



December 4, 2015

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Reporting Model – **TAB G-1**¹

MEETING OBJECTIVE

The objective is to discuss an outline of conceptual guidance for an ideal reporting model.

BRIEFING MATERIALS

The briefing materials include this memo which provides background and discusses matters for Board consideration and the following attachment:

Attachment I: October 21, 2015 Draft Concepts Statement provides the full text of the conceptual guidance that the Board is considering.

BACKGROUND

During the October 21, 2015 meeting, the Board continued its deliberations on a draft ideal reporting model concepts statement and members noted that the draft appeared to repeat existing concepts. Rather than determine whether to focus on new concepts and amend the existing concepts as needed, the Board decided to first ensure that they have identified all the concepts that would help them develop standards for an ideal reporting model.

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

The Board agreed that the ideal reporting model concepts statement should discuss: GAAP-based reporting and its relationship to other information being reported; the need for financial reports to explain the relationship among financial statements; the need for program level information and the attributes of a program for financial reporting purposes; an updated definition of financial condition; and budgetary information, including budget to actual comparisons, the role of the Board with respect to budgetary information, and an explanation of budgetary resources.

Also, to help determine the concepts that should be included in the ideal reporting model concepts statement, the Board decided to review a list of the new concepts being proposed and Board members would provide comments to staff regarding: 1) concepts that should be added; 2) concepts that should be deleted; and 3) the sequence that the concepts should be presented. The comments would be used to prepare an outline of the concepts statement.

MEMBER FEEDBACK

This memo presents the feedback staff received regarding the list of new concepts. The feedback is presented as concepts statement outline Options A, B, and C and members will be asked which option they prefer. If you would like to propose an additional option for Board consideration, please provide it to me by December 11, 2015, so that it can be shared with other members in advance of the meeting. Also, 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 .

Outline of Concepts to Include in the Reporting Model Concepts Statement

The October 21, 2015 reporting model draft concepts appeared to rephrase or repeat existing concepts and Board members sought to determine the 'new' concepts presented in the draft. Consequently, staff prepared the following list of proposed new concepts:

1. Identification of some of the benefits of GAAP:
 - a. an open deliberative process (17)
 - b. agreed upon criteria for categorizing, recognizing, measuring, and depicting financial activities (17)
 - c. the common understanding of the framework through definitions of terms and elements as well as relationships among them (18)
2. The preparer should consider how best to meet the reporting objectives and not simply engage in a compliance exercise. Preparer judgment regarding context and the level of detail to be presented is needed. (19)
3. Explicit acknowledgement that specific decisions most likely will require more detailed information than that provided by financial statements. (20)
4. Understandable relationships among financial statements (articulation) are needed and can be accomplished in several ways. (25)
5. MD&A should discuss the significant differences in the information provided by financial statements prepared on different bases. (26)
6. GAAP ensures financial information is complete. It guides exchange of information among the disparate sources in order to meet users' needs. (Integration) Other (non-GAAP) sources may be incomplete, inconsistent, or redundant. (31)
7. GAAP reports are intended to provide a single source to aid in meeting reporting objectives but such reports are highly aggregated. (32)
8. Other information (non-GAAP) may address specific objectives and allow users to create own reports but may not:
 - a. be intended to comprehensively address reporting objectives or portray the finances of the entity as a whole. (33)
 - b. be exposed to the same level of discipline as GAAP sources and may not be audited (34)
 - c. be consistent with GAAP standards (34)
 - d. meet the qualitative characteristics (34)
9. Financial and other data may reside in a variety of systems. Financial systems that are interoperable:
 - a. Have the ability to exchange data and facilitate the use of the data without special effort on the part of the user
 - b. Provide a means of sharing information or aggregating comparable data from different systems
 - c. Streamlines the reporting of useful information (35)
10. Interoperable systems:
 - a. Enhance consistency
 - b. Aid users understanding

- c. Facilitate sharing of information (35)
11. Distinguishes the kinds of information and financial statements that should be presented by
 - a. The government-wide reporting entity (46), including assisting users in understanding the government's financial condition (47-48); and
 - b. Component entities (63)
12. Encourages information on the cost of major services (66) and consistent definitions of cost (67)
13. Budgetary integrity is a secondary focus objective. (80)
14. Encourages presentation of multiple periods of performance information. (87)
15. The operating performance objective is a primary focus objective. (89)
16. Encourages summary reporting. (92)

The list includes paragraph references in parentheses and Attachment I: October 21, 2015 Draft Concepts Statement provides the full text of the proposed new conceptual guidance as well as text that rephrases or repeats existing concepts.

Board members subsequently provided comments regarding the list of new concepts and their perspectives are reflected in the following outlines of a concepts statement:

- Option A presents an outline which includes new and existing concepts. The resulting concepts statement could also propose amendments to or the rescission of existing concepts. (see pp. 5-7)
- Option B focuses on discussing new concepts. The resulting concepts statement could also propose amendments to existing concepts. (see p.8)
- Option C presents an outline which includes new and existing concepts, including those not presented in Option A. The resulting concepts statement could also propose amendments to or the rescission of existing concepts. (see p. 9-11)

Question for the Board

To ensure that the draft concepts statement includes all the concepts that the Board believes are needed for an ideal reporting model, which outline option does the Board prefer?

Outline Option A

1. SFFAC 1 defined objectives for Federal financial reporting
 - a. Budgetary integrity
 - b. Operating performance
 - c. Stewardship
 - d. Systems and controls
2. SFFAC 2 identified financial information needed to meet those objectives
3. Recognized that some of the identified information should be presented in a general purpose financial report prepared in accordance with generally accepted accounting principles;
4. Definition of what a “GAAP report” is
 - a. Financial statements, footnotes, and required supplementary information intended to present financial position and results of operations of an entity
 - b. Frequently called a general purpose financial report
 - c. In Federal government, would be general purpose federal financial report
5. Identification of some of the benefits of GAAP reports:
 - a. Results from an open deliberative process (17)
 - b. Based on agreed upon criteria for categorizing, recognizing, measuring, and depicting financial activities (17)
 - c. Based on a common understanding of the framework through definitions of terms and elements as well as relationships among them (18)
 - d. Ensures financial information is complete.
 - e. Guides exchange of information
6. GAAP-based financial statements are not the only source of financial information.
7. Some financial information presented via other means.
 - a. Budgets
 - I. Role of budget in U. S. Government—authorize spending; control spending
 - II. How budget is developed
 - a) Budget committees set overall targets
 - b) Some spending authorized by authorizing committees—deemed mandatory spending
 - c) Other spending authorized by appropriations committees after programs authorized by authorizing committees—deemed discretionary spending
 - i. Discretionary authority could be one year, multi-year, no-year
 - d) Distinction between budget authority and budget resources
 - e) Budget resources result from appropriations, contract authority, borrowing authority, spending authority from offsetting collections; recovery of prior year obligations
 - b. Special purpose financial reports
 - i. Internal
 - ii. External
 - c. Schedule of Spending required by OMB
 - i. Intended to report spending (outlays), but actually reports obligations
 - d. Checkbook level information as exemplified by the DATA Act.

- e. Media
- 8. GAAP-based reports prepared on three different bases.
 - a. Historical statements prepared on the accrual basis
 - b. Budget statements prepared on the budgetary basis
 - c. Projections prepared on the actuarial basis.
- 9. MD&A should explain the differences in the different types of financial statements and the information they provide
 - a. Narrative and graphic depictions
- 10. Federal government is a single economic entity
 - a. Single entity—government—is composed of components who provide services to people
 - b. Government is one entity.
 - i. Purpose
 - iii. How it functions
 - iv. Sources of financial support—taxes and borrowing
 - v. Kinds of information users need
 - a) Identification of which components' statements can provide detail about programs/services
 - c. Components are other type of entity
 - i. Purpose
 - ii. How they function
 - ii. Sources of financial support-mainly appropriations, but revenues also
 - vi. Kinds of information users need
- 11. Focus of reporting model is on flow statement for components
 - a. Reasons
- 12. Components' summary information should be for strategic goals, since they reflect purposes of components
- 13. Components' detail information should be at the program level, even though that is not presently possible, to show users amounts expended on programs of interest
 - a. Explain relationship between programs and services
 - b. Make distinction between program activities and programs.
- 14. Comparisons of actual to budget resources provide an understanding of how budget resources are used.
- 15. Costs, with costs of at least the major programs when possible, is necessary
 - a. Types of costs to be encompassed
- 16. Performance results information shows what was obtained for the costs.
 - a. Different types of performance information
 - i. Outputs
 - ii. Outcomes
 - b. Performance results might not occur in year costs were incurred.
 - i. Information nonetheless important to show relationship.
 - iii. Characteristics of performance information.
 - iv. Sources of performance information
 - v. Importance of timeliness and acceptability of estimates.
- 17. Electronic reporting—how it can be used to extend the extent of information made available.

18. Role of summary reporting.

- a. Purpose
- b. Key elements of a summary report, e. g., Overview, program performance , financial performance, challenges

Outline Option B

1. MD&A should discuss the significant differences in the information provided by financial statements prepared on different bases.
2. GAAP ensures financial information is complete. It guides exchange of information among the disparate sources in order to meet users' needs. (Integration) Other (non-GAAP) sources may be incomplete, inconsistent, or redundant.
3. GAAP reports are intended to provide a single source to aid in meeting reporting objectives but such reports are highly aggregated.
4. Other information (non-GAAP) may address specific objectives and allow users to create own reports but may not:
 - a. comprehensively address reporting objectives or portray the finances of the entity as a whole.
 - b. be exposed to the same level of discipline as GAAP sources and may not be audited
 - c. be consistent with GAAP standards
 - d. meet the qualitative characteristics
5. Financial and other data may reside in a variety of systems. Financial systems that are interoperable²:
 - a. Have the ability to exchange data and facilitate the use of the data without special effort on the part of the user
 - b. Provide a means of sharing information or aggregating comparable data from different systems
 - c. Streamline the reporting of useful information
6. Interoperable systems:
 - a. Enhance consistency
 - b. Aid users understanding
 - c. Facilitate sharing of information
7. Concepts that help the Board distinguish the kinds of information and financial statements that should be presented by
 - a. The government-wide reporting entity, including assisting users in understanding the government's financial condition; and
 - b. Component entities
8. Component financial reports should provide information on the cost of major services and consistent definitions of cost
9. Budgetary integrity is a secondary focus objective.
10. Concepts that encourage presentation of multiple periods of performance information.
11. The operating performance objective is a primary focus objective.
12. Conceptual guidance should encourage summary reporting.

² Interoperability refers to ability for systems to exchange data and facilitate the use of the data without special effort on the part of the user.

Outline Option C

1. SFFAC 1 defined objectives for Federal financial reporting
 - a. Budgetary integrity
 - b. Operating performance
 - c. Stewardship
 - d. Systems and controls
2. SFFAC 2 identified financial information needed to meet those objectives
3. Recognized that some of the identified information should be presented in a general purpose financial report prepared in accordance with generally accepted accounting principles
 - a. Explicit acknowledgement that specific decisions most likely will require more detailed information than that provided by financial statements. (20)
 - b. GAAP ensures financial information is complete. It guides exchange of information among the disparate sources in order to meet users' needs. (Integration) Other (non-GAAP) sources may be incomplete, inconsistent, or redundant. (31)
 - c. GAAP reports are intended to provide a single source to aid in meeting reporting objectives but such reports are highly aggregated. (32)
4. Definition of what a "GAAP report" is
 - a. Financial statements, footnotes, and required supplementary information intended to present financial position and results of operations of an entity
 - b. Frequently called a general purpose financial report
 - c. In Federal government, would be general purpose federal financial report
5. The preparer should consider materiality and how best to meet the reporting objectives and not simply engage in a compliance exercise. Preparer judgment regarding context and the level of detail to be presented is needed.
6. Identification of some of the benefits of GAAP reports:
 - a. Results from an open deliberative process (17)
 - b. Based on agreed upon criteria for categorizing, recognizing, measuring, and depicting financial activities (17)
 - c. Based on a common understanding of the framework through definitions of terms and elements as well as relationships among them (18)
 - d. Ensures financial information is complete.
 - e. Guides exchange of information
7. The role of FASAB and how the Board adds value
8. GAAP-based financial statements are not the only source of financial information.
9. Some financial information presented via other means.
 - a. Budgets
 - i. Role of budget in U. S. Government—authorize spending; control spending

- II. How budget is developed
 - a) Budget committees set overall targets
 - b) Some spending authorized by authorizing committees—deemed mandatory spending
 - c) Other spending authorized by appropriations committees after programs authorized by authorizing committees—deemed discretionary spending
 - ii. Discretionary authority could be one year, multi-year, no-year
 - d) Distinction between budget authority and budget resources
 - e) Budget resources result from appropriations, contract authority, borrowing authority, spending authority from offsetting collections; recovery of prior year obligations

- III. Budgetary integrity is a secondary focus objective. (80)
 - b. Special purpose financial reports
 - i. Internal
 - ii. External
 - c. Schedule of Spending required by OMB
 - iii. Intended to report spending (outlays), but actually reports obligations
 - d. Checkbook level information as exemplified by the DATA Act.
 - e. Media
- 10. GAAP-based reports prepared on three different bases.
 - a. Historical statements prepared on the accrual basis
 - b. Budget statements prepared on the budgetary basis
 - c. Projections prepared on the actuarial basis.
- 11. MD&A should explain the differences in the different types of financial statements and the information they provide
 - a. Narrative and graphic depictions
- 12. Distinguish the kinds of information and financial statements that should be presented by the government-wide reporting entity and component entities
 - a. Federal government – a single economic entity composed of components who provide services to people
 - b. Government is one entity.
 - i. Purpose
 - ii. How it functions
 - iii. Sources of financial support—taxes and borrowing
 - iv. Kinds of information users need
 - a) Identification of which components' statements can provide detail about programs/services
 - c. Components are other type of entity
 - i. Purpose
 - ii. How they function
 - iv. Sources of financial support-mainly appropriations, but revenues also
 - v. Kinds of information users need
- 13. Focus of reporting model is on flow statement for components

- a. Reasons
 - b. Understandable relationships among financial statements (articulation) are needed and can be accomplished in several ways. (25)
14. Components' summary information should be for strategic goals, since they reflect purposes of components
 15. Components' detail information should be at the program level, even though that is not presently possible, to show users amounts expended on programs of interest
 - a. Explain relationship between programs and services
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 - b. Performance results might not occur in year costs were incurred.
 - i. Information nonetheless important to show relationship.
 - ii. Characteristics of performance information.
 - iii. Sources of performance information
 - iv. Importance of timeliness and acceptability of estimates.
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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, 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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Contact us:

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



Federal Accounting Standards Advisory Board

ISSUE DATE

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

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

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

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

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

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

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

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

Sincerely,

Tom L. Allen
Chairman

STATEMENTS OF FEDERAL FINANCIAL ACCOUNTING CONCEPTS

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

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

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

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

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

This statement discusses concepts that should be applied in developing standards for the government-wide and component entity reporting models which include financial statements, disclosures or notes, and required supplementary information (RSI). The concepts consist of guidance regarding: 1) the relationship of information within financial reports and between financial reports and other sources of financial reporting; 2) the impact and availability of electronic data and systems on financial reporting; 3) specific financial reporting objectives for the government-wide and component entity financial reports; and 4) reporting objectives for budgetary and performance information, cost accounting, and summary reporting.

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

The concepts will help improve government-wide and component entity reporting. The federal government is making financial data available to users electronically and users are able to access a variety of reports and customize their own reports. Also, the government provides a range of reports to address different users' information needs. For example, the government provides a financial report that includes financial statements, disclosures, and RSI. The financial report provides users with information on the government's net operating costs for the period, the fiscal gap, and budget deficit. Also, through websites, the government makes service performance information available for individual departments and agencies and financial data. Given the variety of reports that could be produced and discussed, questions could develop regarding how financial reports that include financial statements, disclosures, and RSI relate to other reporting. This proposal explains: the relationship among information within these financial reports; the relationship between these financial reports and other sources; and the impact of electronic data and systems on financial reporting.

Also, this proposal provides specific objectives for government-wide and component entity reporting to help ensure that the financial reports that include financial statements, disclosures, and RSI address users' needs. The government as a whole and its components present these financial reports. However, the reporting entities have different financing structures and users have different information needs. As a result, the government-wide and component entities need specific reporting objectives.

In addition, this proposal provides reporting objectives to help ensure that the financial reports provide the budgetary and performance information users need. Users need budgetary information to assist them in assessing the government's compliance with budgetary legislation and performance information to assist them in assessing the government's accomplishments.

Moreover, cost accounting is important for addressing users' information needs. Users need information on the efficiency and effectiveness of the government's programs and cost information to assist in choosing among alternative actions. Consequently, this proposal provides objectives for cost accounting.

This proposal also provides objectives for summary reporting. Users need brief presentations and may start with a brief presentation to identify areas for more research.

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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. A summary of the issue (one paragraph) should be presented followed by a question. If multiple questions follow one issue summary, use letters to distinguish them.
- Q2. New Question

INTRODUCTION

PURPOSE

1. This statement discusses concepts to assist the FASAB in developing standards for the government-wide and component entity reporting models.

While current concepts generally remain relevant, certain areas should be enhanced, including: 1) integration of information within and between financial reports from all sources and clarification of the relationships among these sources; 2) impact and availability of electronic data and systems on financial reporting; 3) specific financial reporting objectives for the government-wide and component entity financial reports; and 4) reporting objectives for budgetary and performance information, cost accounting, and summary reporting.

2. Users need integrated budget, cost, and performance information about federal programs and services. They also need to understand whether the government's financial condition improved or deteriorated for the reporting period. In addition, users need to understand component budgetary information and the relationship between the government-wide and component entities' reports given the different financial statements used in each model. For example, the component entity model includes a statement of budgetary resources while the government-wide model does not.
3. Moreover, in addition to reports that include financial statements and disclosures prepared in conformity with generally accepted accounting principles (GAAP) and RSI, the federal government makes a range of reports available to users, including budget and non-financial performance reports and reports on systems and controls. However, users need to understand the relationship among the variety of reports and they may expect to access data from multiple sources, drill-down through different levels of aggregated data, and create their own reports. Thus, the means of preparing reports has evolved and the volume and type of reports that can be prepared has grown since the earlier concepts were developed.
4. In developing an ideal reporting model, certain concepts from the existing framework will be reemphasized. This approach will ensure that the Board fully considers the concepts that are most important to addressing users' expectations. Consequently, this concepts statement will reference earlier concepts, particularly Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*. SFFAC 1 discusses the users of financial reports and their information needs; the objectives of federal financial reporting; and the qualitative characteristics of information. This concepts statement also discusses the relationship between financial reporting and budgeting, financial reporting and performance reporting, and financial reporting and cost accounting, areas important to developing a reporting model to meet users' expectations and achieving the reporting objectives.

SCOPE

5. The overall financial reporting objectives are broad. SFFAC 1, par. 10 notes that they apply to both internal and external financial reports. The intention being to improve the quality of data available for a wide variety of applications. However, their breadth combined with the growth in data sources raise questions regarding the FASAB's role; particularly with regard to budgetary integrity and systems and controls. These are viewed as unconventional objectives for a GAAP standards-setting body.
6. The Budget of the United States Government is the most widely recognized and used financial report of the federal government. The budget process is the government's principal mechanism for reaching agreement on goals, for allocating resources among competing uses, and for assessing the government's fiscal effects on economic stability and growth. While most attention is paid to the future-oriented roles of the budget process, budget execution is designed to control and track tax receipts and the use of resources according to the purposes for which budget authority was approved.¹
7. The Board's authority does not extend to recommending budgetary concepts or standards. However, the Board is charged with giving consideration to "the budgetary information needs of executive agencies and the needs of users of federal financial information"² and has committed to supporting efforts to ensure the accuracy and reliability of reporting on the budget. While budgetary and financial accounting information are presented on different bases of accounting, the information is, in effect, about different stages of the same transaction. The relationships among the information need to be understood.³

8. With respect to the Board's focus,⁴ SFFAC 1, paragraph 191 states,

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

Consequently, federal financial reports should support access to both accrual and budgetary basis financial information.

9. For reporting purposes, economic events can be measured using different bases, such as the accrual, cash, or budgetary basis. When using the accrual basis, costs are recognized when financial and other resources are consumed. As a result, the accrual basis facilitates an assessment of service performance because costs reflect the resources consumed in the same period that the services were provided.

¹ SFFAC 1, par. 187-190.

² FASAB Memorandum of Understanding, October 2009.

³ SFFAC 1, par. 176.

⁴ The American Institute of Certified Public Accountants (AICPA) designated FASAB's as the source of generally accepted accounting principles (GAAP) for federal reporting entities.

10. Citizens, Congress, government executives, and government managers need to assess the cost of government services and determine the efficiency and effectiveness of service delivery. They also need information on the government's financial condition. Accrual basis costs are recognized to facilitate comparisons of resource use with service delivery and accomplishments which can help users develop the measures relevant to their assessments. In addition, the accrual basis helps users understand how the government financed those costs during the reporting period and the effect on the government's financial condition.
11. Using the cash basis, events are recorded on the basis of cash flows. For instance, revenues are recognized when cash is received and costs are recognized when cash is paid. This basis may be relevant to managing cash and assessing borrowing needs.
12. Also, to demonstrate compliance with legislation established in authorization and appropriation acts, component entities apply the budgetary or obligation basis. This basis recognizes economic events when the government enters into agreements which obligate the government to make payments in the future, such as placing orders or awarding contracts.
13. Given the limited role of the Board with respect to budgetary standards and concepts, the Board's primary role will be to improve information measured on an accrual basis. This will require the Board to focus on achieving the operating performance and stewardship objectives and developing accrual basis accounting standards.
14. The operating performance objective calls for information on the cost of specific programs and the efforts and accomplishments associated with them. The objective also calls for information on efficiency and effectiveness of delivering services. Consequently, the statement discusses performance information and cost accounting.

PROPOSED CONCEPTS

FINANCIAL REPORTS THAT INCLUDE FINANCIAL STATEMENTS, DISCLOSURES, AND RSI

Financial reports that include financial statements, disclosures, and RSI provide comprehensive information about the reporting entity. The information possesses basic qualities such as relevance and comparability. Ideally, the financial reports integrate data from various sources with needed explanatory material. Judgment is needed in making decisions about the level of detail and basis for aggregating information to best meet user needs.

15. The information in financial reports that include financial statements, disclosures, and RSI must possess certain basic characteristics. Those basic characteristics are: understandability, reliability, relevance, timeliness, consistency, and comparability. SFFAC 1⁵ discusses each of them in detail. Among other things, these characteristics recognize the importance of reporting transactions and events in accordance with their substance even if that differs from their form. Thus, transactions and other events are analyzed carefully to ensure the financial report possesses these basic characteristics.
16. Including financial statements, disclosures, and RSI provides a structure that enables the financial report to provide different levels of aggregated quantitative and narrative information, for a comprehensive perspective about the reporting entity. For example, disclosures may help users better understand aggregated amounts presented in financial statements and provide a more detailed view of the government's financial activities. Also, supplementary information such as Management's Discussion and Analysis (MD&A) may explain the purpose, importance, and kinds of information being reported to users and the relationships among the kinds of information. SFFAC 2, *Entity and Display*, as amended provides factors for distinguishing between financial statements and RSI.⁶
17. User needs reflected in the reporting objectives are broad and require the integration of data from various sources. Generally accepted accounting principles (GAAP) assists in relating information provided by numerous sources. GAAP is developed through an open and deliberative process that facilitates agreement on criteria that should be used in categorizing, recognizing, measuring, and depicting the government's financial activities in financial reports that include financial statements, disclosures, and RSI.
18. GAAP also governs the terms and elements that should be used. Definitions of terms and elements help users consider how the data should be used and how elements relate to each other. In due course, the definitions would facilitate a common understanding and their consistent application.

⁵ SFFAC 1, par. 157 -164.

⁶ SFFAC 2, *Entity and Display*, as amended, Table 1: Factors to Consider in Distinguishing Basic Information from RSI.

19. While financial reports that include financial statements, disclosures, and RSI must be prepared in a structured manner, the reports are improved when the preparer considers overall objectives and context rather than striving solely for compliance. The level of detail to present in a general purpose report is a matter of judgment and other reporting sources may provide cost-beneficial options for meeting special purpose needs.

FINANCIAL STATEMENTS, DISCLOSURES, AND RSI

Financial statements assist in providing accurate and reliable information to users. As part of the financial report, they are the basic means of communicating the sources, uses, and status of and results of using financial resources, and the sustainability of services. When combined with non-financial performance information, financial statements support assessments of the results and accomplishments of using resources. They are essential for the federal government in demonstrating accountability and other information helps explain items in financial statements, provides greater detail, and supplements financial statements.

20. Financial statements aggregate, classify and depict various items of information expressed in words (labels) and amounts (dollars). Systems and controls are required to ensure that all the entity's events, transactions, and balances are depicted along with needed disclosures. This leads to highly aggregated but complete information on the face of financial statements. Such information is essential for demonstrating accountability but may be less useful for making specific decisions requiring less aggregated information.
21. Financial statements should be prepared and issued using disciplined processes to ensure that the information is accurate and reliable. GAAP helps ensure that financial statements present information to users consistent with the qualitative characteristics of understandability, reliability, relevance, timeliness, consistency, and comparability. Also, financial statements audited in accordance with Generally Accepted Government Auditing Standards (GAGAS) help establish discipline in the underlying financial systems and the established discipline provides an increased level of assurance that the information, such as special purpose reports and transaction level data, provided from the underlying systems is reliable.
22. Financial statements provide a framework for more detailed analyses. Users may analyze financial statements to identify particular services or accounts for detailed review. Financial statements can be linked to other sources to facilitate user understanding. For instance, a financial statement presenting costs could be linked to performance reports to help users better understand the reason for the costs and the results of the costs incurred.
23. The interrelationship among information presented in financial statements and non-financial performance information should be understandable. This may be evident from the titles and lines used on the statements or accomplished through narrative explanation elsewhere.
24. Accomplishing the broad objectives requires different types of financial statements. For example, information is needed to assist users in assessing the:
 - a. government's adherence to legislation that establishes the entity's budget;

- b. sources of revenues;
- c. level and purposes of government spending;
- d. level and composition of resources that can be used to provide current and future services and the claims against those resources; and
- e. likelihood that future budgetary resources would be sufficient to sustain services.

Accordingly, financial statements may present the sources, uses, and status of budget resources; source use and status of economic resources; and an understanding of projected resources and uses thereof.

25. Understandable interrelationships among the statements can be accomplished in the following manner:
- a. articulation among the statements, presenting financial statements in a manner such that the relationships among them are self-evident;⁷
 - b. if the relationships among the statements are not self-evident, a reconciliation on the face of the statements could be shown; or
 - c. the relationships could be described in a narrative disclosure.
26. In addition, the MD&A should discuss the relationships among the financial statements and the significant differences in the information they provide.
27. The federal financial reporting objectives are broad and financial reports which include financial statements, disclosures,⁸ and RSI cannot reasonably be expected to achieve all of them. As noted in SFFAC 1, paragraph 36, the FASAB expects that some of the objectives may best be accomplished through means of reporting outside general purpose financial statements.
28. Disclosures are an integral part of financial statements. They can provide more detailed information related to the items and amounts presented on the face of financial statements. Also, disclosures can help enhance user understanding by defining items, explaining how items are measured, and discussing their relationships.
29. In addition, RSI provides information important and relevant to the reporting objectives and may be expressed in other than financial measures or may not be subject to reliable estimation. RSI may also be useful for presenting multiple periods of information to help identify trends. Accordingly, RSI may provide a lower cost approach to presenting disaggregated information.
30. Financial reports that include financial statements, disclosures, and RSI may link information in related reports such as budget, non-financial performance, or systems and

⁷ For instance, an amount appearing in one statement also appears in another statement.

⁸ Disclosures include notes or narrative regarded as an integral part of the basic financial statement.

controls reports. Accordingly, financial reports that include financial statements, disclosures, and RSI should discuss what related information is included in other reports and how it relates to the information presented in financial statements, disclosures, and RSI.

31. Achieving the reporting objectives may require information from a variety of sources. However, a variety of disparate sources can result in redundant, incomplete, or inconsistent presentations. Consequently, GAAP provides criteria to facilitate the exchange of information among the sources and user understanding and ensures that financial statements, disclosures, and RSI are complete.

RELATIONSHIP BETWEEN FINANCIAL REPORTS THAT INCLUDE FINANCIAL STATEMENTS, DISCLOSURES, AND RSI AND OTHER FINANCIAL REPORTING

Financial reports that include financial statements, disclosures, and RSI provide information to meet the common needs of various users. These financial reports demonstrate accountability and support decision making. However, it is unlikely that the reports can provide all the information that a user may need for decision-making. Consequently, other financial reporting helps achieve the reporting objectives. Some may rely on the same terminology and data sources used in preparing financial statements to present information at the level of detail needed by the decision maker.

32. Financial reports that include financial statements, disclosures, and RSI meet the broad reporting objectives in a single, general purpose presentation, focusing on certain qualitative characteristics. Due to the aggregated nature of such information, it is not likely that the report can provide all the information that a user may need for decision-making.
33. Other financial reporting may provide additional information to help achieve specific aspects of the reporting objectives but may not be intended to comprehensively portray the economic events and transactions of the entity as a whole. For example, other financial reporting may provide access to detailed information on assets, liabilities, obligations, revenues, expenses, and/or other items. Also, legislative bodies are requiring governments to make transaction level data more accessible. The emerging practice of providing access to less aggregated information may permit users to create their own reports. Consequently, financial statements and other financial reporting may share the same underlying data and systems.
34. However, other financial reporting may not be exposed to the same level of discipline as GAAP sources such as financial statements, disclosures, and RSI and may not be based on standards consistent with those used in preparing financial statements. Other sources may not be subjected to an audit and have the same level of reliability as financial statements. Also, other sources may not meet the qualitative characteristics established for financial statements, disclosures, and RSI. Figure 1: Information for Assessing Accountability and for Decision-Making illustrates the relationship among financial statements, disclosures, and RSI and other sources of financial information.

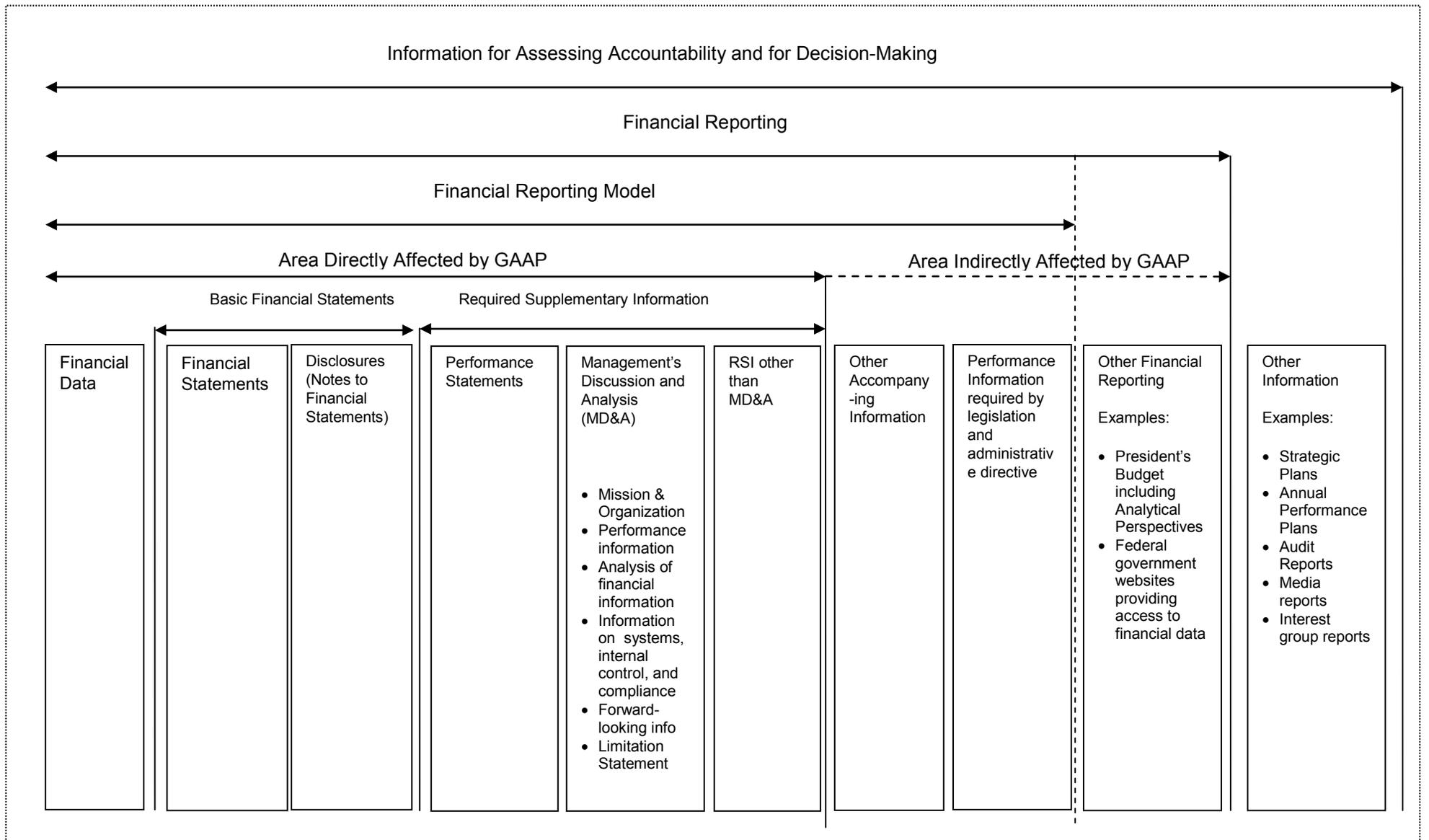


FIGURE 1: INFORMATION FOR ASSESSING ACCOUNTABILITY AND FOR DECISION-MAKING

35. Financial and other data useful for financial reporting may reside in a variety of systems often developed for specific purposes. Financial reporting systems that are interoperable enhance consistency, aid users' understanding, and facilitate the sharing of information. In this context, interoperability refers to the ability for systems to exchange data and facilitate the use of the data without special effort on the part of the user. Interoperability provides a means of sharing or aggregating comparable data from these different systems and streamlines the reporting of useful information. Thus, interoperability permits the creation of useful reports regardless of the source.
36. A common set of criteria facilitates financial system interoperability. Users seek information that may require the aggregation of data recorded by different systems across federal entities. Uniform criteria helps ensure that the data can be properly understood, shared, and used. At a minimum, to support interoperability, publicly available financial reporting sources should:
- a. Rely on consistent and uniform terminology for concepts, practices, and techniques (SFFAS 4, par. 26) by adopting common data elements as well as recognition and measurement requirements to the extent practicable.
 - b. Adopt consistent approaches to aggregating data by reporting entity, responsibility segment, strategic goals, program activity, programs, and/or recipients.
 - c. Draw cost information developed for different purposes from a common data source⁹ and support its reconciliation to other sources. (SFFAS 4, page 13 – text box and par. 41-44.).
 - d. Identify the basis of accounting to aid users and provide a common access point for all financial reports.

REPORTING BY GOVERNMENT-WIDE AND COMPONENT REPORTING ENTITIES

37. There are two levels of organizations for which financial information needs to be reported: the government-wide and component levels. Because the two levels have potentially different users and uses for their financial statements as well as different structures, roles, and financing, their financial reporting needs to be different. Both levels of reporting should include information to explain how they relate to each other.

⁹The common data source may include different kinds of data – financial and non-financial – and “data source” is not meant to imply a computerized system. Rather it is used in a broad way to include many sources. The key is that the sources be clearly defined, heavily rely on the system of record, and have integrity.

THE GOVERNMENT-WIDE REPORTING ENTITY

The objective of the government-wide financial report that includes financial statements, disclosures, and RSI is to help citizens and citizen intermediaries understand the financial condition of the federal government and how that changed during the year being reported; the sources of revenue and major services that the federal government provides; and facilitate their obtaining detailed information.

38. The Constitution established the structure of the federal government; that is the three branches of government and their roles. The Legislative branch consists of the Congress and is responsible for making laws, controlling tax and spending policies, regulating interstate and foreign commerce, and declaring war. The Judicial branch consists of the U.S. Supreme Court and is responsible for evaluating laws. The Executive branch consists of the President and various departments and agencies and is responsible for executing laws. It is through the Executive Branch and its components that the federal government provides most services and acts to finance those services through the means established in law.
39. The federal government is responsible for the nation's defense and general welfare and accordingly provides diverse services, such as: military forces to deter war and protect the nation; guaranteed or direct loans to enable persons to own their own homes; assistance to persons adversely affected by natural disaster; grants to improve state and local education systems; assistance to assure a robust agricultural economy; insurance of bank deposits; and economic assistance to the unemployed, elderly, and disabled.
40. 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.
41. Also, the federal government may accomplish its objectives without outlaying funds. For example, to encourage home ownership and stimulate residential construction, the federal government may approve tax provisions that reduce the tax liability for taxpayers who have to incur the costs associated with mortgage interest and local property taxes.
42. The federal government can continue to provide services even when the cost of providing those services exceeds the amount of revenues received. Also, there is limited competitive market constraint on the number and types of services the government can provide. These unique responsibilities and powers of the federal government mean it operates with fewer restraints than other entities which elevates the important role financial reporting.¹⁰
43. However, the federal government is vulnerable to long-term financial pressures. Such pressures may include demographic, economic, and environmental trends. For example, aging of the nation's citizens significantly increases the need for health care services and support for retirees. This in turn will result in additional costs in the future. These increased costs occur at a time when citizens also expect the federal government to provide the routine services and meet its obligations such as interest payments on debt, and possibly respond to major disasters or stimulate a stagnant economy.

¹⁰ SFFAC 1, par. 49. See also par. 50-70 for a more detailed discussion of the federal government.

44. Financial report users such as the Congress expect highly aggregated information to address and plan for long-term financial and programmatic operations and sustainability of the government. This expectation indicates the need for a consolidated report that aggregates distinct government operations, the government-wide reporting entity level.
45. The government-wide reporting entity level reflects the federal government's power to tax, charge fees, and borrow to finance the cost of services already provided and invest in needed assets. The government-wide reporting entity also presents information needed to assess the federal government's ability to continue, both now and in the future, current policy. In particular, information should be provided to help users assess whether the federal government can continue current policy without change regarding public services and taxation, and without causing debt to rise continuously as a share of gross domestic product (GDP).
46. Given the operations of the government-wide level, information useful for demonstrating its accountability and decision-making should include :
- a. Revenues –information to understand the sources and amounts of taxes and other revenue received.
 - b. Expenditures – information on how taxes were used.
 - c. Costs – information about how resources were used.
 - d. Overall results of operations – information about the government's net results.
 - e. Tax Expenditures – information about the taxes the government has foregone in lieu of having to pay for services directly.
 - f. Financial Position - information that helps them identify the resources of the government and the claims against those resources as of the reporting date.
 - g. Budgetary Legislation – information that helps to understand the legislative processes for determining the level of resources to raise from taxes, how the budget resources will be used, and the different measures that may be used to control funds.
 - h. Sustainability of services - information to assess the level of future resources needed to sustain public services required by law and policy and to meet obligations as they come.
47. Government-wide report users are also concerned about the government's financial condition or the probability that the government will be able to meet its obligations as they become due and provide programs and services currently and in the future. Users need information that would assist them in understanding whether the federal government's financial condition has improved or deteriorated. They understand that the federal government's financial condition has implications on the nation's well-being and vice

versa.¹¹ In addition, users are concerned about the results and accomplishments of the services provided each year.

48. Government-wide financial reports that include financial statements, disclosures, and RSI should present the trends relevant to assessing the government's financial condition. In particular, financial statements and disclosures should assist report users in:
 - a. understanding the government's financial condition at the end of the reporting period and how it changed from previous periods;
 - b. understanding the different sources of financing the cost of services now and in the future; and
 - c. understanding the cost of services now and in the future.
49. Also, to assess financial condition, users may need information on the nation's economy and the government's performance. Accordingly financial reports that include financial statements, disclosures, and RSI should include information to assist users in:
 - a. finding relevant information on the nation's economy; and
 - b. finding relevant information on the government's accomplishments.
50. Government services are provided through the components. The government-wide financial statements, disclosures, and RSI provide information about the entire government and could be used to help users locate financial information for the components.
51. The government-wide financial report that includes financial statements, disclosures, and RSI should also assist readers in understanding that the federal government engages multiple organizations—including state and local governments, nonprofits, and the private sector—to deliver services and the organizations frequently provide related services.

THE COMPONENT REPORTING ENTITY

The objective of component entity reports that include financial statements, disclosures, and RSI is to provide users with financial and non-financial performance information about the services that the individual components provide.

52. Component reporting entities receive 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.
53. Some components can be considered operating components and others central components. Operating components primarily provide services to the public while central components generally provide services to the government as a whole and some

¹¹ SFFAC 1, par. 236.

components are both operating and central. For example, as an operating and central component, the Department of the Treasury collects the revenue for the federal government and operates regulatory programs. It also enables components to provide services by issuing their payments and it prepares and presents government-wide financial information.

54. A single component could have several sub-components that provide several distinct services and each service could have a discrete set of stakeholders. For example, a single component could be responsible for providing direct regulatory responsibility, respond to the release of hazardous materials, provide grants for construction projects, and provide direct loans. Each of these services could have a unique group of stakeholders interested in the program's activities.
55. Various laws enacted over time contribute to various components having responsibility for similar services. For instance, multiple departments have multiple services to support service members, veterans, and civilians with serious mental illness.
56. To control the resources of individual components and ultimately the federal government as a whole, Congress determines whether components begin, continue, or terminate specific services and, where appropriate, collect revenues, and incur obligations.
57. Components typically are not provided with cash to operate and provide services. Instead, Congress engages in different legislative processes to provide components with budget authority or the authority to incur financial obligations that will result in spending. Component entities generally may not spend more than Congress has provided and may only use funds for the purposes specified in the legislation. The legislative process can involve a single phase or two phases, depending on whether the spending is mandatory or discretionary.
58. For mandatory spending the authorizing legislation provides budget authority and for discretionary spending, Congress (1) authorizes the service and (2) provides appropriations or the authority to incur obligations for specific purposes. An appropriation can be limited to a single year, multiple years, or be available indefinitely.
59. A single component may receive mandatory or discretionary funding or both.
60. Components are stewards over the funding provided and have a legal responsibility to: establish and maintain financial management systems; and to evaluate and report on their systems of internal accounting and administrative control.
61. To demonstrate their accountability, components define their strategic goals and establish programs that enable them to achieve those strategic goals. Also, components use their funding to provide the programs and services.
62. Component entity reports serve users that need less aggregated information than reports about the government as a whole. Users need disaggregated information to assess spending in relation to appropriations, unspent appropriations, the cost of services, and whether programs are meeting expectations.

63. In light of the reporting objectives, component level reports that include financial statements, disclosures, and RSI should help inform users regarding a component's:
- a. different sources and amount of funding;
 - b. use of funding for specific goals or services;
 - c. net cost of services;
 - d. gross cost of services;
 - e. spending in relation to the budget;
 - f. status of resources (assets) available to provide future services and obligations (liabilities) that must be met in the future; and
 - g. accomplishments or performance information.
64. Also, users need information to understand when component entity services contribute to cross-entity initiatives. For example, multiple operating components may perform activities to assist service members, veterans, and civilians with a mental illness. Accordingly, individual component financial reports that include financial statements, disclosures, and RSI should help users locate information about related services performed by other components.
65. Due to the diversity of federal services it is challenging for individuals to evaluate and influence policies and actions of the federal government.¹² SFFAC 1 states, "As a result, most elected and appointed federal officials, and the groups to which they are responsive, have been interested primarily in information about individual government programs, functions, or activities."¹³
66. Also, users may be more concerned about the purposes for which costs were incurred and less about how the organization is managed. Component level financial reports that include financial statements, disclosures, and RSI may help inform users of the major services provided and their costs. To do so, disaggregated information may be needed and such financial reports can provide a starting point for disaggregation.
67. In addition, component financial reports that include financial statements, disclosures, and RSI should strive to disaggregate cost information in a way that is meaningful to users. Also, consistent definitions of cost should be used because users may compare cost within and across components and consistent definitions are essential to such comparisons.

¹² SFFAC 1, par.58.

¹³ SFFAC 1, par.59.

BUDGETARY INFORMATION

Budgetary information is necessary for demonstrating compliance with budgetary legislation. Users expect to assess whether the government adhered to legislation regarding the acquisition and use of resources. Also, an explanation of basic federal budget concepts and processes may provide the context relevant to their assessment.

68. The majority of federal spending is not subject to an annual appropriations process. Congress primarily provides budget authority in laws other than appropriations acts. Annual appropriations acts only fund about one-third of total spending while authorizing legislation controls the remainder.¹⁴ Authorizing legislation can provide reporting entities with the authority or requirement to spend without requiring the Congressional Appropriation Committees to enact funding.¹⁵ Even so, accountability is needed over the budget regardless of the spending authority.
69. The federal budget provides a system for controlling expenditures and information for assessing the government's effect on the economy.¹⁶ It also presents the level of public services that the government provides.¹⁷
70. Federal financial systems integrate budgetary and accrual basis data on transactions. Systems include terms for items and concepts specific to federal budgeting and may require explanation. For instance, systems include items such as budget authority, obligations, and outlays. These items are integrated with other budget data and accrual basis data such as revenue, expenses, assets, and liabilities. As a result, the systems maintain information about different stages of a federal transaction.¹⁸
71. In developing budget legislation, Congress decides on targets for: spending and receipts; the amount of the deficit or surplus; and the limit on debt. Upon determining the targets, Congress provides component entities with budget authority and enacts changes in laws affecting receipts and spending.¹⁹ If they determine that additional authority is needed due to unforeseen circumstances, a supplemental appropriation may be enacted.
72. The forms of budget authority include:
- a. Appropriations - Provided in appropriations acts or authorizing laws, permit agencies to incur obligations and make payment;
 - b. Borrowing Authority - Usually provided in permanent laws, permits agencies to incur obligations but requires them to borrow funds, usually from the general fund of the Treasury;

¹⁴ Office of Management and Budget, Analytical Perspectives, Budget of the U.S. Government, FY 2016, p.93.

¹⁵ Analytical Perspectives p.93.

¹⁶ SFFAC 2, par. 67.

¹⁷ Analytical Perspectives p.115.

¹⁸ SFFAC 1, par. 176.

¹⁹ Analytical Perspectives p.92.

- c. Contract Authority - Usually provided in permanent law, permits agencies to incur obligations in advance of a separate appropriation of the cash for payment or in anticipation of the collection of receipts that can be used for payment; and
 - d. Spending Authority from Offsetting Collections - Usually provided in permanent law, permits agencies to credit offsetting collections to an expenditure account, incur obligations, and make payment using the offsetting collections.²⁰ Offsetting collections are deductions from spending to reflect the government's net transactions with the public. They may result from business-like transactions with the public, intragovernmental transactions, voluntary gifts and donations, and offsetting governmental transactions or collections from the public that are governmental in nature such as tax receipts.²¹
73. Upon receiving their budget authority, component entities incur obligations to purchase goods or services. For example, an obligation is considered incurred when the component enters into a contract. When components make payments to liquidate the obligation, an outlay is recorded and outlays are the measure of government spending.²²
74. Also, budget authority is not always obligated or spent during a single year. Budgetary reporting tracks the cash outlay implied at the time a decision is made. Outlays may liquidate obligations incurred in previous years and obligations may be incurred against unobligated budget authority provided in prior years. As a result, outlays flow from current and prior period budget authority.
75. Users expect components to explain its plans for future periods including its resource requirements, the services it expects to deliver, and the level of resources it expects to use to deliver those services.
76. In addition, federal managers need to monitor adherence to budgetary legislation. They constantly compare their budgetary resources with obligations and outlays.
77. Also, users expect to assess whether the resources obtained have been used in accordance with legislation that establishes the government's budget.
78. Providing information that would assist users in determining how well the government adhered to estimates and the government's adherence to legislation regarding the use of budgetary resources is significant to demonstrating accountability.
79. Also, discussing the distinction between mandatory and discretionary spending, the federal budget execution process, and basic federal budgeting concepts in financial reports that include financial statements, disclosures, and RSI may be helpful to users. This information may help users understand the different elements involved in depicting budgetary aspects of transactions and how they relate to elements depicting accrual basis aspects in financial statements. In addition, users would need to understand basic federal

²⁰ Analytical Perspectives pp.102-103.

²¹ Analytical Perspectives pp. 99-100.

²² Analytical Perspectives pp.103.

budgeting concepts and processes to determine how to conduct their analysis of budgetary information.

80. Although budgetary information is important of addressing users' needs, FASAB considers the budgetary integrity objective to be a secondary focus objective. The Board's authority does not extend to budgetary measurement and recognition standards. This condition, to a degree, limits the Board's comparative advantage in this area.

81. The Board's focus is on providing information to support budget planning and formulation and efforts to ensure the accuracy and reliability of the budget. SFFAC 1, paragraph 190 states,

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

PERFORMANCE INFORMATION

The government has continuing responsibility for the nation's defense and general welfare. This involves many goals and objectives and financial measures alone are not adequate to enable users to assess the government's operations. Consequently, performance information is needed to help users assess the results of using financial resources; that is, the efficiency and effectiveness of the government's services. Performance reporting requires both financial and non-financial information to be most useful.

82. The federal government provides a broad range of services and has a responsibility to account for and explain the results of the use of the resources obtained. Users expect to assess whether resources have been used efficiently and effectively and financial and other quantifiable measures provide relevant information for their assessment. Information on both the cost and quantity of services provided can contribute to assessing the efficiency of the services delivered.

83. Also, the government's performance is communicated by explaining the quality of the services or the service's outcome.

84. For example, quantifiable units of outputs may be less identifiable for services with regulatory or policy-oriented goals. Consequently, an explanation of what was planned to be achieved and the actual progress may inform users.

85. Presenting non-financial performance information in financial reports that include financial statements, disclosures, and RSI helps users understand the results achieved for the costs incurred.

86. Performance measures that may be helpful to present in financial reports that include financial statements, disclosures, and RSI are as follows:

- a. Input – the amount of non-financial resources put into a service.
 - b. Output - the quantity of a service or product provided.
 - c. Outcome - the accomplishments or results that occurred because of the service.
 - d. Efficiency - relate inputs to outputs of services, measuring the cost per unit of output.
 - e. Effectiveness - relate inputs to the outcomes or results of services, measuring the cost per unit of outcome or result.
87. In addition, presenting multiple periods of performance information helps users identify long-term trends. Trend information can be helpful for demonstrating improving or declining performance and for evaluating services and planning future services.
88. Also, including explanations with the performance information may help users understand the reported performance measures and the factors that impact the reported performance. Explanations may include: external factors affecting results, such as the environment, economy, and social conditions; internal factors affecting results, such as funding levels, legal requirements; significance of results; explanations of trends; reasons why the results did not achieve the target and plans for achieving the target; and reasons for significantly exceeding the target.
89. FASAB considers the operating performance objective to be a primary focus objective. The Board has an opportunity to play a direct role in developing standards to achieve the objective and the objective relates to integrating cost information derived from accrual accounting with performance information.

COST ACCOUNTING

Cost accounting is important for reporting on the performance of the government's services. Citizen user needs include information on the cost of services and the efficiency and cost-effectiveness of delivering them. Also, comparing cost to the performance of services can be useful to managers when choosing among alternative actions and for formulating their budget proposals. Consequently, cost information can be beneficial for all user groups, internal and external.

90. The cost of services and how well the government manages its resources is a significant concern of users. Increasing costs and inefficient use of resources may lead to increased national debt and affect fiscal sustainability. Consequently, the cost of services in the current period and their results is relevant to decisions about future services.
91. Reporting costs in the proper period is important for assessing the government's performance. Information relevant to assessing the government's performance includes comparing the resources consumed with the services provided during the reporting period. Accordingly, costs must be recorded in the same period that the costs were incurred.

SUMMARY REPORTING

Summary reports can be a helpful tool for demonstrating accountability and communicating financial and performance information to citizens.

92. Citizens expect brief, understandable information. The use of charts and graphs to depict information may assist them in developing an understanding of the entity's finances and operating performance. Also, with references or links to additional information such as the government-wide or component entity financial reports that include financial statements, disclosures, and RSI, they can access more detail should items of interest develop.
93. [Placeholder for additional guidance]

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

User Needs and Reporting Community Outreach

A2. FASAB staff conducted a series of roundtable discussions to determine whether the objectives remained valid and appropriate and to help define the role of the Board in achieving them. Roundtable participants provided views on whether the objectives continued to reflect the information needs of users and whether they are being achieved. The participants believed the reporting objectives remained valid and they noted that the objectives could be accomplished by reports and similar materials other than financial statements. Consequently, in 2006, the Board agreed to retain the broad objectives and issue its Strategic Directions report that discusses the Board’s primary and secondary focuses relative to the reporting objectives.

A3. Next, the Board began discussing the need for conceptual guidance that describes the reporting model and how it relates to the reporting objectives. The concepts would guide the Board in determining the financial statements necessary for achieving the reporting objectives and help focus on “what should be” versus “what is.” The former would ensure that the objectives are adequately addressed and the statements are useful to readers. Also, members were concerned about whether a relationship should exist among financial statements, such as the balance sheet and a statement of net cost, and how the model compares with other reporting models. As a result, staff began researching the diverse needs of users and how they access information; surveying other countries and their reporting models; and conducting discussions with preparers, citizen intermediaries, congressional staff, program managers, executives, auditors, state and local government planners and analysts, and experts in federal financial reporting.

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

Task Forces and Additional Research

- A8. The Board organized the Reporting Model Task Force to consider the user needs and reporting community results and provide suggestions for the reporting model. In 2010, the task force completed its work and presented recommendations to enhance the reporting model. In general, the task force focused on what could be accomplished in the near term and on the Financial Report of the U.S. Government (CFR) because the public would likely start with the CFR to learn about the fiscal health of the federal government. Consequently, they recommended the adoption of a centralized, web-based method of reporting financial and performance information, recommended changes to particular financial statements, and recommended additional disclosures. They believed that the success of these recommendations require raising public awareness of federal financial reporting.

- A9. In 2011, the Board discussed the task force recommendations and members discussed systems constraints and challenges and noted that many of the recommendations could be adopted voluntarily by preparers. However, members did note that the conceptual framework that should guide accounting standards remained incomplete and not current. Also, at that time, the Board discussed its priorities and plans and revisited its Strategic Directions report. The Board reaffirmed its conclusions in the Strategic Directions report and noted factors that would likely influence federal financial reporting. Those factors included the notion that citizens and citizen intermediaries are the primary audience for the CFR, which implies that FASAB standards should focus on the CFR and should primarily consider citizens' information needs. Additionally, the factor implies that component entity reports should support the needs identified for the CFR.
- A10. Later in 2011, the Board discussed the report, The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General (CFO Act Report). The report recommended that Congress consider directing FASAB, the Office of Management and Budget (OMB), and the Government Accountability Office (GAO) to evolve the financial reporting model. Consequently, the Board decided to review the reporting model of component entities and conduct discussions with CFOs and various groups to help the Board determine the information of value to users.
- A11. Also, other countries were reporting on service performance as well as financial performance. Given the range of issues, the Board decided that the project needed to be segmented into three separate projects – improving cost, performance, and budgetary reporting – and task forces would be organized for each project. This approach would allow members to better focus on issues that needed to be addressed.
- A12. In 2012, the three task forces proceeded to discuss issues and subsequently recommended that the Board revisit SFFAS 4, Managerial Cost Accounting Standards and Concepts. The task forces believed that adequate cost guidance is needed to support users of budget and performance information and provide cost information that meets the expectations of financial information users. Upon reviewing the task force results, the Board determined that the recommended project would involve matters outside of the Board's domain and would require coordination with the OMB and the Department of the Treasury. Also, members again raised concerns about systems constraints and challenges in presenting integrated cost, budget, and performance information.

Developing Ideal Reporting Models without Constraints

- A13. At this point, members noted that models of the ideal presentation are needed to serve as the end-goal for the project and help guide their direction. Also, given that raising concerns about existing systems and challenges directed the discussions away from "what should be," the Board determined that development of ideal models would not be constrained by considering existing systems and what the Board could accomplish immediately. In addition, the models will take a holistic view and consider the other conceptual issues discussed previously and include explanations on why the resulting construct should be considered ideal. Consequently, the Board decided to develop conceptual, ideal models that integrate budget, cost, and service performance information.

Flow Information: The Starting Point for Developing Ideal Models

- A14. During the April 2014 meeting, FASAB members developed and presented their views of ideal reporting models. The presentations addressed the Budgetary Integrity objective, in general, and each of the sub-objectives of the Operating Performance objective. Also, with respect to the Stewardship objective, the Board decided to focus on the federal government as the entity rather than the nation's economy. In addition, in June, the Board decided not to revisit the reporting objectives or clarify the role of FASAB with respect to the objectives. Instead, the Board decided to begin developing the ideal reporting model by focusing on the flows and the flow statements that would help achieve the reporting objectives.
- A15. Users needed to better understand flow information, such as costs and budgetary information, and how they relate. The Board would consider how cost and budgetary information should be disaggregated and address how to reconcile cost and budget at a level that would be understandable to users.
- A16. However, members expressed concern about whether the concepts should include illustrations of financial statements and whether concepts should reflect an 'aspirational' reporting model or simply describe current practice. Consequently, the Board decided to develop an inventory of concepts and topics that might be included in the concepts statement; and upon completing the inventory, deliberate which items should be retained in the concepts statement.

Inventory of Concepts

- A17. In February 2015, the Board developed an inventory of concepts that would help guide development of the reporting models. The inventory included several topics, including: financial statements and the interrelationships among them and other reporting sources; the differences in information users need for government-wide versus component entity reporting; budgetary information; performance information; cost accounting; and summary reporting. Although the current conceptual framework discusses some features of these topics, the Board believed that specific objectives would help provide the information that users need. Also, the outline proposed a discussion on national indicators. However, the Board decided not to include this topic given that government policies do not always directly influence the indicators.

APPENDIX B: ABBREVIATIONS

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

APPENDIX C: GLOSSARY
