



Federal Accounting Standards Advisory Board

June 16, 2016

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Financial Reporting Model – **Tab C**¹

MEMBER ACTION REQUESTED:

- Prepare to answer questions regarding the draft exposure draft. The questions begin on page 3 of this memo.

OBJECTIVES

The objective is to discuss enhancements to the 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 attachment:

Attachment I: Draft ED with changes from the May 24th version marked

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

BACKGROUND

During the April 26, 2016 meeting, the Board discussed the reporting model draft ED. The ED provided concepts to assist the Board in developing reporting models for the government-wide and component reporting entities. The Board discussed some key terms used in the ED and agreed to replace the term *general purpose federal financial report* (GPFFR) with another term that reflects the focus of the ED. The ED focuses on financial statements and RSI, while the term GPFFR is broader and refers to financial statements, RSI, and other information. The Board also discussed changes to the draft ED to better describe the information that should be presented by the government-wide and component reporting entities, as well as the Board's role with respect to reporting performance information and summary level information.

Subsequently, on May 24, 2016, staff provided members with a revised draft. The revised draft

- used the phrase financial statements and RSI when discussing information required by GAAP and how GAAP-based information relates to other information;
- discussed that FASAB develops GAAP for reporting on the status of component budgetary resources rather than reporting on the component reporting entity's adherence to budgetary legislation; and
- provided a list of the types of information that the government-wide and component reporting entity financial statements and RSI should present.

Members provided comments on the revisions and staff incorporated them into the draft ED for the June 2016 meeting. The questions beginning on page 3 of this memo address the most significant changes since the last review by members. All changes are marked in the draft ED.

NEXT STEPS

Staff will consider Board member comments and propose revisions. Staff is planning to prepare a pre-ballot draft for the August 2016 meeting.

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 with a cc to paynew@fasab.gov

Questions for the Board

1. The Government-wide Reporting Entity's Financial Position and Financial Condition

In the revised draft ED, paragraph 48, staff replaced the definition of financial condition with a reference to SFFAC 1 paragraphs 134 to 145 and paragraph 180. The earlier draft ED, paragraphs 51 and 52, attempted to distinguish the government's "financial position" from the government's "financial condition" and introduced a definition of financial condition. The definition stated,

Financial condition is a projection of the change in debt held by the public over time resulting from the monies coming in and the monies going out and is often measured as a percent of gross domestic product (GDP).

However, SFFAC 1, paragraphs 134 to 145 and paragraph 180, currently discusses users' need for information regarding the government's financial position and financial condition and explains the relationship between the two concepts. Proposing a definition of financial condition may require amending SFFAC 1. Pages 4-8 of this memo provide the text of SFFAC1, paragraphs 134 to 145 and paragraph 180.

Question 1: Does the Board agree or disagree with referencing SFFAC 1 rather than proposing a definition of financial condition in the ED?

Stewardship

Objective 3

134. **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.**¹⁰

¹⁰The concepts of "financial position" and "financial condition" are discussed in Chapter 7.

135. This objective is based on the federal government's responsibility for the general welfare of the nation in perpetuity. It focuses not on the provision of specific services but on the requirement that the government report the broad outcomes of its actions. Certain subobjectives arise from the basic objective of stewardship, as discussed below.

Federal financial reporting should provide information that helps the reader to determine:

136. **3A. Whether the government's financial position improved or deteriorated over the period.**

Examples of information relevant to this objective include

- the amount of assets, liabilities, and net assets (or net position);
- an analysis of government debt, its growth, and debt service requirements;
- changes in the amount and service potential of capital assets; and
- the amount of contingent liabilities and unrecognized obligations (such as the probable cost of deposit insurance).

137. Assessing whether the government's financial position improved or deteriorated over the period is important not only because it has financial implications but also because it has social and political implications. This is because analysis of why financial position improved or deteriorated helps to explain whether financial burdens were passed on by current-year taxpayers to future-year taxpayers without related benefits. The latter notion is sometimes referred to as "interperiod equity."¹¹

138. Viewed in this broader context, providing information to meet objective 3 and its subobjectives will help to satisfy the needs expressed by financial report users. It will also help to explain the issuance of new debt in relation to expenditures for activities with current benefits versus expenditures for investment-type activities that yield future benefits.

139. **3B. Whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.**

¹¹In paragraph 61 of its first conceptual statement, *Objectives of Financial Reporting*, the GASB noted: "The Board believes that interperiod equity is a significant part of accountability and is fundamental to public administration. It therefore needs to be considered when establishing financial reporting objectives [for state and local governmental entities]. In short, financial reporting should help users assess whether current-year revenues are sufficient to pay for the services provided that year and whether future taxpayers will be required to assume burdens for services previously provided." GASB's Statement 11, *Measurement Focus and Basis of Accounting--Governmental Fund Operating Statements*, adds "Conversely, [a measure of interperiod equity] would show whether current-year revenues not only were sufficient to pay for current-year services, but also increased accumulated net resources."

140. Information about the results of past government operations is useful in assessing the stewardship exercised by the government. Users of financial reports also want help in assessing the likelihood that the government will continue to provide the current level of benefits and services to constituent groups, such as farmers, retirees, and the poor.
141. Information relevant to this objective may include disclosures of financial risks that are likely or reasonably possible from sources such as government-sponsored enterprises, deposit insurance, and disaster relief programs. It could also include information such as
- the long-term financial implications of the budgetary process,
 - the status of trust funds, and
 - backlogs of deferred maintenance.
142. Providing information of this kind may require the use of reporting mechanisms other than traditional financial statements. For example, special reports may have to be developed to demonstrate whether the level of a particular year's maintenance and rehabilitation expenditures resulted in an improvement or a deterioration of capital assets and infrastructure.
143. **3C. Whether government operations have contributed to the nation's current and future well-being.**
144. Objective 3, in general, and subobjective 3C, in particular, imply a concern with "financial condition," as well as "financial position." Financial condition is a broader and more forward-looking concept than that of financial position. Reporting on financial condition requires financial and nonfinancial information about the national economy and society, as well as about the government itself. For example, reports intended to help meet this objective might address users' needs for information about
- investments in (or expenditures for) research and development, military readiness, and education;
 - changes in the service potential of infrastructure assets;
 - spending for consumption relative to investments;
 - opportunities for growth-stimulating activities; and
 - the likelihood of future inflation.
145. Indicators of financial position, measured on an accrual basis, are the starting point for reporting on financial condition but must be supplemented in a variety of ways. For example, subobjective 3B might imply reporting, among other things, a current law budget projection under a range of alternative assumptions. Reports intended to achieve subobjective 3C might disclose, among other things, the contribution that the government is making to national wealth by financing assets that are not federally owned, such as research and development, education and training, and state-owned infrastructure. Information on trends in total national wealth and income is also important.

The Concept Of Financial Condition

180. As more environmental data are added to the core data, a concept that is broader and more forward-looking than “financial position” emerges. That concept is “financial condition.” For the U.S. government, the additional data could include financial and nonfinancial information about current conditions and reasonable expectations regarding the national and even the global society. For example, the expected implications of environmental degradation; the relative competitiveness and productivity of the U.S. economy; or expected changes in the population’s composition in terms of age, gender, longevity, education, health, and income all might affect judgments about the government’s financial condition.
181. Information about financial condition can be conveyed in a variety of schedules, notes, projections, and narrative disclosures. Among the most important of these is management’s “discussion and analysis” of known trends, demands, commitments, events, and uncertainties. For federal reporting entities, management’s discussion and analysis might address such topics as
- budgetary compliance;
 - internal control systems;
 - capital resources and investments;
 - service efforts, accomplishments, and results of operations; and
 - the reasonably possible future impact of known trends, risks, demands, commitments, events, or uncertainties that may affect future operations.¹⁵
182. Increasingly, managers and investors in the private sector are attending to other factors that may sometimes be useful indicators of an entity’s financial condition, including such intangible factors as the quality of the entity’s
- information and analysis capabilities,
 - strategic planning,
 - human resource development and management, and
 - constituent satisfaction.

Similar factors may be relevant for many federal reporting entities.

¹⁵Such a discussion and analysis is required in federal financial reports prepared pursuant to the CFO Act of 1990. In these reports, the discussion and analysis is referred to as the “overview” section. OMB Bulletin 92-03 provides guidance on preparing the overview section.

2. List of Information for the Government-wide Reporting Entity Financial Statements and RSI

Paragraph 47 of the ED lists the types of information that the government-wide reporting entity financial statements and RSI should assist users in assessing.

Question 2: What comments do members have regarding paragraph 47, should items be added, removed, or presented differently?

3. List of Information for Component Reporting Entity Financial Statements and RSI

Paragraph 50 of the ED lists the types of information that the component reporting entity financial statements and RSI should assist users in assessing.

Question 3: What comments do members have regarding paragraph 50, should items be added, removed, or presented differently?

4. The Performance Results Section of the Draft ED

Staff revised the performance results section to discuss the role of financial statements and RSI in presenting performance results information.

Question 4: Do Board members have comments on the section or suggestions for changes that might be needed?

5. Summary Level Information Section of the Draft ED

Staff revised the summary level information section to include the role of the Board with respect to summary level information.

Question 5: Do Board members have comments on the section or suggestions for changes that might be needed?

6. The Purpose Section of the Draft ED

Staff revised the Purpose section of the draft ED to emphasize the improvements that the proposed concepts will offer. This approach would address some Board members' concerns regarding the tone of the section.

Question 6a: Does the Board agree or disagree with the revision?

Question 6b: What additional changes might be needed?

7. The Scope Section of the Draft ED

Staff revised the flow of the text in the Scope section to better highlight the focus of the ED. SFFAC 1 discusses the broad reporting objectives and the ED clarifies SFFAC 1 by emphasizing the reporting objectives most relevant for financial statements and required supplementary information (RSI). The reporting objectives most relevant for financial statements and RSI are the operating performance and stewardship objectives.

Question 7a: Does the Board agree or disagree with the revision?

Question 7b: What additional changes might be needed?

8. Figure 1: Information for Assessing Accountability and Decision-Making

Staff revised figure 1 to be consistent with the current focus of the ED. Earlier versions of the ED referred to general purpose federal financial reports (GPFFR) and the role of generally accepted accounting principles (GAAP). However, the Board later determined that the term GPFFR was too broad and the ED should focus on information required by GAAP – financial statements and RSI. The current ED discusses financial statements and RSI and their relationship to other information contributing to the reporting objectives.

The revisions also consider that other information includes 1) financial and non-financial information that contribute to the reporting objectives, such as entity performance reports; and 2) financial and non-financial data, some of which may be aggregated for financial reporting and some of which may not be aggregated for financial reporting.

Question 8a: Does the Board agree or disagree with the revision?

Question 8b: What additional changes might be needed?

9. Italicized Summary Paragraphs for Each Section of the ED

Staff removed all of the italicized summary paragraphs that introduced each section of the ED. Based on the outline used to prepare the ED, the Board agreed that each section of the ED would include introductory paragraphs and the introductory paragraphs would emphasize the main points of the section. However, now that the ED has developed, each section is brief, minimizing the need for an introductory summary.

In addition, the summary paragraphs were not intended to present authoritative text. If the Board decides to retain the paragraphs, a means would need to be developed to alert readers that the paragraphs are non-authoritative and should not be referenced.

Question 9: Does the Board agree or disagree with the revision?

10. Additional Revisions

Based on Board member feedback, staff made edits throughout the document. The changes were primarily intended to clarify the intent of concepts, eliminate repetitive statements, facilitate the flow of the discussion, and better reflect the focus of the ED.

Question 10: What comments do members have regarding the revised ED, should sections or paragraphs be expanded, removed, or worded differently?



Federal Accounting Standards Advisory Board

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

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 of the United States 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.

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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 FASAB are considered public information. Those comments may be posted to 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. 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
Mail Stop 6H19
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 one or more public hearings may be held 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

Statements of Federal Financial Accounting Concepts (SFFACs) 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, FASAB's second concepts 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, 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/>.

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

This Statement proposes concepts discussing the role of financial statements¹ and required supplementary information (RSI) and their relationship to other information used in financial reporting. The concepts also discuss 1) the presentation of budgetary information in component reporting entity financial statements and RSI; 2) the content and presentation of financial statements and RSI for government-wide and component reporting entities; 3) the presentation of performance information in financial statements and RSI; and 4) summary level information, as it relates to financial statements and RSI.

HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

The federal financial reporting community is making a range of data and information available to users and considering various types of presentations to help achieve the financial reporting objectives. For instance, reporting entities are developing summary performance and financial information reports to communicate their results for the reporting period and making data available for users to perform their own analyses. Considering the vast body of information available, users expressed the need to better understand the relationship between information required by generally accepted accounting principles (GAAP) and other information being presented. They also needed information to better understand: the relationship among the types of information GAAP required, such as budget, cost, and performance information and the relationship between GAAP-based information presented by the government-wide reporting entity and component reporting entities.

The proposed concepts will assist the Federal Accounting Standards Advisory Board (FASAB)² in developing reporting models for the government-wide and component reporting entities. The concepts focus on providing information to achieve the operating performance and stewardship objectives of financial reporting and to support achieving the budgetary integrity objective. The concepts will also assist preparers and users in understanding the purposes of information required by GAAP and how this information relates to other information used in financial reporting.

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¹ Disclosures are an integral part of financial statements.

² The American Institute of Certified Public Accountants (AICPA) designated FASAB as the source of GAAP for federal reporting entities.

TABLE OF CONTENTS

<u>Statements of Federal Financial Accounting Concepts</u>	<u>4</u>
<u>Executive Summary</u>	<u>5</u>
<u>What is the Board proposing?.....</u>	<u>5</u>
<u>How would this proposal improve federal financial reporting and contribute to meeting the federal financial reporting objectives?</u>	<u>5</u>
<u>Questions for Respondents</u>	<u>7</u>
<u>Introduction</u>	<u>9</u>
<u>Purpose</u>	<u>9</u>
<u>Scope.....</u>	<u>10</u>
<u>Proposed Concepts</u>	<u>13</u>
<u>Federal Financial Reporting Objectives</u>	<u>13</u>
<u>Financial Statements and RSI.....</u>	<u>14</u>
<u>Other Information and Its Relationship to Financial Statements and RSI.....</u>	<u>15</u>
<u>Concepts for Budgetary Information Presented In Component Reporting Entity Financial Statements And RSI.....</u>	<u>17</u>
<u>Concepts for Government-wide and Component Reporting Entities</u>	<u>18</u>
<u>The Government-wide Reporting Entity</u>	<u>18</u>
<u>Component Reporting Entities.....</u>	<u>20</u>
<u>Performance Results</u>	<u>22</u>
<u>Summary Level Information.....</u>	<u>23</u>
<u>Appendix A: Basis for Conclusions</u>	<u>25</u>
<u>Project History.....</u>	<u>25</u>
<u>Appendix B: Placeholder For Amendments to Existing Concepts</u>	<u>30</u>
<u>Appendix C: Abbreviations</u>	<u>31</u>
<u>Appendix D: Glossary.....</u>	<u>32</u>

QUESTIONS FOR RESPONDENTS

The Board encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement. Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the Federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

The questions in this section are available in a Word file for your use at www.fasab.gov/exposure.html. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond by e-mail, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

All responses are requested by [insert date].

Q1. The Statement illustrates the relationship between financial statements and RSI and the larger body of information available to users for assessing the government's accountability and for decision-making. The reporting objectives are intended to be broad to address the range of information that users need. . FASAB focuses on the operating performance and stewardship objectives and supports reporting budgetary information. The proposed concepts will assist the Board in determining the kinds of information that financial statements and RSI should present and will assist users in understanding the relationship between information presented in financial statements and RSI and other information. Refer to paragraphs 6 to 11 and Figure 1: Information for Assessing Accountability and for Decision-Making.

Do you believe that the illustration is helpful? If not, how would you modify it?

Q2. The Financial Statements and RSI section of the Statement discusses the role of financial statements and RSI in achieving the financial reporting objectives. Refer to paragraphs 17 to 27.

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Do you agree or disagree with the discussion on financial statements and RSI? Please provide the rationale for your answer.

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Q3. The Other Information and Its Relationship to Financial Statements and RSI section of the Statement discusses other information that contributes to achieving the financial reporting objectives and its relationship to financial statements and RSI. Refer to paragraphs 28 to 34.

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Do you agree or disagree with the discussion on other Information and its relationship to financial statements and RSI? Please provide the rationale for your answer.

Q4. The Concepts for Budgetary Information in Component Reporting Entity Financial Statements and RSI section of the Statement discusses component reporting entity budgetary concepts. Refer to paragraphs 35 to 42

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Do you agree or disagree with the concepts for budgetary information in component reporting entity financial statements and RSI? Please provide the rationale for your answer.

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Q5. The Concepts for Government-wide and Component Reporting Entities section of the Statement discusses concepts for the government-wide and component reporting entities. The concepts include a discussion on the kinds of information that the government wide reporting entity financial statements and RSI should collectively provide and the kinds of information that component reporting entity financial statements and RSI should collectively provide. Refer to paragraphs 43 to 57.

a. Do you agree or disagree with the concepts for the government-wide reporting entity? Please provide the rationale for your answer.

b. Do you agree or disagree with the concepts for component reporting entities? Please provide the rationale for your answer.

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Q6. The Performance Results section of the Statement discusses the role of financial statements and RSI in providing information on the reporting entity's performance results. Refer to paragraphs 58 to 66.

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Do you agree or disagree with the concepts for performance results information? Please provide the rationale for your answer.

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Q7. The Summary Level Information section of the Statement discusses summary level information with respect to financial statements and RSI. Refer to paragraphs 67 to 74.

Do you agree or disagree with the concepts for summary level information? Please provide the rationale for your answer.

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Q8. [Placeholder for other questions]

Q9. [Placeholder for other questions]

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INTRODUCTION

PURPOSE

1. This Statement discusses concepts to assist the Federal Accounting Standards Advisory Board (FASAB) in developing reporting models for the government-wide and component reporting entities. The proposed concepts will also assist preparers and users in understanding the purposes of information required by generally accepted accounting principles (GAAP)³ and how this information relates to other information used in financial reporting. Hereafter, information required by GAAP will be referred to as financial statements⁴ and required supplementary information (RSI).⁵
2. The proposed concepts will improve the Board's conceptual framework by providing guidance regarding
 - a. the relationship between financial statements and RSI and other information contributing to the financial reporting objectives;
 - b. the presentation of budgetary information in component reporting entity financial statements and RSI;
 - c. the content and presentation of financial statements and RSI for government-wide and component reporting entities;
 - d. the presentation of performance information in financial statements and RSI; and
 - e. summary level information, as it relates to financial statements and RSI.
3. The improvements to the conceptual framework address users' need for information to better understand the variety of information available and its relationship to financial statements and RSI. Since FASAB developed its earlier concepts statements, the range of data and information available to the public has evolved. This information includes reports that comprise financial statements and RSI, budgetary information, non-financial performance information, and information on systems and controls.
4. Moreover, the improvements address users' need for information to better understand: 1) the relationships among budget, cost, and performance information about federal programs and services; 2) the government's financial condition; 3) component budgetary information; and 4) the relationship between the government-wide and component reporting entities' financial statements and RSI.
5. In developing the concepts proposed in this Statement, the Board fully considered the concepts that are most important to addressing users' needs and, as a result of

³ The American Institute of Certified Public Accountants (AICPA) designated FASAB's as the source of GAAP for federal reporting entities.

⁴ Disclosures are an integral part of financial statements.

⁵ Management's Discussion and Analysis is a component of RSI.

Deleted: *required information*

Deleted: Financial statements and required supplementary information (RSI)

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Deleted: information provided in these two categories could be improved. For example, users discussed the need to better understand: (1) the relationships among budget, cost, and performance information about federal programs and services; and (2) whether the government's financial condition improved or deteriorated during the reporting period. Users also discussed the need to better understand component budgetary information and the relationship between the government-wide and component reporting entities' financial statements.

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Deleted: since FASAB developed its earlier concepts statements, the means of providing access to data and preparing information has evolved. The federal government makes a range of data and information available to the public. This information includes reports that comprise financial statements and RSI, budgetary information, non-financial performance information, and information on systems and controls. ¶ Users should be informed of the variety of information available and how the information can be used to answer their questions. For example, users should understand how to access data from multiple sources, drill-down through different levels of aggregated data, and use the data to develop their own analysis.

revisiting the concepts, some existing FASAB concepts statements will need to be reemphasized, amended, or rescinded to clarify users' needs.

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SCOPE

6. As intended, the overall financial reporting objectives discussed in Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, 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 reports. 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; particularly with regard to setting standards needed to meet the budgetary integrity and systems and controls objectives. The budgetary integrity and systems and control objectives are viewed as unconventional objectives for a GAAP standards-setting body.

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7. This Statement clarifies SFFAC 1 by emphasizing the objectives most relevant for financial statements and RSI and, therefore, most important for standards development.

8. This Statement focuses primarily 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 for the government-wide and component reporting entity financial statements and RSI.

9. With respect to the FASAB's focus, the Board develops GAAP for reporting on the financial results of operations, financial position, financial condition, and operating performance of the federal government and its component reporting entities, including the status of budgetary resources provided to component reporting entities. These basic items require a variety of financial measures and other information that complements the information available in the budget. Financial statements and RSI 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 financial statements and RSI are a part of a larger body of information available to users, this concepts statement is limited to the mission of the FASAB and how financial statements and RSI relates to and supplements this larger body of information.

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10. The Board is charged with giving consideration to "the budgetary information needs of executive agencies and the needs of users of federal financial information"⁸ and is 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.

⁸ FASAB Memorandum of Understanding, October 2009.

11. Figure 1: Information for Assessing Accountability and for Decision-Making illustrates the relationship between financial statements and RSI and the larger body of information available to users, for assessing the government's accountability and for decision-making.

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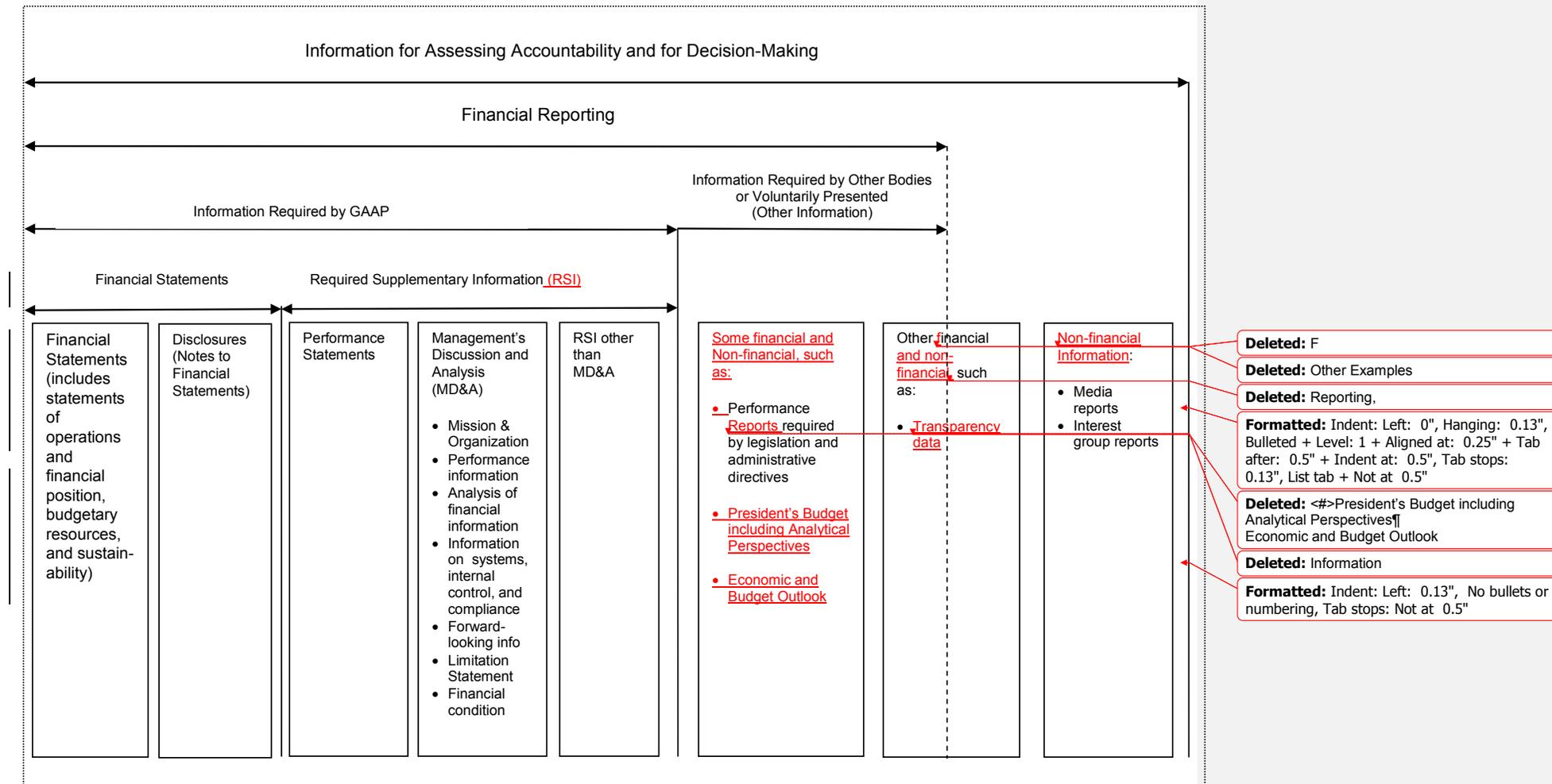


FIGURE 1: INFORMATION FOR ASSESSING ACCOUNTABILITY AND FOR DECISION-MAKING

PROPOSED CONCEPTS

FEDERAL FINANCIAL REPORTING OBJECTIVES

12. While users of federal financial information need similar information as private sector financial information users, they also need **additional types of information**. Private sector entities primarily **earn** their resources through voluntary transactions with individuals or other organizations. However, the federal government primarily obtains its resources from the involuntary payment of taxes and borrowing.

13. **Users** of federal financial information are concerned about matters such as:

- a. **the** sources of resources **used**;
- b. how the government used the resources it obtained;
- c. what **services** the public received from the resources provided;
- d. whether the resources provided were sufficient to recover the cost of services provided;
- e. whether the government's financial ability to provide services improved or deteriorated; and
- f. whether the services provided contributed to the accomplishment of the intended purpose.

14. 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 four overall reporting objectives which are the foundation for all other concepts 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

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 This Statement focuses primarily 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 for government-wide and component reporting entity financial statements and RSI. ¶
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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.

15. The Federal Accounting Standards Advisory Board (FASAB)'s report, *Clarifying FASAB's Near-Term Role in Achieving the Objectives of Federal Financial Reporting*, **affirmed** these objectives and clarified that the Board's primary focus should be on the Operating Performance and Stewardship objectives. With respect to the Stewardship objective, the Board's focus is on the government's financial condition.

16. SFFAC 2, *Entity and Display*, identifies the financial information needed to meet the objectives. It also recognizes that some of the identified information should be presented in financial statements and RSI.

FINANCIAL STATEMENTS AND RSI

17. Financial statements and RSI are **two categories of information** intended to assist users of federal financial information in assessing the financial results of operations, financial position, financial condition, and operating performance of the federal government and its component reporting entities, including the status of budgetary resources **provided** to component reporting entities. The two categories **are needed due to the nature of users' information needs**.

18. Users of federal financial information need a variety of information to assess the government's finances. **However, the degree to which individual items meet certain qualitative characteristics may vary.** Thus, as discussed in SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*, different categories may be used to communicate this information and each is subjected to different procedures and reporting requirements under generally accepted government auditing standards (GAGAS). **For example, if there is a lack of specific criteria for measuring an item, preparers may have great discretion in developing their calculations and auditors may lack criteria necessary for the expression of an opinion. Thus, the item of information may be a candidate for RSI.⁹ SFFAC 6, paragraph 73E., provides additional examples.**

19. GAAP **provides** criteria for categorizing, recognizing, measuring, and depicting the government's financial activities **in financial statements**. Also, GAAP:

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

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<#>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 that are different from those specified for financial statements. ¶

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⁹ SFFAC 6, par. 73E.e.

- b. ensures that financial statements and RSI meet certain qualitative characteristics, such as understandability, reliability, and relevance; and
 - c. helps guide the preparation and exchange of information.
20. Financial statements are prepared using:
- a. the accrual basis of accounting to present information regarding financial results of operations and financial position;
 - b. primarily cash based budgetary accounting to present government-wide reporting entity budgetary information; and
 - c. primarily obligation based budgetary accounting to present component reporting entity budgetary information.
21. Financial statements are also prepared using projections.
22. The accrual basis of accounting recognizes revenue when earned and recognizes costs when resources are consumed. The costs reflect the resources consumed in the period that the government provided the services.
23. The government-wide reporting entity uses primarily cash based budgetary accounting to recognize budget receipts when cash is received and budget outlays when cash is disbursed.
24. Primarily obligation based budgetary accounting recognizes events when the component reporting entity enters into agreements which obligate the government to make payments in the future, such as when it awards a contract.
25. Projections may be useful for reporting information such as the sustainability of services. Projections could be used in calculating future receipts and spending based on current policy and to depict the results that may occur based on a set of assumptions.
26. Financial statements and RSI include explanations to assist users in understanding the differences among the bases of accounting, the information provided, and the use of projections.
27. Narrative and graphic depictions can be used to explain the relationships among items of information.

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OTHER INFORMATION AND ITS RELATIONSHIP TO FINANCIAL STATEMENTS AND RSI

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- 28. The government-wide and component reporting entities may present information that is not required by FASAB. These entities may present this information voluntarily to help

achieve the reporting objectives, such as to assist users in assessing the financial condition of the reporting entity, or to comply with legislation and administrative directives. For example, to comply with directives regarding performance reporting, component reporting entities present information on how their work benefits the public, their progress on achieving strategic objectives, and their actions to improve performance. 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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29. There may be limitations to other information, including the following:

- a. lack of exposure to the same level of internal controls as financial statements and RSI;
- b. lack of consistency with GAAP standards for financial statements and RSI;
- c. not meeting the qualitative characteristics of financial statements and RSI; and
- d. not subjected to certain procedures required by GAGAS.

30. Multiple methods of presentation may help facilitate user research. For example, financial statements, RSI and other information 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 various users with the information at levels of specificity relevant to their particular needs. For example, users may drill-down from the government-wide reporting entity's financial statements to other information in schedules provided by a component reporting entity.

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31. Narrative descriptions or graphic depictions may enhance the user's understanding of the other information, financial statements, and RSI presented and direct them to where they might look for additional information.

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32. Financial statements and RSI provide information to assist users in assessing topics, such as the entity's financial results of operations and financial position. While financial statements and RSI focus on the wide-spread needs of different users, other information may be required by administrative directives or presented voluntarily 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.

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For other information, financial statements, and RSI, users may employ electronic technology to assist them in (1) drilling-down to different levels of the hierarchical structure and assessing different levels of disaggregated data or (2) comparing data from different component reporting entities.

33. The Board may determine that it is appropriate to establish requirements that include other information in financial statements and RSI wherever the information

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

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34. Other information can also contribute to achieving the objectives of federal financial reporting. 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.

CONCEPTS FOR BUDGETARY INFORMATION PRESENTED IN COMPONENT REPORTING ENTITY FINANCIAL STATEMENTS AND RSI

- 35. The budget process is the government's principal mechanism for the Congress and the President to reach agreement on goals, for allocating resources among competing needs, 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 and other receipts and the use of tax receipts and other resources according to the purposes for which Congress approved budget authority.
- 36. In developing budget legislation, Congress decides on targets for spending and receipts, 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.¹⁰
- 37. 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.
- 38. Budget authority provided by permanent laws, and therefore not subject to annual appropriation acts, is considered mandatory spending.
- 39. Budget authority comprises the following capacities:
 - a. Appropriations - Provided in appropriations acts or authorizing laws, appropriations permit agencies to incur obligations and make paymentss.
 - b. Borrowing Authority - Usually provided in permanent laws, borrowing authority 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, contract authority 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.
 - d. Spending Authority from Offsetting Collections - Usually provided in permanent law, spending authority from offsetting collections permits agencies to offset collections against an expenditure account, incur obligations, and make paymentss using the offsetting collections.¹¹ Offsetting collections are deductions from spending to reflect

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¹⁰ Analytical Perspectives, *Budget of the U.S. Government*, Fiscal Year 2016, p.92.

¹¹ Analytical Perspectives pp.101-102.

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.¹²

- 40. 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 of an entity's assets, the outlay of cash does. For example, when a component awards a contract, it uses budget authority. However, the government-wide reporting entity's assets are not affected until cash is disbursed to the contractor.
- 41. 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.
- 42. Budgetary resources include new budget authority, unobligated balances, direct spending authority, and obligation limitations.¹³

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CONCEPTS FOR GOVERNMENT-WIDE AND COMPONENT REPORTING ENTITIES

The Concepts for Government-wide and Component Reporting Entities section of this Statement includes a discussion on the kinds of information that the government wide reporting entity financial statements and RSI should collectively provide and the kinds of information that component reporting entity financial statements and RSI should collectively provide.

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THE GOVERNMENT-WIDE REPORTING ENTITY

- 43. The federal government is responsible for the nation's defense and general welfare and is a single economic entity made up of components that provide services to individuals.
- 44. 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.

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¹² Analytical Perspectives pp. 99-100.

¹³ GAO, *A Glossary of Terms Used in the Federal Budget Process* [GAO-05-734SP](#) (Washington, D.C.: Sept. 1, 2005)

45. The federal government may accomplish its objectives through provisions in the tax law available to subsets of taxpayers who engage in certain kinds of activities, face special circumstances, or otherwise meet specified criteria. 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 incur the costs associated with mortgage interest and local property taxes.

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46. The federal government can borrow money to finance services when costs exceed the revenues during the period. There are no legal requirements that prevent expenses from exceeding revenues.

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47. Given the operations of the government-wide reporting entity, financial statements and RSI should collectively provide information to assist users in assessing,

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- a. the government's mission and organization;
- b. the government's performance in achieving outcomes (national indicators);
- c. actions taken or planned to improve performance;
- d. the government's net financial results for the period;
- e. the government's assets, liabilities, and net position as of the reporting date (financial position);
- f. the long-term impact of the government's policies on debt held by the public (financial condition)
- g. the government's budget surplus or deficit for the period, including how the surplus or deficit relates to the government's net financial results and change in monetary assets during the period;
- h. the government's investments in the nation's productivity and economic growth during the period (stewardship investments);
- i. the relationship among the information presented in each financial statement and RSI;
- j. changes in amounts and types of elements presented in financial statements;
- k. the future effects of existing, currently known demands, risks, uncertainties, events, conditions and trends; and
- l. the possible future effects of anticipated future demands, events, conditions, trends, etc. that management believes would be important to users.

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48. SFFAC 1 paragraphs 134 to 145 and paragraph 180 discuss users' need for information regarding the government's financial position and financial condition and the relationship between the two concepts. Information on the government's financial position and financial condition is needed to assist users in assessing matters such as

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whether financial burdens were passed on by current-year taxpayers to future-year taxpayers without related benefits and the long-term sustainability of government policies.

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COMPONENT REPORTING ENTITIES

49. 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.
50. In light of the reporting objectives of component reporting entities, financial statements and RSI should collectively provide information to assist users in assessing,
- the entity's mission, structure, goals, and objectives, including the relationship between the component reporting entity and the government-wide reporting entity and risks provided by the component reporting entity;
 - the entity's performance in achieving its goals and objectives;
 - actions taken or planned to improve performance;
 - the entity's net financial results for the period;
 - the entity's assets, liabilities, and net position as of the reporting date (financial position);
 - the status of the entity's budgetary resources;
 - investments in the nation's productivity and economic growth during the period (stewardship investments);
 - the relationship among the information presented in each financial statement and RSI;
 - changes in amounts and types of elements presented in financial statements;
 - the future effects of existing, currently known demands, risks, uncertainties, events, conditions and trends; and
 - the possible future effects of anticipated future demands, events, conditions, trends, etc. that management believes would be important to users.
51. Component reporting entity information should be aggregated and classified to assist users in evaluating the entity's operating performance. The operating performance objective of federal financial reporting states, in part, that users need information to help

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them evaluate the entity's costs and accomplishments and how those costs and accomplishments have been financed.¹⁵

52. Aggregating and categorizing information by strategic goal is one means of providing information on the entity's costs and accomplishments and their manner of financing. ~~Presenting such information in this format assists users in understanding the entity's progress in achieving its strategic goals.~~
53. Component entity information should also be disaggregated to assist users in understanding the cost of the entity's services and the efficient and effective use of its assets and liabilities. The operating performance objective states that users need information about:
- a. The costs of providing specific programs and activities and the composition of and changes in these costs.¹⁶
 - b. The efforts and accomplishments associated with federal programs and the changes over time and in relation to costs.¹⁷
 - c. The efficiency and effectiveness of the government's management of its assets and liabilities.¹⁸
54. Financial position with respect to most component reporting entities is not as meaningful as for the federal government because most component reporting entities are not independent economic entities. The government-wide reporting entity can tax and borrow funds while budget authority specifies the amount, purpose, and duration of funding for most component reporting entities.
55. For component reporting entities that receive budget authority, users need to know ~~1) the budgetary activity during the period, 2) the extent to which budget authority has been used and remains available, and 3) whether additional funding may be needed. Information is needed on the amount of the entity's appropriations that have not been expended at the end of the period, the amount that the entity has accumulated from prior period funding, and the amount of obligations (liabilities) for which the entity has incurred but not received budget authority.~~
56. Users need information to assess the financial condition of component reporting entities that derive their funding primarily from sources other than through appropriations. Some component reporting entities may be delegated authority to carry on their activities similar to private sector businesses or maintain their operations and meet their liabilities from revenues received from sources outside of the government-wide reporting entity. Citizens rely on the services provided and are concerned about their sustainability.

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¹⁵ SFFAC 1, par. 122.

¹⁶ SFFAC 2, par. 126.

¹⁷ SFFAC 2, par. 128.

¹⁸ SFFAC 2, par. 130.

57. Given the differences between government-wide and component reporting entities financing authority, financial statements and RSI should explain the relationship to assist users in understanding their interdependencies and the location of information they need.

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PERFORMANCE RESULTS

58. Financial statements and RSI for the government-wide reporting entity should collectively provide information to assist users in assessing the broad outcomes of the government's actions.

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59. Users are concerned about the impact of the government on the national economy and society and the financial reporting objectives state,

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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.¹⁹

This objective focuses on broad outcomes rather than on specific services.²⁰

60. SFFAC 1 states that economic and other information about the national society is essential to reporting on the government's performance and the Board may consider whether economic information should be presented.²¹ The concepts also state that

- a. trends in total national wealth and income is important; and
- b. the contribution that the government is making to national wealth by financing assets that are not federally owned might be considered for presentation.²²

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61. Component reporting entity financial statements and RSI should provide information to assist users in assessing the: 1) amount of financial and nonfinancial resources required to provide services (efforts); 2) accomplishments of services; 3) efficiency and effectiveness of providing services; and 4) changes in the performance of services over time.

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62. Users are concerned about the government's progress in accomplishing its goals. The reporting objectives consider users' concerns and state that financial reporting should provide information that helps readers determine the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs.²³

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63. SFFAC 1, paragraphs 192 to 210, provides concepts for considering how financial statements and RSI might contribute to reporting on performance results. The concepts

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¹⁹ SFFAC 1, par. 134.
²⁰ SFFAC 1, par. 135.
²¹ SFFAC 1, par. 42.
²² SFFAC 1, par. 145.
²³ SFFAC 1, par. 14.

discuss the categories of performance measures that help address the financial reporting objectives – measures of efforts and accomplishments, and measures that relate efforts and accomplishments (efficiency and effectiveness measures).

64. SFFAC 1 also states that cost is a component of efforts, efficiency, and effectiveness measures and measuring cost is a function of accounting and the financial reporting system.²⁴

65. SFFAC 3, *Management’s Discussion and Analysis*, notes that performance information is an integral part of financial reporting,²⁵ and paragraphs 42-49 discuss concepts for presenting performance information in RSI. Statement of Federal Financial Reporting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*, paragraphs 41 through 66, discusses the role of managerial cost accounting in financial reporting and notes

Measuring and reporting actual performance against established goals is essential to assess governmental accountability. Cost information is necessary in establishing strategic goals, measuring service efforts and accomplishments, and relating efforts to accomplishments.²⁶

66. Financial statements and RSI should also provide explanatory information to help users understand reported measures and the factors that may have affected the reported performance. SFFAC 1, paragraphs 211 and 212, discuss the limitations of performance measurement. For example, measures of efforts and accomplishments may not indicate why performance is at the reported level.

SUMMARY LEVEL INFORMATION

67. Information presented in financial statements and RSI may be condensed and provided in a presentation of summary level information.

68. Presenting layers of information may be useful for communicating needed information. Different levels help users locate the detail they may need for their specific analysis. The top level may provide highly aggregated information while lower levels provide increasingly more detailed information. However, all lower level information need not be presented in the report itself. Lower level information may be either electronically linked or provided in other reports, with information on how to obtain such reports provided.

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

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Deleted: Summary level information may help achieve the federal financial reporting objectives. Citizens may rely on highly aggregated information and pictorial presentations for their analysis and need to understand (1) how the information presented should be used and (2) where to find additional detailed information.

Deleted: a reporting entity’s results of operations, financial position, financial condition, and operating performance.

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²⁴ SFFAC 1, par. 193.

²⁵ SFFAC 3, par. 13.

²⁶ SFFAS 4, par. 58.

Accordingly, understandability is an important characteristic of summary level information.

70. With respect to data, citizens may rely on pictorial rather than tabular presentations and extensive narratives. Using plain-language would also assist users in understanding the information presented.

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71. FASAB considers citizens' need for understandable information about a federal reporting entity and may require a presentation of summary level information. SFFAC 1 explains

For reports to be understandable to different audiences, different reports may be necessary to provide information relevant to the needs of the expected report users, with suitable amounts of detail, explanation, and related narrative.²⁷

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72. To help inform users of the reporting entity's finances, the summary level information should provide information to assist users in assessing,

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- a. the purpose or the intent of the summary level, informing users of what information they might expect to see.
- b. the scope of the summary level so that users understand what information the level includes.
- c. basic performance goals and measures.
- d. net costs.
- e. results of operations.
- f. challenges facing the entity.
- g. the status of resources and obligations.
- h. sustainability information.
- i. the status of budgetary resources, and
- j. trends.

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an analysis of results for the period and challenges facing the entity so that users understand the information provided, how it might be used, and important matters that may impact the entity's goals;

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73. To assist users in understanding the summary level information presented, financial information should be presented in relation to performance goals and measures.

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74. A graphic presentation of other levels, including their relationships, or links may assist users in identifying and accessing sources for additional information.

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²⁷ SFFAC 1, par. 159.

APPENDIX A: BASIS FOR CONCLUSIONS

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

A1. This project is 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 and comprehensive framework of objectives and concepts. The conceptual framework project began in 2006. At that time, board members were concerned that the reporting objectives were broad and some members sought to better define the role of GAAP-based financial statements in achieving them. Also, some preparers were concerned about the need for certain financial statements such as the component reporting entity balance sheet. Accordingly, the Board began the conceptual framework initiative by revisiting the reporting objectives. No changes to the reporting objectives were identified at that time. The Board subsequently completed concepts defining elements, identifying measurement attributes, and distinguishing between basic information and required supplemental information. The Board also began engaging the federal reporting community in discussions regarding the government-wide and component reporting entity reporting models.

User Needs and Reporting Community Outreach

A2. In 2006, 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 these objectives. Roundtable participants provided their views on whether the objectives continued to reflect the information needs of users and whether these objectives 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 November 2006, the Board agreed to retain the broad objectives and issue its Strategic Directions report, which discusses the Board’s primary and secondary focuses relative to the reporting objectives.

A3. After completing SFFAC 6, Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information, 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

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addressed and the statements are useful to readers. Members were also 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 the reporting models of other governments. As a result, staff (1) researched the diverse needs of users and how they access information; (2) surveyed other countries and their reporting models; and (3) conducted 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. Eventually the Board determined that the conceptual framework needed to better explain unique governmental 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 problematic 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, and
 - d. how actual spending compared to the budget.
- A7. Also, users needed plain-language, understandable information, as well as 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 survey 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 future. The team also focused on the *Financial Report of the U.S. Government*

(FR) because the public would likely start with the FR to learn about the fiscal health of the federal government. Consequently, the task force recommended (1) the adoption of a centralized, web-based method of reporting financial and performance information, (2) changes to particular financial statements, and (3) 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. Members discussed systems constraints and challenges and noted that many of the recommendations could be adopted voluntarily by preparers. However, Board members did note that the conceptual framework that should guide accounting standards remained incomplete and out-of-date. The Board, at this time, also 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 FR, which implies that FASAB standards should focus on the FR and should primarily consider citizens' information needs. Additionally, the Board ~~confirmed~~ that component reporting entity reports should support the needs of the FR.
- 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. Other countries were also reporting on service and financial performance. Given the range of issues, the Board decided that the project needed to be segmented into three separate projects – improving cost, improving performance, and improving budgetary reporting. 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 these issues and subsequently recommended that the Board revisit Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*. The task forces believed that adequate cost guidance was necessary to support users of budget and performance information and provide cost information that met expectations. 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 Department of the Treasury and OMB. Also, members again raised concerns about systems constraints and challenges in presenting integrated cost, budget, and performance information.
- A13. Subsequently, the Board engaged with the National Academy of Public Administration (NAPA) to learn more about the needs of executives and managers. They also learned about preparers' needs for resources to guide financial information development. The research informed the Board on (1) the availability of financial and related information, (2) the effective use of financial data by senior managers, (3) the current and desired role of the CFO, and (4) ~~for existence of gaps~~ between the current and desired role of

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the CFO, ~~the options~~, 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.

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A14. NAPA's report, *Financial and Related Information for Decision-Making: Enhancing Management Information to Support Operational Effectiveness and Priority Goals* discussed the following topics:

- 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, Board 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 would 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 generally 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. ~~Based on feedback from the reporting community,~~ users still need 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

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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. Upon completing the inventory, the Board deliberated 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.
- A20. Subsequently, staff began using the framework to develop the exposure draft and the Board determined that the guidance should focus on information required by GAAP - financial statements and RSI - rather than information presented in a general purpose federal financial report (GPFFR). GPFFRs are broader and refer to financial statements, RSI, and other information. The Board determined that the concepts should discuss the purposes of financial statements and RSI and other information to assist users in understanding their relationship.
- A21. The Board also determined that the concepts should discuss component budgetary information, performance results information, and summary level information. Throughout the project, the Board discussed the need to clarify the role of financial statements and RSI with respect to budgetary and performance information. The Board considered that both budgetary and performance information includes data derived from financial systems and transactions affected by GAAP. Including concepts on budgetary and performance information would assist the Board in contributing to the reporting objectives and requiring information that helps users understand the relationship among budget, cost, and performance information.
- A22. Regarding summary level information, the Board considered citizens' feedback and believed that citizens are more likely to understand a summary level presentation of financial and non-financial information than a detailed presentation. Concepts would assist the Board in determining the guidance that might be needed for summary level information.

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APPENDIX B: PLACEHOLDER FOR AMENDMENTS TO EXISTING CONCEPTS

APPENDIX C: ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
CFO	Chief Financial Officer
ED	Exposure draft
FR	Financial Report of the U.S. Government
GDP	Gross Domestic Product
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
GASB	Governmental Accounting Standards Board
IPSASB	International Public Sector Accounting Standards Board
NAPA	National Academy of Public Administration
OMB	Office of Management and Budget
RSI	Required Supplementary Information
SFAS	Statement of Financial Accounting Standards (FASB)
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

APPENDIX D: GLOSSARY
