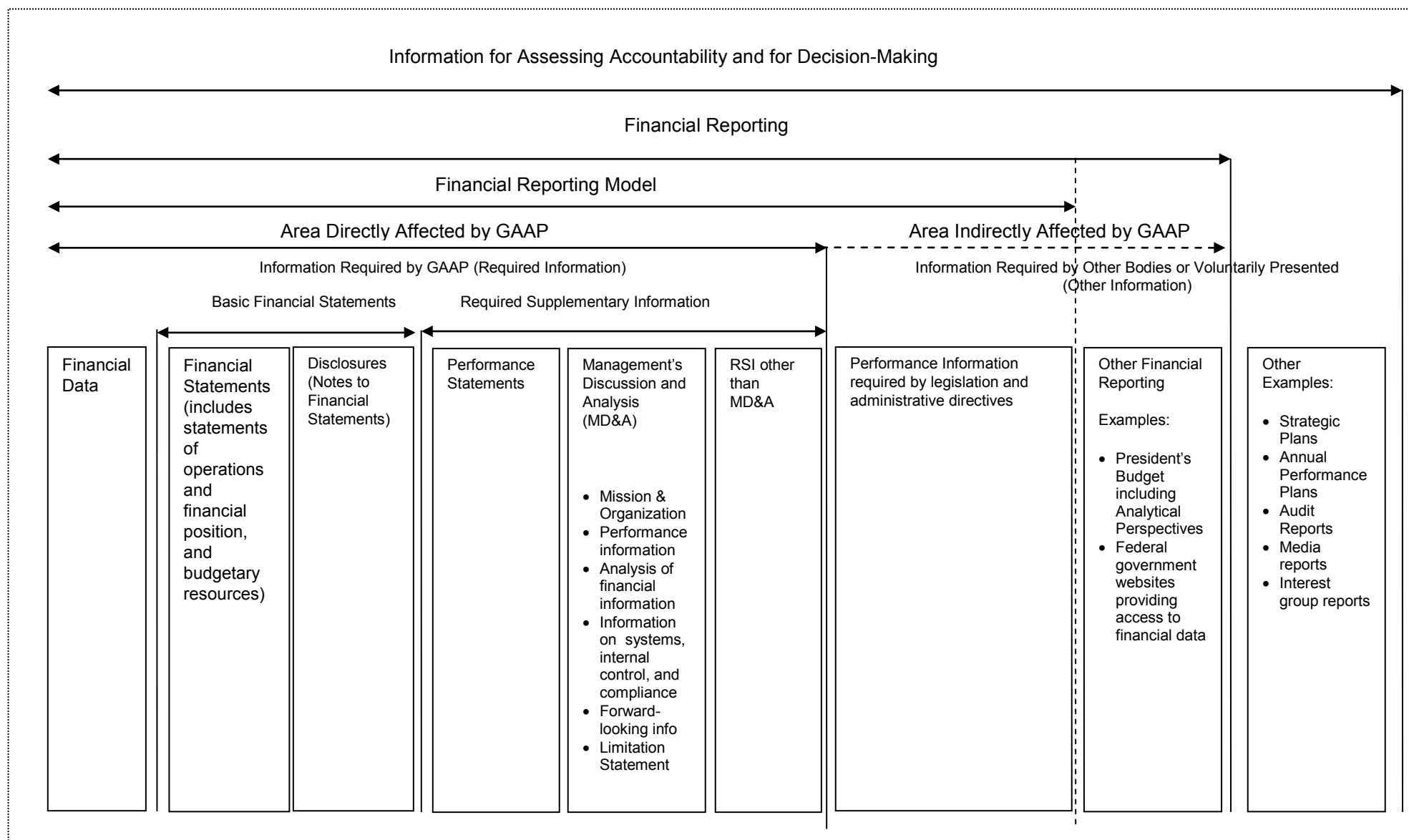


FIGURE 1: INFORMATION FOR ASSESSING ACCOUNTABILITY AND FOR DECISION-MAKING

11. Consequently, this Statement primarily focuses on concepts to support achieving the operating performance and stewardship objectives. Also, this Statement provides concepts for reporting budgetary information. The concepts will guide the development of standards to assist users in assessing the results of operations, financial position, financial condition, and operating performance of the government-wide and component reporting entities and support achievement of the budgetary integrity objective.
12. This Statement rescinds the section: Relationship of Financial Reporting to Budgeting in SFFAC 1, paragraphs 186 to 191.

## PROPOSED CONCEPTS

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### FEDERAL FINANCIAL REPORTING OBJECTIVES

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1. The needs of federal financial information users differ from the needs of private sector financial information users. Private sector entities primarily obtain their resources through voluntary transactions with individuals or other organizations. However, the federal government primarily obtains its resources from the involuntary payment of taxes. Consequently, users of federal financial information are concerned about matters such as how did the government use the resources it obtained, did the government adhere to legislation regarding the acquisition and use of the resources, what will the public receive from the resources provided, were the resources provided sufficient to cover costs, and did the government's ability to provide services improve or deteriorate.
2. Statement of Federal Financial Accounting Concepts (SFFAC) 1: *Objectives of Federal Financial Reporting* (Objectives) discusses the types of users of federal financial information, their financial information needs, and the objectives of reporting financial information. The overall financial reporting objectives are:
  - a. **Budgetary Integrity.** Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government's budget for a particular fiscal year and related laws and regulations.
  - b. **Operating Performance.** Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities.
  - c. **Stewardship.** Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future.
  - d. **Systems and Controls.** Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that: transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with federal accounting standards; assets are properly safeguarded to deter fraud, waste, and abuse; and performance measurement information is adequately supported.
3. These objectives are the foundation for all other concepts and other concepts flow logically from them.

4. FASAB's report, *Clarifying FASAB's Near-Term Role in Achieving the Objectives of Federal Financial Reporting*, confirmed these objectives and clarified that the Board's primary focus should be on the Operating Performance and Stewardship objectives. Also, with respect to the Stewardship objective, the Board's focus is on the government's financial condition.
5. SFFAC 2: *Entity and Display* identifies the financial information needed to meet the objectives and recognizes that some of the identified information should be required information to assist users in assessing the financial position, results of operations, financial condition, and operating performance of the government-wide and component reporting entities.

## REQUIRED INFORMATION

---

*Information required by GAAP or required information assists users in assessing the results of operations, financial position, financial condition, and operating performance of the federal government and its component reporting entities and their adherence to budgetary legislation. Required information includes explanatory material to help users understand the relationship among the items of information. GAAP results from an open and deliberative process involving agreement on criteria for categorizing, recognizing and measuring and depicting the government's financial activities.*

6. Required information is intended to assist federal financial information users in assessing the results of operations, financial position, financial condition, and operating performance of the federal government and its component reporting entities and their adherence to budgetary legislation. It includes basic financial statements, disclosures, and required supplementary information (RSI). These different categories of information are needed due to the nature of users' information needs.
7. Federal financial information users need a range of information to assess the government's finances. However, due to space limitations and other constraints, it may not be reasonable to present all the needed information on the face of basic financial statements. Also, the degree in which individual items meet certain qualitative characteristics and cost-benefit considerations may vary and the item may need to be subjected to different procedures under generally accepted government auditing standards (GAGAS). For example, an item of information might be highly relevant to assessing the government's financial condition, but there may be concerns regarding its reliability. Consequently, the item may be categorized as RSI and subjected to certain procedures specified by GAGAS.
8. Also, an item may be important to assessing an entity's operating performance, but there may be different views on how to classify the item and facilitate consistent reporting. Thus, the item can be categorized as RSI so that users understand the associated level of assurance and, as more experience is gained, FASAB may revisit the categorization.
9. FASAB develops GAAP using an open and deliberative process that facilitates agreement on criteria for categorizing, recognizing, measuring, and depicting the government's financial activities. Also, GAAP:

- a. Is based on a common understanding of terms and elements as well as the relationships among them.
  - b. Ensures that the required information is complete; and
  - c. Helps guide the exchange of information.
10. Basic financial statements are prepared using:
- a. Accrual basis for statements regarding results of operations and financial position;
  - b. Budgetary basis for budgetary statements; and
  - c. Projections for forward-looking statements.
11. When using the accrual basis, costs are recognized when resources are consumed. The costs reflect the resources consumed in the period that the government provided the services. The accrual basis is useful for assessing the government's results of operations, financial position, and operating performance.
12. With respect to the budgetary basis, events are recognized when the government enters into agreements which obligate the government to make payments in the future, such as awarding a contract. The budgetary basis is useful for assessing the government's adherence to budgetary legislation.
13. Projections involve the calculation of future data based on trends and are intended to depict the results that may occur under various conditions. Projections are useful for assessing the government's financial condition.
14. Required information includes explanations to assist users in understanding the differences among the bases of accounting and the information the basic statements provide and the use of projections. The explanations also assist users in understanding the relationships among the items of information presented and narrative and graphic depictions can be used.

## OTHER INFORMATION AND ITS RELATIONSHIP TO REQUIRED INFORMATION

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*Other information may be presented voluntarily or to comply with legislation and administrative directives. Other information may assist users in assessing the results of operations, financial position, financial condition, and operating performance of the government-wide reporting entity and component reporting entities. However, there are caveats to consider when relying on other information. For instance, in contrast to information required by GAAP, other information might not be subjected to certain procedures required by GAGAS.*

15. The government-wide and component reporting entities may present information that is not required by FASAB. They may present this information voluntarily, such as to assist users in assessing the financial condition of the reporting entity, or to comply with legislation and administrative directives, such as performance plans and reports. Consequently, the government-wide reporting entity and component reporting entities may report other information in addition to the information required by GAAP. Hereafter this information will be referred to as *other information*.
16. Other information may be prepared using the same accounting bases as required information and may accompany or be presented with required information. For example, to comply with an administrative directive regarding the use of budgetary resources, component reporting entities may make information on budgetary resources available on websites or in documents that also present information on budgetary resources required by GAAP. Both presentations on budgetary resources may use the budgetary basis.
17. Also, both other information and required information may be arrayed in ways to facilitate users' research. For example, both may be presented in a hierarchical structure that permits users to review highly aggregated data and different levels of detail or disaggregated data. The different levels of data help provide different users with the item of information relevant to their particular needs. Thus, a user may review the highly aggregated data to
  - a. obtain an overview of the information being presented,
  - b. answer some of their most basic questions,
  - c. highlight important issues, and
  - d. determine where they may go to find additional data.
18. A user may also review the disaggregated data to
  - a. facilitate their analysis,
  - b. answer more specific questions, and
  - c. become better informed about issues identified.
19. For both other information and required information, users may employ electronic technology to assist them in drilling-down to different levels of the hierarchical structure and assessing different levels of disaggregated data or comparing data from different component reporting entities. For example, users may drill-down from the government-wide reporting entity basic financial statements to information in schedules disclosed in component reporting entity financial statements.
20. Narrative descriptions or graphic depictions may enhance the user's understanding of the other information and required information presented and where they might look to answer questions.



21. While information required by GAAP focuses on the common needs of different users, other information may be presented to meet the specific needs of a user or user group. For example, a component reporting entity may present information to address a specific Congressional concern, such as the entity's efforts to identify and reduce improper payments. However, GAAP requires information to assist users in assessing the entity's results of operations, financial position, financial condition, and operating performance.
22. Other information can be a candidate for required information if the information
  - a. helps to achieve the financial reporting objectives;
  - b. meets the qualitative characteristics of required information; and
  - c. meets cost-benefit considerations.
23. Other information can also assist users in assessing a reporting entity's results of operations, financial position, financial condition, and operating performance. For instance, information on the risks that stem from major natural disasters or implicit guarantees may assist users in assessing the government-wide reporting entity's financial condition.
24. Also, there are caveats to consider with respect to other information. For instance, other information might not
  - a. be exposed to the same level of discipline as required information;
  - b. be consistent with GAAP standards for required information;
  - c. meet the qualitative characteristics of required information; and
  - d. be subjected to certain procedures required by GAGAS as is the case with required information.

## CONCEPTS FOR REQUIRED BUDGETARY INFORMATION

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*Users of federal financial information need budgetary information to help them assess the government's adherence to budgetary legislation. While the budget process involves determining the government's priorities and resource allocations, budget execution involves monitoring the use of the resources acquired. Congress enacts laws to provide component reporting entities with the authority to incur obligations for specific purposes. Thus, component reporting entities should provide information to assist users in assessing adherence to budgetary legislation.*

25. The budget process is the government's principal mechanism for reaching agreement on goals, for allocating resources among competing uses, and for assessing the government's fiscal effects on economic stability and growth. While most attention is paid to the future-oriented roles of the budget process, budget execution is designed to monitor tax receipts and the use of resources according to the purposes for which budget authority was approved.

26. In developing budget legislation, Congress decides on targets for: spending and receipts; the amount of the deficit or surplus; and the limit on debt. Upon determining the targets, Congress provides component entities with budget authority and enacts changes in laws affecting receipts and spending.<sup>6</sup>
27. Budget authority provided by annual appropriation acts is considered discretionary spending. Appropriations provide components with the authority to incur obligations for specific purposes. An appropriation can be limited to a single year, multiple years, or be available indefinitely.
28. Budget authority provided by permanent laws is considered mandatory spending.
29. Budget authority includes:
- a. Appropriations - Provided in appropriations acts or authorizing laws, permit agencies to incur obligations and make payment;
  - b. Borrowing Authority - Usually provided in permanent laws, permits agencies to incur obligations but requires them to borrow funds, usually from the general fund of the Treasury;
  - c. Contract Authority - Usually provided in permanent law, permits agencies to incur obligations in advance of a separate appropriation of the cash for payment or in anticipation of the collection of receipts that can be used for payment; and
  - d. Spending Authority from Offsetting Collections - Usually provided in permanent law, permits agencies to offset collections against an expenditure account, incur obligations, and make payment using the offsetting collections.<sup>7</sup> Offsetting collections are deductions from spending to reflect the government's net transactions with the public. They may result from business-like transactions with the public, intragovernmental transactions, voluntary gifts and donations, and offsetting governmental transactions or collections from the public that are governmental in nature such as tax receipts.<sup>8</sup>
30. When components engage in transactions that require either an immediate or future outlay of cash, they use budget authority. While the use of budget authority does not affect the government-wide reporting entity resources, the outlay of cash does.
31. Budget authority is not always used in a single year. For example, budget authority enacted for the construction of a capital asset may include the estimated total cost for the project at the time the project begins. However, the component may outlay cash for the project over several years. Thus, the outlay of cash may relate to budget authority provided in previous years as well as the current year.

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<sup>6</sup> Analytical Perspectives p.92.

<sup>7</sup> Analytical Perspectives pp.102-103.

<sup>8</sup> Analytical Perspectives pp. 99-100.

32. Budgetary resources include new budget authority, unobligated balances, direct spending authority, and obligation limitations.<sup>9</sup>

## CONCEPTS FOR GOVERNMENT-WIDE AND COMPONENT REPORTING ENTITIES

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*Users need different items of information about the government-wide and component reporting entities. The government-wide reporting entity has unique capabilities to finance the services provided. In contrast, component reporting entities receive budget authority to incur obligations for specific purposes and are not independent economic entities. Judgment is needed in determining the level of detail that should be presented and materiality should be considered in determining how best to achieve the reporting objectives. Also, the relationship among the government-wide and component reporting entities should be explained to assist users in locating and using the information they need.*

### THE GOVERNMENT-WIDE REPORTING ENTITY

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33. The federal government is responsible for the nation's defense and general welfare and is a single economic entity composed of components that provide services to people.
34. The federal government has unique capabilities to finance the services provided and accomplish its objectives. It has the power to levy taxes, charge fees, and borrow.
35. Also, the federal government may accomplish its objectives without outlaying funds. For example, to encourage home ownership and stimulate residential construction, the federal government may approve tax provisions that reduce the tax liability for taxpayers who have to incur the costs associated with mortgage interest and local property taxes.
36. The federal government can continue to provide services even when the cost of providing those services exceeds the amount of revenues received.
37. Given the operations of the government-wide reporting entity, information useful for assessing its results of operations, financial position, financial condition, and operating performance may include
- a. information on the sources and amounts of resources received;
  - b. information on how resources were used;
  - c. information about the government's net results;
  - d. information that helps users identify the resources of the government and the obligations as of the reporting date;

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<sup>9</sup> GAO A Glossary of Terms Used in the Federal Budget Process

- e. Information that helps users to understand the legislative processes for determining the level of resources to raise from taxes, how the budget resources will be used, and the different measures that may be used to control funds; and
- f. information to assess the level of future resources needed to sustain public services required by law and policy and to meet obligations as they come due.

Also, when developed, information such as national indicators may help users in assessing the government's operating performance.

## COMPONENT REPORTING ENTITIES

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- 38. Component reporting entities receive budget authority through appropriations made in the legislative process. Their missions and reporting requirements are established in various laws enacted over time resulting in a complex network of operations and services. Components across the federal government are diverse and the scope and nature of each component's activities can be diverse and at times overlap.
- 39. In light of the reporting objectives, information useful for assessing a component reporting entity's results of operations, financial position, financial condition, operating performance, and adherence to budgetary legislation may include:
  - a. information about the different sources and amount of funding;
  - b. information about the use of funding for specific goals or services;
  - c. information on the net cost of services;
  - d. information on the gross cost of services;
  - e. information on the budgeted use of resources in relation to the actual use of resources;
  - f. information about resources available to provide current and future services;
  - g. information about the obligations (liabilities) that must be met in the future; and
  - h. information about the entity's accomplishments.
- 40. Component reporting entity information users need this information to evaluate the operations of the entity, such as its compliance with budget laws and future resource needs, and the cost of services provided and their performance.
- 41. Component reporting entity information may be aggregated and categorized by strategic goals. Users need to understand the results that the component plans to achieve and strategic goals reflect those results.

42. Information on the component reporting entity's funding and costs needs to be disaggregated in ways to assist users in their analyses and further their understanding of the entity's operating performance. Thus, the process of disaggregating component reporting entity information should consider users' need to better understand
- a. the purposes for the budget authorities provided, such as budget authority provided to enhance domestic preparedness for an infectious disease and preventing its spread,
  - b. the needs of the citizens that the component reporting entity is trying to address and the constructs for addressing them, and
  - c. the component reporting entity's progress in achieving the purposes for which budget authorities were provided or in addressing the needs of the citizens.

## BOTH THE GOVERNMENT-WIDE AND COMPONENT REPORTING ENTITIES

---

43. Government-wide and component reporting entities should provide information to assist users in assessing their financial position.
44. To assess a reporting entity's financial position, users need information on the status of its resources and obligations and the difference between the two or net position.
- a. For the government-wide, financial position provides information such as whether resources exceed the obligations or whether obligations exceed the resources.
  - b. For components, financial position provides information such as unexpended appropriations, extent of dedicated collections, and cumulative results of operations.
  - c. However, financial position with respect to a component is not as meaningful as for the federal government because a component is not an independent economic entity. The government-wide reporting entity can tax and borrow funds while budget authority specifies the amount, purpose, and duration of a component reporting entity's funding.
45. Financial condition is a projection of the change in financial position over time resulting from the monies coming in and the monies going out as a percent of gross domestic product (GDP). Financial condition is relevant for the government-wide reporting entity and for component reporting entities that receive budget authority to provide social insurance. The public relies on social insurance for their long-term planning and are concerned about its sustainability.
46. Preparers should consider materiality and how best to meet the reporting objectives and not simply engage in a compliance exercise. Preparer judgment regarding context and the level of detail to be presented is needed.

47. The relationship among the government-wide and component reporting entities should be explained to assist users in locating and using the information they need.

## PERFORMANCE RESULTS

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*Users of federal financial information need performance results information to assist them in understanding what was obtained for the costs incurred. Performance results may be based on financial and nonfinancial information and may have limitations, such as performance measures alone cannot reveal why performance is at the level presented. Consequently, explanations may be needed to reveal matters such as why results did not achieve the desired target. Presenting multiple periods of performance information can help identify improving or declining performance.*

48. Performance results information shows what was obtained for the costs incurred. The different types of performance information include:
- a. Inputs – resources provided. These measures may be based on financial and nonfinancial information. For instance, the financial information needed may include the cost of salaries or equipment or other resources used. The nonfinancial information needed may include the number of full-time equivalent employees or the number of capital assets used.
  - b. Outputs – the quantity of a service or product provided. These measures may be based on nonfinancial information.
  - c. Outcomes – the accomplishments or results that occurred because of the service. These measures may be based on nonfinancial information and are useful when compared with previous periods, established goals, or other comparable entities.
49. Performance may not be adequately described by a single measure and performance measures alone may not describe why performance is at the level presented.
50. Including explanations with the performance results information may help users understand the presented performance measures and the factors that impact the performance presented. Explanations may include: external factors affecting results, such as the environment, economy, and social conditions; and internal factors affecting results, such as funding levels, legal requirements, significance of results, explanations of trends, reasons why the results did not achieve the target and plans for achieving the target, and reasons for significantly exceeding the target.
51. Although performance results often do not occur in the year costs were incurred, it is important to show the relationship. Relating performance results to costs assist users in assessing the effectiveness of the service provided.
52. To be useful for decision-making, performance information should be timely, presented as soon as possible after the end of the reporting period. The characteristic of timeliness should not preclude the use of important measures for which results are not readily

available. Users rely on estimates of important information which require professional judgment.

53. Communicating the sources of the entity's goals would assist users in determining how the entity established them and where users may go for more detailed information.
54. Presenting information for multiple periods help to reveal long-term trends, when appropriate. Trend information can be helpful for demonstrating improving or declining performance and for evaluating services and planning future services.

## SUMMARY LEVEL INFORMATION

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*Summary level information may assist citizens in assessing the reporting entity's results of operations, financial position, financial condition, operating performance, and adherence to budgetary legislation. Citizens may rely on highly aggregated information and pictorial presentations for their analysis and need to understand: how the information presented should be used, and where to find additional detailed information.*

55. Presenting levels or layers of information may be useful for communicating a reporting entity's results of operations, financial position, financial condition, operating performance, and adherence to budgetary legislation. Different levels help users locate the level of detail they may need for their specific analysis. The top level may provide highly aggregated information while lower levels provide increasingly more detailed information.
56. The highly aggregated top level or summary level may be most useful to citizens and it is likely the level where they will begin their review. Citizens need a succinct and comprehensive picture of the reporting entity's activities. They may not have extensive knowledge of accounting and budgeting concepts to understand disaggregated financial and nonfinancial information and the relationship among different items.
57. With respect to data, citizens may rely on pictorial rather than tabular presentations and extensive narratives.
58. To help inform users of the reporting entity's finances, the summary level information should address
  - a. the purpose or the intent of the summary level, informing users of what information they might expect to review,
  - b. the scope of the summary level so that users understand what items of information the level includes or its completeness,
  - c. an analysis of results for the period and challenges facing the entity so that users understand the information being provided, how it might be used, and important matters that may impact the entity's goals,

- d. consistent with the purpose of the summary level, items of information that may have decision-making implications, such as
    - i. basic performance goals and measures
    - ii. net costs
    - iii. results of operations
    - iv. the status of resources and obligations,
    - v. sustainability information, and
    - vi. the status of budgetary resources
  - e. multiple periods of information to assist users in identifying trends.
59. A presentation of other levels, including their relationships, may assist users in identifying sources for additional analysis.



## APPENDIX A: BASIS FOR CONCLUSIONS

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This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

### PROJECT HISTORY

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- A1. This project is a part of the Board's conceptual framework initiative. After several years of progress in federal financial reporting, FASAB decided to revisit its conceptual framework with a focus on ensuring that accounting standards are based on a sound framework of objectives and concepts. At that time, Board members were concerned that the reporting objectives were broad and some members sought to better determine the role of GAAP-based financial statements in achieving them. Accordingly, the Board began the conceptual framework initiative by revisiting the reporting objectives and engaging the federal reporting community in the discussions.

#### User Needs and Reporting Community Outreach

- A2. FASAB staff conducted a series of roundtable discussions to determine whether the objectives remained valid and appropriate and to help define the role of the Board in achieving them. Roundtable participants provided views on whether the objectives continued to reflect the information needs of users and whether they are being achieved. The participants believed the reporting objectives remained valid and they noted that the objectives could be accomplished by reports and similar materials other than financial statements. Consequently, in 2006, the Board agreed to retain the broad objectives and issue its Strategic Directions report that discusses the Board's primary and secondary focuses relative to the reporting objectives.
- A3. Next, the Board began discussing the need for conceptual guidance that describes the reporting model and how it relates to the reporting objectives. The concepts would guide the Board in determining the financial statements necessary for achieving the reporting objectives and help focus on "what should be" versus "what is." The former would ensure that the objectives are adequately addressed and the statements are useful to readers. Also, members were concerned about whether a relationship should exist among financial statements, such as the balance sheet and a statement of net cost, and how the model compares with other reporting models. As a result, staff began researching the diverse needs of users and how they access information; surveying other countries and their reporting models; and conducting discussions with preparers, citizen intermediaries, congressional staff, program managers, executives, auditors, state and local government planners and analysts, and experts in federal financial reporting.

- A4. Meanwhile, the Board continued its deliberations on social insurance and long term sustainability reporting, projects that would significantly impact the existing reporting model and raise conceptual questions that should be addressed in the conceptual framework initiative. Board members discussed conceptual issues such as the purpose of the balance sheet and its elements and eventually the Board determined that the conceptual framework needed to better explain unique accounting issues such as why:
- a. the power to tax is not an asset but nonetheless is relevant to assessing the sustainability or the financial condition of the federal government;
  - b. current deficits are indeed bad and have short and long-term implications;
  - c. the timing of a cash flow problem is important; and
  - d. the point estimates on the balance sheet have limitations for assessing financial condition.
- A5. Accordingly, the Board decided to consider these and other reporting concepts in the reporting model project.
- A6. FASAB staff provided the Board with a series of reports and discussion papers. In summary, staff noted that users needed information regarding:
- a. The cost of programs.
  - b. The performance of programs
  - c. The sustainability of programs
  - d. How actual spending compared to the budget
- A7. Also, users needed plain-language, understandable information, and the ability to access information and prepare their own reports.

#### Task Forces and Additional Research

- A8. The Board organized the Reporting Model Task Force to consider the user needs and reporting community results and provide suggestions for the reporting model. In 2010, the task force completed its work and presented recommendations to enhance the reporting model. In general, the task force focused on what could be accomplished in the near term and on the Financial Report of the U.S. Government (CFR) because the public would likely start with the CFR to learn about the fiscal health of the federal government. Consequently, they recommended the adoption of a centralized, web-based method of reporting financial and performance information, recommended changes to particular financial statements, and recommended additional disclosures. They believed that the success of these recommendations require raising public awareness of federal financial reporting.
- A9. In 2011, the Board discussed the task force recommendations and members discussed systems constraints and challenges and noted that many of the recommendations could be adopted voluntarily by preparers. However, members did note that the conceptual framework that should guide accounting standards remained incomplete and not current.

Also, at that time, the Board discussed its priorities and plans and revisited its Strategic Directions report. The Board reaffirmed its conclusions in the Strategic Directions report and noted factors that would likely influence federal financial reporting. Those factors included the notion that citizens and citizen intermediaries are the primary audience for the CFR, which implies that FASAB standards should focus on the CFR and should primarily consider citizens' information needs. Additionally, the factor implies that component reporting entity reports should support the needs identified for the CFR.

- A10. Later in 2011, the Board discussed the report, *The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General (CFO Act Report)*. The report recommended that Congress consider directing FASAB, the Office of Management and Budget (OMB), and the Government Accountability Office (GAO) to evolve the financial reporting model. Consequently, the Board decided to review the reporting model of component reporting entities and conduct discussions with CFOs and various groups to help the Board determine the information of value to users.
- A11. Also, other countries were reporting on service performance as well as financial performance. Given the range of issues, the Board decided that the project needed to be segmented into three separate projects – improving cost, performance, and budgetary reporting – and task forces would be organized for each project. This approach would allow members to better focus on issues that needed to be addressed.
- A12. In 2012, the three task forces proceeded to discuss issues and subsequently recommended that the Board revisit SFFAS 4, *Managerial Cost Accounting Standards and Concepts*. The task forces believed that adequate cost guidance is needed to support users of budget and performance information and provide cost information that meets the expectations of financial information users. Upon reviewing the task force results, the Board determined that the recommended project would involve matters outside of the Board's domain and would require coordination with the OMB and the Department of the Treasury. Also, members again raised concerns about systems constraints and challenges in presenting integrated cost, budget, and performance information.
- A13. Subsequently, the Board engaged the National Academy of Public Administration (NAPA) to help learn more about the needs of executives and managers and preparers' needs for resources to guide financial information development. The research informed the Board on the availability of financial and related information, the effective use of financial data by senior managers, the current and desired role of the CFO, and, if gaps exist, what options are most likely helpful in closing those gaps. The NAPA team conducted interviews with federal executives and senior managers with operating responsibility for agencies, bureaus, offices, divisions, or comparable organizational units.
- A14. NAPA's report, *Financial and Related Information for Decision-Making: Enhancing Management Information to Support Operational Effectiveness and Priority Goals* discussed that
  - a. Data generally are highly accurate and granular, but federal agencies face challenges in analyzing and transforming data into readily understood, actionable information for executive decision-making— especially the linking of budget, costs, and performance.

- b. The degree to which financial data are effectively used for decision-making is heavily driven by each organization's revenue source (user fee-based versus appropriation-based) and operational approach.
- c. CFO organizations will increasingly need to offer valuable decision-making support to executives and senior managers, including sophisticated cost and performance analysis.

#### Developing Ideal Reporting Models without Constraints

- A15. At this point, members noted that models of the ideal presentation are needed to serve as the end-goal for the project and help guide their direction. Also, given that raising concerns about existing systems and challenges directed the discussions away from “what should be,” the Board determined that development of ideal models would not be constrained by considering existing systems and what the Board could accomplish immediately. In addition, the models will take a holistic view and consider the other conceptual issues discussed previously and include explanations on why the resulting construct should be considered ideal. Consequently, the Board decided to develop conceptual, ideal models that integrate budget, cost, and service performance information.

#### Flow Information: The Starting Point for Developing Ideal Models

- A16. During the April 2014 meeting, FASAB members developed and presented their views of ideal reporting models. The presentations addressed the Budgetary Integrity objective, in general, and each of the sub-objectives of the Operating Performance objective. Also, with respect to the Stewardship objective, the Board decided to focus on the federal government as the entity rather than the nation's economy. In addition, in June, the Board decided not to revisit the reporting objectives or clarify the role of FASAB with respect to the objectives. Instead, the Board decided to begin developing the ideal reporting model by focusing on the flows and the flow statements that would help achieve the reporting objectives.
- A17. Users needed to better understand flow information, such as costs and budgetary information, and how they relate. The Board would consider how cost and budgetary information should be disaggregated and address how to reconcile cost and budget at a level that would be understandable to users.
- A18. However, members expressed concern about whether the concepts should include illustrations of financial statements and whether concepts should reflect an ‘aspirational’ reporting model or simply describe current practice. Consequently, the Board decided to: develop an inventory of concepts and topics that might be included in the concepts statement; and upon completing the inventory, deliberate which items should be retained in the concepts statement.

#### Inventory of Concepts and Framework for an Exposure Draft

- A19. In February 2015, the Board began developing an inventory of concepts that would help guide development of the reporting models and in December 2015 decided on a framework or outline to guide development of an exposure draft concepts statement.

The Board agreed that the framework needed to be comprehensive and include new and existing concepts and topics that members had suggested during the project..

## APPENDIX B: AMENDMENTS TO SFFAC 1

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The following text is rescinded:

### Relationship Of Financial Reporting To Budgeting

186. “The budget” is a broad term that may include, among other things, a projection of spending authorities and means of financing them for a future period and a report of the actual spending and associated financing for a past period. The FASAB’s recommendations may influence the reporting of actual budgetary data.

187. The Budget of the United States Government is the most widely recognized and used financial report of the federal government. The budget process is the government’s principal mechanism for reaching agreement on goals, for allocating resources among competing uses, and for assessing the government’s fiscal effects on economic stability and growth. Most attention is paid to these future-oriented roles of the budget.

188. Budget execution is designed to control and track tax receipts and the use of resources according to the purposes for which budget authority was approved. Actual receipts, obligations, and outlays are recorded by account, as is the status of budgetary resources at the end of each fiscal year.

189. Budgetary measurement is designed to assist in the control and allocation of resources by showing the cash outlays implied by each decision when the decision is made. In some cases, the budget now also includes accruals for costs in advance of the required cash outlay. Budgetary concepts are under continual review. They may be changed by law or, after consultation with the Congress, in the annual revision of OMB Circular A-11, “Preparation and Submission of Budget Estimates.”

190. The Board’s authority does not extend to recommending budgetary standards or budgetary concepts, but the Board is committed to providing reliable accounting information that supports budget planning and formulation. The Board also supports efforts to ensure the accuracy and reliability of reporting on the budget.

191. The Board’s own focus is on developing generally accepted accounting standards for reporting on the financial operations, financial position, and financial condition of the federal government and its component entities and other useful financial information. This implies a variety of measures of costs and other information that complements the information available in the budget. Together with budgetary reports, these reports will provide a more comprehensive and insightful understanding of the government’s financial position, results of operations, and financial condition than either set of reports alone.

## APPENDIX C: ABBREVIATIONS

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FR	Financial Report of the U.S. government
ED	Exposure draft
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GASB	Governmental Accounting Standards Board
IPSASB	International Public Sector Accounting Standards Board
OMB	Office of Management and Budget
SFAS	Statement of Financial Accounting Standards (FASB)
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

## APPENDIX D: GLOSSARY

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