April 14, 2017

Memorandum

To: Members of the Board

From: Grace Wu, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Budget and Accrual Reconciliation (BAR) — Tab B-2

MEETING OBJECTIVES

The objective is to make decisions on issues regarding the exposure draft (ED), *Budget and Accrual Reconciliation*.

BRIEFING MATERIAL

The briefing material includes this memorandum and the following attachments:

- **Attachment 2** provides an overall summary of responses and a list of issues identified with staff analysis and recommendations.
- **Attachment 3** provides the original ED with suggested edits based upon comments received and staff recommendations.

BACKGROUND

On December 21, 2016, the Board issued the ED titled *Budget and Accrual Reconciliation* and requested comments by March 14, 2017. TAB B-1, distributed to the Federal Accounting Standards Advisory Board (FASAB or “the Board”) on April 5, 2017, provides staff’s summary of the comment letters and the full text of each comment letter.

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

Staff will consider Board member comments on the draft standards and determine whether the document can proceed to the pre-ballot stage.

MEMBER FEEDBACK

If you have any questions or comments, please contact me by telephone at (202) 512-7377 or by email at wug@fasab.gov with a cc to paynew@fasab.gov.
Attachment 2 – Staff Analysis

Summary of Results

Nearly all the respondents agreed with the proposal to replace the Statement of Finance (SOF) with the BAR. The respondents generally agreed to present the BAR as a footnote with an accompanying narrative disclosure. However, a number of respondents raised concerns and suggested edits on the effective date, the early adoption of the standards, and the restatement of comparative prior period information. In addition, respondents were concerned about the breakdown of the Intragovernmental and With the Public in the proposed BAR format. They believe this requirement would result in significant burdens/cost to agencies.

Major answers to the ED questions and other comments that may potentially affect the content of the proposal are presented in Tab B-1. Those responses have been analyzed and summarized below, along with the staff’s suggestion for proposed changes to the original ED for the Board’s consideration. Minor edits and suggestions discussed in tab B-1 will not be discussed in the below section.

ED Question 1: Do you agree or disagree with the proposal to replace the SOF with the NBAR? If you agree, should the NBAR be presented as a part of basic financial statements or as a footnote? Please provide the rationale for your answer.

Staff Analysis:

**BAR Replacement** 24 out of 27 respondents supported replacing the SOF with the NBAR, and one respondent agreed to the replacement under the condition that the breakdown between the Intragovernmental and With the Public in the BAR format is removed. Respondents’ reasons for supporting the proposal were quite similar to both the Board’s intent and the task force’s pilot results, as stated in the BAR ED. Respondents criticized the SOF for being too complex and not useful. They saw the proposed BAR as a significant improvement. As such, they welcomed the change.

Regarding the two respondents who disagreed with the proposal, one gave no specific reason for the disagreement and the other suggested modifying the BAR to the format of the commercial statement of cash flow.

**Footnote or Basis Financial Statement** 21 out of 27 respondents agreed to the proposal of presenting the BAR as a footnote. Some of them stated that there was no compelling reason to increase the weight of the information to the status of a basic statement since the existing basic financial statements fulfill the objectives of financial reporting. The presentation as a footnote would allow the reconciliation to be presented together with the narrative explanation, making it more understandable to financial statement readers. Two out of 27 respondents supported presenting the BAR as part of the basic financial statements. They believe that the new format provides a direct bridge between cash basis and accrual basis of accounting, and the concept of the BAR is similar to the cash flow statement required by the Financial Accounting Standards Board as a part of the basic financial statement.
**Staff Recommendation:** As a majority of the respondents support the Board’s proposal in the ED, staff suggests no changes be made. The survey result of presenting the BAR as a footnote will be passed to OMB for consideration since OMB will determine the placement of the BAR, as stated in the ED.

ED Question 2: Do you agree or disagree that a narrative disclosure should accompany the NBAR? Please provide the rationale for your answer.

Staff Analysis:

17 out of 27 respondents supported a narrative disclosure, and 3 out of 27 supported this with condition. Those who support the proposal believe that a narrative disclosure would improve the understandability of the cost incurred and the relationship of budgetary to accrual based accounting to the general public. Some of the respondents who replied conditionally do not believe that a fluctuation discussion in the narrative is necessary and that this discussion is not traditionally presented in the note.

4 out of 27 respondents disagreed with a narrative disclosure, citing that the disclosure requirement should be optional.

**Staff Recommendation:** The majority of the respondents support the narrative disclosure. Regarding the question of whether the fluctuation analysis is needed in the disclosure, staff agrees with one agency’s view—providing a narrative explaining the reconciling differences provides more useful information to financial statement users and increases transparency of federal resources. As such, staff suggests no changes be made.

ED Question 3: The Board proposes that this Statement be effective for periods beginning after September 30, 2017 with early adoption permitted. Refer to paragraph 13. Do you agree or disagree that the effective date, the early adoption, and restatement of comparative prior period information are reasonable? Please provide the rationale for your answer.

Staff Analysis:

**Effective Date and Earlier Adoption** 8 out of 27 respondents supported the proposed effective date, while 6 out of 27 respondents support the effective date with a contingency on the release of the final pronouncement and crosswalk. 11 out of 27 respondents disagreed with the proposed effective date because they believed it to be too aggressive. Most agencies suggested the Statement be effective for periods beginning after September 30, 2018, to allow them more time to test the new format; their reasoning is that it would take time for the agencies and auditors to implement the new program/crosswalk and determine any potential system changes and then subsequently modify reporting and audit procedures around the new format.

A few agencies disagreed with early adoption. They believe it would preclude comparability between agencies’ financial statements.

**Restatement of comparative prior period information** 8 out of 27 respondents disagreed with this proposal, 8 out of 27 respondents had no comment, 4 out 27 agreed, and 2 out of 27 agreed with the condition of the effective date as September 30, 2018. The majority of
the respondents stated that to restate prior period data, a one-year phase-in period is needed during which comparative data can be collected and reported while continuing to provide the SOF. These respondents questioned if restating prior period data would add any value. Most of them believed that a change to the BAR format should be done prospectively.

**Staff Recommendation:** During the working group’s 13-agency pilot process, although over half of the agencies completed the reconciliation rather quickly, there were a few agencies who struggled with the new format. Some of them stated that this new format may require new business processes or system changes. To maximize agency success rate in adopting the proposed standards and allow each agency sufficient time testing the new process, staff recommends changing the effective date to September 30, 2018, with early adoption permitted.

Because the restatement of the prior period data will not add any additional value, and the prior year SOF will not be comparative with the BAR format during the implementation year, staff recommends that only one year's worth of data should be presented in the first year of implementation, with a 2-year comparative presentation in the second year of implementation.

**Additional Concern: Breakdown of the Intragovernmental and With the Public in the Reconciliation**

**Staff Analysis:**

Although breakdown of the Intragovernmental and With the Public in the reconciliation was not included in the ED questions, 9 out of 27 respondents raised concerns and disagreed with the breakdown. The agencies listed various reasons or challenges that they would face should the breakdown be a requirement. For example, while the BAR is reconciling the line items in the Statement of Net Costs and Statement of Budgetary Resources, there is no requirement to breakout Outlays in the Statement of Budgetary Resources and PP&E by Intragovernmental and With the Public. In addition, agencies’ Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) data currently does not require federal vs. non-federal breakdown of a majority of the U.S. Standard General Ledger (USSGL) accounts that make up Outlays. A few agencies also stated that Outlays by trading partner is not readily available in their current systems. As such, there is no readily available data from an existing financial reporting system to perform the breakdown reconciliation. Agencies are concerned about the additional system investment cost and the labor-intensive work to segregate information for certain line items associated with this breakdown request.

**Staff Recommendation:** The purpose of this statement is to increase informational value and usefulness and to support the government-wide accounting (GWA) reporting that reconciles net operating cost to the budget deficit. To support those goals, there should be a cost benefit analysis to determine if our requirement is reasonable. Breakdown of Intragovernmental and With the Public in the BAR reconciliation appears to require significant investment in the system for certain agencies. In addition, current financial reporting processes such as GTAS/USSGL do not support such a requirement. It would be a time consuming and costly implementation process for the breakdown, as it would require modifying the current reporting system/process.

The benefit of the breakdown is that it would help the Department of the Treasury (Treasury) on the intragovernmental elimination during the GWA reconciliation. However, Treasury has not requested the breakdown of PP&E and Budgetary by the federal vs. non-federal from the
agencies in the past. Treasury does not have a readily available GTAS/USSGL to assist the agencies to perform the breakdown.

The proposed breakdown of the Intragovernmental and With the Public requirement on the budgetary and PP&E appears presenting a brand new financial reporting requirement to the agency. This may trigger major system investment for certain agencies. The benefit to the Treasury is to make the intragovernmental elimination on this reconciliation easier. Treasury is in the process of assessing the agencies’ challenges in the comment letters to see if they can help agencies address the issues and evaluate the possibility of breakdown the BAR crosswalk instruction by federal vs. non-federal. They are planning to present their research result during the Board meeting.

Note that the standards do not explicitly require this breakdown. Instead, the illustration shows the breakdown and is presented in a concepts statement. A concepts statement does not establish a requirement but one may expect the implementation to match the illustration.

The Board could:

a. Retain the illustration but explain in the basis for conclusions that the illustration is not prescriptive. This would clarify that OMB and Treasury have options for transitioning to this more detailed presentation after any crosswalk instructions and systems changes are completed. In the interim, the specific requirements for the BAR provided in the standards could be implemented.

b. Revise the illustration to match the minimum requirements of the standards. OMB and Treasury would still have the option to establish more detailed requirements upon implementation or in the future.

Without Treasury’s further research result, by simply comparing the cost and benefit at this point, staff recommends removing the Intragovernmental and With the Public from the illustration and illustrating only the specific requirements of the standards (option b above). Should the future benefit overweight the cost, this Statement could be revisited for possible amendment to require the breakdown.
Questions for the Board

**Question 1:** Does the Board agree or disagree with staff’s suggestion to change the adoption date to September 30, 2018, with early adoption permitted?

**Question 2:** Does the Board agree or disagree with staff’s suggestion that only one year’s worth of data should be presented in the first year of implementation, with a two-year comparative presentation in the second year of implementation?

**Question 3:** Does the Board agree or disagree with staff suggestion to take out the Intragovernmental and With the Public comparison?

**Question 4:** Does the Board agree or disagree with the proposed changes to the original ED?

**Question 5:** Does the Board agree or disagree with staff’s suggestion to forgo a hearing on the proposed statement and proceed with finalizing the standard statement?
BUDGET AND ACCRUAL RECONCILIATION
AMENDING STATEMENT OF FEDERAL FINANCIAL ACCOUNTING STANDARDS (SFFAS) 7, SFFAS 22, AND SFFAS 24

Statement of Federal Financial Accounting Standards 52

May XX, 2017
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 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.”

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This Statement amends requirements for a reconciliation between budgetary and financial accounting information established by Statement of Federal Financial Accounting Standards (SFFAS) 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting. To increase informational value and usefulness, and to support the government-wide accounting (GWA) reporting that reconciles net operating cost to the budget deficit, this Statement would provide for the new budget and accrual reconciliation (NBARBAR) to replace the Statement of OFinancing. The NBARBAR would explain the relationship between the entity’s net outlays on a budgetary basis and the net cost of operations during the reporting period.

The Statement proposes a NBARBAR that would start with net cost of operations and be adjusted by

- components of net cost that are not part of net outlays,
- components of net outlays that are not part of net cost, and
- other temporary timing differences, which reflect some special adjustments.

The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.
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STANDARDS

SCOPE

1. This Statement applies when a component reporting entity is presenting general purpose financial reports in conformance with SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, including the Application of Standards Issued by the Financial Accounting Standards Board*. This information is not required in the consolidated financial report of the U.S. Government as a whole.

AMENDMENTS TO SFFAS 7, ACCOUNTING FOR REVENUE AND OTHER FINANCING SOURCES AND CONCEPTS FOR RECONCILING BUDGETARY AND FINANCIAL ACCOUNTING (SFFAS 7)

2. Paragraphs 80 to 82 of SFFAS 7 are replaced with the following paragraphs:

80. Budgetary and financial accounting information are complementary, but both the types of information and the timing of their recognition are different, causing differences in the bases of accounting. To better understand these differences, the reconciliation should explain the relationship between the net cost of operations\(^1\) and net outlays by the entity during the reporting period. The reconciliation should reference the reported “net outlays”\(^2\) and related adjustments as defined by Office of Management and Budget (OMB) Circular A-11: *Preparation, Submission, and Execution of the Budget*.

81. The net cost of operations should be adjusted by

(a) components of net cost that are not part of net outlays (e.g., depreciation and amortization expenses of assets previously capitalized, change in asset/liabilities);

(b) components of net outlays that are not part of net cost (e.g., acquisition of capital assets); and

(c) other temporary timing differences (e.g., prior period adjustment due to correction of errors).

82. The adjustments should be presented and explained in appropriate detail and in a manner that best clarifies the relationship between net outlays and the accrual basis

\(^1\) The terms “net cost of operations” and “net cost” are used interchangeably to refer to the total cost incurred by the reporting entity less exchange revenue earned during the period.

\(^2\) OMB Circular A-11: *Preparation, Submission, and Execution of the Budget* states, “Outlay means a payment to liquidate an obligation (other than the repayment to the Treasury of debt principal). Outlays are a measure of Government spending. Subtract all offsetting collections (unexpired and expired) from gross outlays to yield net outlays so that the contribution of the budget account to the Federal Government’s bottom line (the surplus or deficit) can be determined.”
amounts used in financial accounting. A narrative explaining the purpose, the nature, and the line items of the reconciliation also should be presented with the reconciliation.

3. Paragraphs 91 to 93 of SFFAS 7 are replaced with the following paragraphs:

91. Subobjective 1C of the Budgetary Integrity objective states that information is needed to help the reader to determine “how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.” This objective arises because accrual-based expense measures used in financial statements differ from the obligation and outlay-based measures used in budgetary reporting.

92. To satisfy this objective, information is needed about the differences between budgetary and financial (i.e., proprietary) accounting that arise as a result of the different measures. This could be accomplished through a Budget and Accrual Reconciliation (BAR) that reconciles the net budgetary outlays for a federal entity’s programs and operations to the net cost of operating that entity. The data presented could be for the reporting entity as a whole, for the major suborganization units, for major budget accounts, or for aggregations of budget accounts, rather than for each individual budget account of the entity.

93. The Budget and Accrual Reconciliation is added to SFFAC No. 2’s suggested list of items included in the section titled “Financial Reporting for an Organizational Entity.” In addition, a footnote (referencing the Reconciliation of Net Costs to Outlays) should be added stating the following:

OMB will provide guidance regarding details of the display for the Budget and Accrual Reconciliation, including whether it should be presented as a basic financial statement or as a schedule in the notes to the basic financial statements.

4. The header before paragraph 95 of SFFAS 7 titled “Statement of Financing” is replaced with “Budget and Accrual Reconciliation.”

5. Paragraphs 95 to 102 of SFFAS 7 are replaced with the following paragraphs:

95. The purpose of the Reconciliation of Net Costs to Outlays is to explain how budgetary resources outlaid during the period relate to the net cost of operations for the reporting entity. This information should be presented in a way that clarifies the relationship between the outlays reported through budgetary accounting and the accrual basis of financial (i.e., proprietary) accounting. By explaining this relationship, information necessary to understand how the budgetary outlays finance the net cost of operations and affect the assets and liabilities of the reporting entity is provided. The appropriate elements for the Budget and Accrual Reconciliation are indicated in the following paragraphs. They provide logical groupings of reconciling items that help the reader move from outlays to net cost of operations.

96. Net Cost of Operations is from the Statement of Net Cost.
97. **Components of net cost that are not part of net outlays** are most commonly (a) the result of allocating assets to expenses over more than one reporting period (e.g., depreciation) and the write-down of assets (due to revaluations), (b) the temporary timing differences between outlays/receipts and the operating expense/revenue during the period, and (c) costs financed by other entities (imputed inter-entity costs).

98. **Components of net outlays that are not part of net cost** are primarily amounts provided in the current reporting period that fund costs incurred in prior years and amounts incurred for goods or services that have been capitalized on the balance sheet (e.g., plant, property and equipment acquisition and inventory acquisition).

99. **Other temporary timing differences** reflect special adjustments (e.g., prior period adjustment due to correction of errors).

100. **Net Outlays** is the summation of the above amounts and equals the Statement of Budgetary Resources net outlays amount.

101. The preparer should present material amounts separately in the reconciliation and discuss these in the narrative. The use of “other” captions should be minimized and individually material amounts should not be netted to report an immaterial amount.

102. The following is an example for the financial statement format. This format and its narrative will be added to the appendices of SFFAC No. 2.

**Entity and Display, Appendix 1-G**

**EXAMPLE FINANCIAL STATEMENT FORMATS – BUDGET AND ACCRUAL RECONCILIATION**

**NARRATIVE**

*Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incidence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting formation. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.*

*Unrealized valuation loss on investment in the reconciliation is related to the write down of security investment due to recent market volatility which did not result in an outlay but did result in a cost. The large increase of accounts payable compared to last year is because this year's rent expense has not been paid but was included in the net cost this year and not included in the outlays. The large variance in the "transfers in/(out) without reimbursement" between fiscal year (FY) 201X and FY201X is primarily due to the transfer of program management responsibility from agency 1 to agency 2 as discussed in further detail in Note X. In addition, the*
decrease in "Imputed financing source" is a result of the payment in FY201X for the ABC Settlement.  

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3 This is an illustration of what might be presented in the narrative paragraph. It is an example of how to explain the material line items in the reconciliation and describes why some material line items either increase or decrease net cost but do not have the same impact on net outlays.
For the year ended September 30, 201X

<table>
<thead>
<tr>
<th>Components of Net Cost That Are Not Part of Net Outlays:</th>
<th>Intra-governmental</th>
<th>With the public</th>
<th>Total FY 201X</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant, and equipment depreciation</td>
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<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Property, plant, and equipment disposal &amp; revaluation</td>
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<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Year-end credit reform subsidy re-estimates</td>
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<td>xxx</td>
</tr>
<tr>
<td>Unrealized valuation loss/(gain) on investments</td>
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<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td><strong>Increase/(decrease) in assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Loans receivable</td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Investments</td>
<td>xxx</td>
<td>xxx</td>
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</tr>
<tr>
<td>Other assets</td>
<td>xxx</td>
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<td>xxx</td>
</tr>
<tr>
<td><strong>(Increase)/decrease in liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Salaries and benefits</td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Insurance and guarantee program liabilities</td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Environmental and disposal liabilities</td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Other liabilities (Unfunded leave, Unfunded FECA, Actuarial FECA)</td>
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<td>xxx</td>
</tr>
<tr>
<td><strong>Other financing sources:</strong></td>
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<td></td>
</tr>
<tr>
<td>Federal employee retirement benefit costs paid by OPM and imputed to the agency</td>
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<td>xxx</td>
</tr>
<tr>
<td>Transfers out (in) without reimbursement</td>
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<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Other imputed financing</td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td><strong>Total Components of Net Cost That Are Not Part of Net Outlays</strong></td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td><strong>Components of Net Outlays That Are Not Part of Net Cost:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect of prior year agencies credit reform subsidy re-estimates</td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Acquisition of capital assets</td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Acquisition of inventory</td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Acquisition of other assets</td>
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<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Other</td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td><strong>Total Components of Net Outlays That Are Not Part of Net Cost</strong></td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td><strong>Other Temporary Timing Differences</strong></td>
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<td>xxx</td>
</tr>
<tr>
<td><strong>NET OUTLAIES</strong></td>
<td>$xxx</td>
<td>$xxx</td>
<td>$xxx</td>
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</tbody>
</table>
RELATED AMOUNTS ON THE STATEMENT OF BUDGETARY RESOURCES:

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Outlays, gross</td>
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<td>$xxx</td>
<td>$xxx</td>
</tr>
<tr>
<td>Actual Offsetting Collections</td>
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<td>xxx</td>
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<tr>
<td>Distributed Offsetting Receipts</td>
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<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>NET OUTLAYS</td>
<td>$xxx</td>
<td>$xxx</td>
<td>$xxx</td>
</tr>
</tbody>
</table>

RESCISSION TO SFFAS 22, CHANGE IN CERTAIN REQUIREMENTS FOR RECONCILING OBLIGATIONS AND NET COST OF OPERATIONS, AMENDMENT OF SFFAS 7, ACCOUNTING FOR REVENUE AND OTHER FINANCING

6. SFFAS 22 is rescinded in its entirety by this Statement.

AMENDMENT TO SFFAS 24, SELECTED STANDARDS FOR THE CONSOLIDATED FINANCIAL REPORT OF THE UNITED STATES GOVERNMENT

7. The following paragraph replaces SFFAS 24, paragraph 9:

   9. Paragraphs 77-82 of SFFAS 7 are not applicable to the consolidated financial report of the U.S. Government as a whole.¹ [Text of footnote 1: Footnote rescinded by SFFAS X.]

DISCLOSURE REQUIREMENTS

8. A narrative explaining the nature of the reconciliation and significant reconciling items should be presented along with the reconciliation. The amount and nature of noncash outlays should be disclosed. For purposes of this Statement, non-cash outlays are outlays that are recognized without a concurrent cash disbursement, such as interest accrued by Treasury on debt held by the public and non-cash credit reform outlays/activity.

EFFECTIVE DATE

9. The requirements of this Statement are effective for reporting periods beginning after September 30, 2017₂018. Early adoption is permitted. Comparative prior period information should be restated consistent with this Statement. In the initial year of implementation, comparative information is not required and the requirements of SFFAS 7(unamended), paragraphs 80 to 82 that were applicable in prior reporting periods are rescinded.

   The provisions of this Statement need not be applied to immaterial items.
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. The Statement of Financing (SOF) note disclosure has been criticized as too complex and not useful. In July 2012, the Association of Government Accountants’ research report (titled Government-wide Financial Reporting) suggested improvements in the processes, as well as related standards. The government-wide accounting (GWA) financial report includes a basic financial statement reconciling the Unified Budget Deficit (deficit) and the Net Cost of Operations. The deficit is based on receipts and outlays rather than obligations. The current component reporting entity obligation-based SOF reconciliation does not align with the GWA reconciliation.

A2. In February 2016, the Board agreed to undertake a project and formed a Budget and Accrual Reconciliation (BAR) task force. Through this project, the Board planned to address concerns regarding the reconciliation and the need to support the GWA reconciliation by aligning the component reporting entity disclosures with the GWA requirements. In addition to agreeing with the concerns of the Board, the BAR task force identified the following additional topics to be addressed:

   a. The complexity and usefulness of the SOF note
   b. Ways to more directly relate budgetary data and accrual data for a less complex presentation
   c. Support for the GWA reconciliation statement (limited to component reporting entity requirements)

A3. The BAR task force, which included industry representatives from several public accounting and consulting firms such as Deloitte, Kearney & Company, and KPMG, as well as representatives with financial reporting preparation and policy background from the following federal agencies, developed this proposed Statement:

   a. Department of Energy (DOE)
   b. Department of the Treasury (Treasury)
   c. Department of Veterans Affairs (VA)
   d. Small Business Administration (SBA)
   e. U.S. Coast Guard (USCG)
   f. Securities and Exchange Commission (SEC)

A4. During the initial phase of the project, the BAR task force was divided into subgroups to research (a) the usefulness of the current SOF, (b) a new component reporting entity reconciliation format, and (c) the potential amendment to the existing standards to adopt the new reconciliation format. The SOF sub-group reviewed 23 major agencies’ current
SOF notes to understand the variety of the current SOF note preparation process and surveyed task force members on the advantages and disadvantages of the current SOF note. Based on the research result, the task force came to the following conclusions:

a. The current SOF note resulted in each agency establishing its own processes and it is time consuming to prepare.

b. Due to the lack of government-wide crosswalk instruction on the SOF note, the SOF note is not comparable between agencies.

c. The SOF note is too complex and to be useful.

A5. Subsequently, the BAR task force researched and developed a first draft of the New BAR (NBAR) format based on the objectives identified. In addition, the BAR subgroups (a) performed agency-level piloting of the NBARBAR, (b) conducted Governmentwide Treasury Account Symbol Adjusted Trial Balance System crosswalk accounts research to support the NBARBAR, (c) aligned the current format to GWA research, and (d) assessed how the new format change would impact the standards and conducted other literature research.

A6. In June 2016, the Board approved the BAR task force’s recommendations based on its research results. These recommendations included the following:

a. The current SOF note should be replaced due to its complexity and limited usefulness to the user.

b. There is a need to research an alternative presentation format that would better relate with budgetary and accrual data, as well as support the GWA reconciliation.

A7. By the end of July 2016, the task force proposed an updated NBARBAR, and six agencies who piloted the new format provided their feedback. In August 2016, the Board approved the new format and supported continued development requests, including involving more agencies to pilot the NBARBAR. By the end of this project phase, a total of 13 agencies—including 11 cabinet agencies—joined the pilot efforts.

[Placeholder for discussion of the ED issuance and responses. Text explaining Board decisions in response on significant matters will be included in the text below.]

THE NEW BUDGET AND ACCRUAL RECONCILIATION

A7-A8. The NBARBAR incorporates the information needed to meet the reporting objectives and is supportive of the GWA budget deficit and net operating cost reconciliation. It also makes the agency’s budgetary and financial accounting reconciliation preparation easier while improving the usefulness of the information to the public readers/users.

A8-A9. To provide detailed support to the GWA reconciliation, the intra-governmental reconciliation items will be presented separately. To strengthen the connection of this reconciliation to the other financial statements in the financial report, the starting point of the net cost is obtained directly from the Statement of Net Cost; the final calculated net outlays will equal the net outlays on the Statement of Budgetary Resources. To reduce the preparation time for agencies and simplify the reconciliation, the majority of the
reconciliation items come directly from the other financial statements’ line items, line items’ prior year and current year comparison, or financial statement note disclosures.

A9. A10. The new format incorporates the requirements of SFFAS 24 to the extent practicable and highlights net outlays not included in net cost and expenses not included in net outlays. To simplify the presentation and reduce the preparation burden on the component reporting entities, the Board omitted receipts not retained by the component reporting entity from the NBARBAR. These receipts are generally not reported as components of net cost or net outlays at the component reporting entity level. Instead, these amounts are reported in the Statement of Custodial Activities. Thus, the amounts supporting GWA reporting can be supported by the component reporting entity’s financial statements. A separate Treasury general fund project is underway, which would help address the receipt issue as well.

A10. A11. Reconciliation between “net cost and net outlays” would replace the current SOF reconciliation between “obligations incurred and net cost.” Six task force member agencies—DOE, SBA, SEC, Treasury, USCG, and VA—piloted the NBARBAR and provided their feedback on the process and how it compares to the current SOF note. Based on the pilot results, the BAR task force identified many advantages and some disadvantages of replacing the SOF note with a reconciliation of net cost to net outlays. Subsequently, seven additional agencies piloted the format and provided feedback.

A11. A12. Based on feedback from the task force and pilot agencies, the new budget and accrual reconciliation

- supports the GWA budget and accrual reconciliation,
- is easier to prepare than the current SOF note disclosure,
- is easier for users not familiar with federal budgeting and accounting to understand due to its similarity to the commercial cash flow statement, and
- requires that each agency develop a new process.

A12. A13. The task force performed a detailed account-level crosswalk from each line item of the NBARBAR to the GWA budget deficit and net cost reconciliation line items. The task force found that about 80 percent of the current GWA reconciliation will be supported by the new reconciliation. The remaining 20 percent primarily relates to the budget receipts, which were intentionally omitted in the new reconciliation for the reasons stated in paragraph A10.
A13.A14. According to the task force respondents, the new reconciliation improves the readability of the statement by making it more closely align with information presented in component reporting entity financial statements. The proposed format is also simpler, easier to understand, and readily auditible. Further, the requirement to provide a narrative explanation of the reconciliation and significant reconciling items would also enhance its understandability. For most agencies, it does not require a change of the agencies’ current reporting system.

A14.A15. The taskforce prefers that Treasury provide a crosswalk to increase the consistency across the agencies and to effectively balance this new reconciliation for major funds. Treasury’s Bureau of the Fiscal Service has been collaborating with the task force representatives in developing a crosswalk that could be used to prepare the NBARBAR.

A15.A16. The Board agreed on the importance of getting the NBARBAR crosswalk developed by the Treasury before the NBARBAR is implemented, as it will reduce agencies’ implementation time and facilitate audit efforts.

A16.A17. In addition, the Board believes disclosing information about any noncash outlays would aid in preparing the GWA reconciliation of the budget surplus (deficit) to the change in cash.
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<tr>
<th>Abbreviation</th>
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<tr>
<td>BAR</td>
<td>Budget and Accrual Reconciliation</td>
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<td>DOE</td>
<td>Department of Energy</td>
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<td>FASAB</td>
<td>Federal Accounting Standards Advisory Board</td>
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<td>Federal Employees’ Compensation Act</td>
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<td>FY</td>
<td>Fiscal Year</td>
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<td>Generally Accepted Accounting Principles</td>
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<td>GWA</td>
<td>Government-wide Accounting</td>
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<td>NBAR</td>
<td>New Budget and Accrual Reconciliation</td>
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<td>SOF</td>
<td>Statement of Financing</td>
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<td>Treasury</td>
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<td>United States Coast Guard</td>
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<td>VA</td>
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