



Federal Accounting Standards Advisory Board

April 13, 2017

Memorandum

To: Members of the Board

Ross Simms

From: Ross Simms, Assistant Director

Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subj: Federal Financial Reporting – **TAB C-1**¹

MEMBER ACTIONS REQUESTED:

- Prepare to answer questions presented on page 10

OBJECTIVE

The objective is to discuss topics that would assist staff in preparing illustrative financial statements and required supplementary information (RSI) for the government-wide and component reporting entities and determining next steps for the reporting model project.

BRIEFING MATERIAL

The briefing material includes this memorandum which presents topics and illustrations for the Board's consideration in determining the next steps.

BACKGROUND

During the February 2017 meeting, the Board agreed to develop illustrations of the government-wide and component reporting entity financial statements and RSI. For the April 2017 meeting, the Board asked staff to prepare questions that could help frame the visuals.

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.

NEXT STEPS

Staff will consider Board member comments and begin preparing illustrations for the June 2017 meeting.

MEMBER FEEDBACK

If you have any questions or comments, please contact me by telephone at (202) 512-2512 or by email at simmsr@fasab.gov with a cc to paynew@fasab.gov .

Topics to Consider for Developing Reporting Model Illustrations

1. Near-Term or Long-Term Reporting Model Illustrations

Regarding the government-wide and component entity reporting models, Board members noted the existing models should be enhanced rather than reconstructed. However, members should discuss the expected timeframe for completing the enhancements to determine aspects of the model staff should start developing. For instance, if the Board would like to consider enhancements that could be implemented over a near term, staff could focus on developing a plan for possible changes to existing financial statements, such as the Statement of Net Cost. Alternatively, if the Board would like to consider enhancing the model as a long-term initiative, staff could focus on an electronic, internet-based model, including the streamlining of required information.

Question for the Board

1. Does the Board prefer that staff develop illustrations for models that could be implemented over a near or long term period?

2. Benefits of the Existing Models and Areas of Concern for the Board

The Board noted the government-wide and component reporting entities needed enhancements and feedback on what the existing models do well and where there is a need for improvement would be helpful in determining the approach and focus of the project. For instance, if members agree the models generally present the required information, but are concerned with how information is arrayed in a statement, staff could focus on that issue. However, if members are concerned about the need to streamline information, staff could focus on possible redundancies in presenting required information.

Question for the Board

2. What are some of the benefits of the existing models and what are some areas of concern that the reporting model illustrations should ensure to address?

3. Component Reporting Entity Budgetary Information

The draft concepts Statement, *Federal Financial Reporting*, discuss user's need for information on the status of component reporting entity budgetary resources. However, the Board has noted users have difficulty understanding component reporting entity budgetary information. While the Board does not develop standards for the budget, it has required presentation of budgetary basis information and presumably could identify enhancements to presentation and disclosure.

Consequently, staff could work with budget experts and develop features such as illustrative disclosures that would assist users in understanding component reporting entity budgetary information.

Question for the Board

- Does the Board agree or disagree that staff should work with budget experts and develop features such as illustrative disclosures that would assist users in understanding component reporting entity budgetary information?

4. Views Regarding Potential Enhancements

The draft concepts Statement, *Federal Financial Reporting* indicate that users need information on the government's progress in achieving its goals. The draft concepts also discuss informing users on the relationship between accounting bases used in financial statements and RSI. Consequently, Table 1 illustrates a government-wide reporting entity statement showing costs and spending (outlays) by strategic goal. The statement aligns what the government wants to achieve with the amounts spent and costs incurred doing so. The statement also presents the relationship between the accrual and budgetary based amounts and informs users of the net costs that will require outlays in the future.

Illustrative Spending and Net Cost Statement								
	2016				2015			
Strategic Goals	Spending (Outlays)	Plus Net Cost included in Past Budgets	Plus Net Cost to be included in Future Budgets	Resulting Net Cost	Spending (Outlays)	Plus Net Cost included in Past Budgets	Plus Net Cost to be included in Future Budgets	Resulting Net Cost
National Defense	757		122	879	645		58	703
Social Security	696	-80	249	865	597	-65	160	692
Income Security	674		102	776	588		32	620
Health	500		62	562	410		39	449
Education	125		30	155	94		30	124
Transportation	92		22	114	77		14	91
Other	88	-241	260	107	60	-10	35	85
Total	2,932	-321	847	3,458	2,471	-75	368	2,764

Table 1 Illustrative Spending and Net Cost Statement

Question for the Board

4. What comments do members have with respect to a government-wide reporting entity statement presenting spending and costs by strategic goal?

5. Example Long-term Government-wide Model

If the Board would like to consider a model that could be implemented over a long term, staff has prepared an outline for a possible model. The primary differences between this long-term model and the existing model are 1) the long-term model would be an electronic, internet based model, 2) the long-term model would present five topic areas rather than a report intended to be read from front to back, and 3) the long-term model would have separate required information (management's discussion and analyses (MD&A), financial statements, and required supplementary information (RSI)) for each of the topics. The topics that would be presented in the model are:

- I. What We Do
- II. Where Do We Get Our Resources
- III. How We Used Our Resources
- IV. What We Accomplished
- V. Where We Are Headed

Separating required information into topics would help make the information more "digestible" to users and, for those interested in particular topics, the model would assist users in accessing information more readily. In general, users would not be expected to read the entire MD&A before reading any other required information. Table 2 illustrates the tabs that could be presented on the model's Home Page.



- What We Do



- Where Do We Get Our Resources



- How We Used Our Resources



- What We Accomplished



- Where We Are Headed

Table 2 Illustrative Home Page Tabs

The tabs would be descriptive to inform users on what they could expect to review and users would click on the tabs to go to financial statements and/or RSI relevant to each topic. Thus, there would not be a single MD&A section or a single financial section. The following outlines provide the topics and example subtopics that could be addressed for the government-wide and component reporting entities.

Government-wide Reporting Model Required Information Outline

- I. What We Do
 - a. What the federal government does (tables, graphs, narrative, etc.)
 - i. Cross-agency Priority (CAP) Goals
 - ii. Agency Strategic Goals
 - b. How we conduct our mission
 - i. Organizational Structure
 - ii. Component Reporting Entities
- II. Where Do We Get Our Resources
 - a. Sources of federal resources (Financial Statements presenting sources of resources on accrual and cash basis with applicable narrative explanations)
 - i. Taxes
 1. Individual income tax
 2. Corporate Tax
 3. Excise
 4. Other
 - ii. Earned Revenue
 - b. Borrowing – Debt and Other Liabilities
- III. How We Used Our Resources (Financial Statements presenting uses of resources on an accrual and cash basis with applicable narrative explanations)
 - a. Where Did the Money Go
 - i. CAP Goals
 - ii. Agencies (link to agency websites)
 - iii. Agency Strategic Goals
- IV. What We Accomplished (tables, graphs, narrative, etc.)
 - a. The Significant Changes During the Period
 - i. Changes in resources received
 - ii. Changes in resources used
 - b. What We Accomplished During the Period
- V. Where We Are Headed
 - a. Financial Position 5 year trend
 - b. Receipts, spending, and debt projections
 - c. Risks
 - d. Challenges

Component Reporting Model Required Information Outline

- I. What We Do
 - a. What the Component Entity Does (could link to performance.gov)
 - i. Strategic Goals
 - ii. Strategic Objectives
 - iii. Agency Priority Goals
 - iv. Programs (link to program inventory)
 - b. How We Conduct Our Mission
 - c. Organizational Structure
- II. Where Do We Get Our Resources
 - a. Sources of Resources
 - i. Budget Authority
 - ii. Earned Revenue
 - iii. Borrowing
 - iv. Comparison of accrual and outlay basis
- III. How We Used Our Resources
 - a. Where did the money go
 - i. Agency Priority Goals
 - ii. Performance Goals
 - iii. Programs
 - b. comparison of accrual and budget basis
- IV. What We Accomplished
 - a. The significant changes during the period
 - b. What we accomplished during the period
- V. Where We Are Headed
 - a. Financial Position for the period and previous period
 - i. Assets
 - ii. Liabilities
 - iii. Net Position
 - b. Stewardship Investments
 - c. Risks
 - d. Challenges

Question for the Board

5. What comments do members have regarding the example long-term model?

Questions for the Board

1. Does the Board prefer that staff develop illustrations for models that could be implemented over a near or long term period?
2. What are some of the benefits of the existing models and what are some of the areas of concern that the reporting model illustrations should ensure to address?
3. Does the Board agree or disagree that staff should work with budget experts and develop features such as illustrative disclosures that would assist users in understanding component reporting entity budgetary information?
4. What comments do members have with respect to a government-wide reporting entity statement presenting spending and costs by strategic goal?
5. What comments do members have regarding the example long-term model?