



June 6, 2014

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Reporting Model – **TAB B**¹

MEETING OBJECTIVE

The overall objective of this session is to discuss the results of the Board's ideal reporting model presentations and next steps.

BRIEFING MATERIALS

The memo presents background information on the project along with:

Attachment I: Summary of Ideal Model Presentations. This attachment summarizes the Board's April 2014 ideal reporting model presentations.

Appendix I: Ideal Model Presentations. This appendix includes new and previously discussed material that Board members provided during their ideal model presentations.

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

BACKGROUND

During the April 2014 meeting, FASAB members presented their view of an ideal reporting model. The presentations addressed the Budgetary Integrity objective, in general, and each of the sub-objectives of the Operating Performance objective. Also, the presentations addressed certain aspects of the Stewardship objective which calls for information on the government and the nation.

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 .

QUESTIONS FOR THE BOARD

Questions that Board members could consider while reviewing Attachment I: Summary of Ideal Reporting Model Presentations are as follows:

1. On page 14 of the attachment, staff recommends that the Board begin the next phase of the project by concurrently focusing on conceptual guidance for: 1) the presentation of understandable cost information so that users can better assess operating performance; and 2) ensuring that government-wide and agency level reporting aligns in a manner that helps users compare cost and budgetary information. In both instances, the guidance would consider what should be presented, regardless of the medium (print, electronic, web-based, etc.) in use.

For the next phase of the project, does the Board agree to concurrently focus on conceptual guidance for presenting understandable cost information and for aligning government-wide and agency level reporting, regardless of the reporting medium used?

2. If the Board does not agree with the staff recommendation and given the various topics raised during the ideal model presentations, what does the Board believe should be the next steps for the project?

[Page intentionally left blank]

Summary of Ideal Reporting Model Presentations

Introduction

For the most part, Board member ideal model presentations appeared to address the need for more understandable information. With understandability as an often cited qualitative characteristic or guiding principle, member remarks and illustrations appeared less likely to require a total makeover of the existing model. Instead, they seemed to focus on the potential for new information; new financial statements; and/or changes to existing statements to better achieve the Operating Performance and Budgetary Integrity reporting objectives. The ideal model presentations appeared more likely to involve providing program cost and performance information and, to some degree, improving the reporting of budget information.

Board member presentations did include other information needs and topics but these items were noted less frequently. Other information needs included financial condition, trend information, forward-looking information, and the money supply. In addition, some members indicated the need to revisit the conceptual guidance, including the reporting objectives; more clearly distinguishing what information should be presented at different levels, such as the government-wide versus agency levels; and opportunities to streamline financial reports.

Providing Understandable Information

Board member presentations often referred to the need to improve the understandability of financial statements or reports. Their remarks appeared to reference the needs expressed by federal executives and senior managers, Congress, and citizens. Federal executives and senior managers indicated that “managers don’t have easy access to understandable information ...”¹⁵ Also, Congress expressed a keen interest in providing more understandable financial information to its members and the public and noted that the question is, “how we take that information and make it more useful not just to Congress, but to the American people.”¹⁶ In addition, citizens expressed the need for understandable financial information so that they can “engage in discussions about the nation’s finances.”¹⁷ They believed that the reports

¹⁵ National Academy for Public Administration, *Financial and Related Information for Decision-Making: Enhancing Management Information to Support Operational Effectiveness and Priority Goals*, 2014, p.8.

¹⁶ U.S. House, Committee on Oversight and Government Reform, Sub-Committee on Government Organization, Efficiency, and Financial Management. *Making Sense of the Numbers: Improving the Federal Financial Reporting Model*, Hearing, February 16, 2011 (Serial 112-3). Available at <http://www.gpo.gov/fdsys/pkg/CHRG-112hhrg67174/html/CHRG-112hhrg67174.htm>. Accessed May 23, 2014.

¹⁷ FASAB, *User Needs Study: Citizens*, April 2010. Accessed at <http://www.fasab.gov/projects/active-projects/concepts-the-financial-report/> on May 28, 2014.

are intended for accountants or economists rather than citizens and managers.¹⁸ Examples of FASAB member remarks included the following:

- We need to be more intuitive and the language we use needs to be generally understood by citizens. We need to use terms that they understand.
- I think we need to explore different ways to present the information, how we present it.
- So we need to do a little more education relating to our budgeting on a cash basis versus accrual. A lot of the users of financial statements do not understand the difference between the budget basis and the GAAP basis.
- Agency reports need to be easier to understand.
- Looking at our model, you would never know that there is such a thing as computers; you would never know there is such a thing as the Internet.
- The term budgetary resources bothers me. I know it is used throughout the federal government, but I just do not understand that term exactly.
- So here is the budget statement, budget resources statement, and I would contend that very, very few people other than people who are intimately involved with the federal government can understand this statement.

Staff Analysis

Improving the understandability of financial reports has been a consistent theme noted throughout the project and various solutions have been offered by task forces and others. Similar to the Board member presentations, the solutions included changes to existing statements, replacing existing statements with new statements, or adding new statements. Except for a statement of spending, the Board has been reluctant to consider adding new financial statements to a model that already includes a number of financial statements. Instead, the Board believed that it should focus on better communicating the existing information,¹⁹ which seems to imply modifying the existing financial statements in some manner, such as using plain-English terms; electronic, Internet-based tools; etc.; and moving away from presentations directed to accountants.

¹⁸ <http://www.fasab.gov/projects/active-projects/concepts-the-financial-report/>. Accessed May 27, 2014.

¹⁹ FASAB, Meeting Minutes, April 27-28, 2011. Accessed at <http://www.fasab.gov/board-activities/meeting/prior-calendar-years/#2011> on May 27, 2014.

Providing Program Cost and Performance Information

Board member ideal reporting model presentations generally suggested the need to better achieve the Operating Performance objective of financial reporting. The Operating Performance reporting objective requires information on the cost and performance of programs and Board member presentations appeared to indicate that, conceptually, this information should be provided in financial reports. Examples of Board member remarks are as follows:

- I think we need to consider expanding the types of information presented. I think our users want to see more information, particularly in a nonfinancial area, in that particular area. Financial statements should report key programs.
- I think financial statements in my opinion should say not only what we have spent, but what we have accomplished. We have a responsibility to provide that to the taxpayers whether they ask for it or not.
- I think operating performance should address the department's major programs - the segment of the population served, the services provided, identify the major goals and objectives, and explain how someone would know this program is working. I think we need some key measures. And even at the government-wide I would say five, no more than 10 for each major program. Why we selected those. And have financial and nonfinancial measures for those. And we should talk about our accomplishments as well as our challenges.
- I thought that it was extremely important when you are making policy decisions to look and say, "Is that something that is going to be a short-duration expenditure or is that an expenditure that is going to continue for a long period of time?" And I thought that is something that the reporting models should address.
- We really do not have a very good budget versus actual reporting in the federal government...along with narrative related to what are we trying to accomplish with those expenditures? So that the public would have some sense of, "What did we get for what we incurred?"
- The financial statements certainly provide information on costs, but we should be providing information on operating performance beyond cost. And that implies, it seems to me, a need for measures of efficiency. And measures of efficiency, it seems to me, necessitate information on the benefits, on performance.

Although it was apparent from the presentations what new information members believe should be depicted in financial reports, specifically how that information should be presented was less apparent. To better achieve the Operating Performance objective and provide program cost and performance information in financial reports, members noted a range of approaches, including the following:

New Statements

- Statement of Progress on Major Priorities – Presents the expenditures for the current year by term specific funding and ongoing expenditures, next year and five years of expected expenditures to achieve goals of major priorities, and the percentage of total expenditures incurred to the percentage of goal accomplished for major priorities.
- Statement that would present the strategic goals of the agency, budgetary resources, obligations, outlays, and accrued costs.

New Disclosures or Required Supplementary Information

- So, what I am suggesting within the model is that there be a selection by the agency of a limited number of programs as it determines, 5, 10, no more than 10 and, for each of those programs, they would present the budgetary resources, the obligations, the outlays, the accrued costs. I would include in the report performance information that would enable users to assess how much of the reported outputs and outcomes are costing and whether they are worth the costs.

Changes to Existing Statements

- Government-wide Statement of Net Cost that focuses on the programs of government
- Agency statement of net cost providing program costs to disaggregate the cost information presented in the government-wide and users can see the percentage of the total government-wide costs
- On the net cost, I thought that the first part of it should be that the government should identify the programs and major programs and the priority of order.

Better Utilizing Technology

- To get more specific, the first thing that I would do is I would retain the (government-wide) Statement of Net Cost, but I think that it should be linked to the financial statements of the individual agencies, and I think this can be done with electronic reporting.

Combination of Approaches

- Specific program costs could link to major goals and major goals could link to performance measures. The idea would be to link to some statement that indicates as specifically as feasible the performance measures and costs – a Statement of Performance Measures and Costs.

In addition, some members appeared to indicate that in deciding on how best to achieve the reporting objectives, including operating performance, the Board should distinguish between what information should be presented at the government-wide and agency levels or simply target the agency level and the concerns that have been expressed. For instance, members noted the following:

- I think we also need to clarify the information presented at the component level versus at the federal level. I do not think we have to have a total alignment between what is at the component level (and government-wide levels). But what is presented and how it is presented, I think, can be different.
- Department reporting should continue to provide audited information necessary to prepare the CFR (Financial Report of the U.S. Government), to provide disaggregated CFR information, and should provide even further disaggregated information useful for program managers and other internal users. However, their financial statements need not all be structured the same as the CFR. So, and importantly, some latitude as to what is audited, how often it is audited, the nature of the audit report should be given to the sponsors. While FASAB would have no role in these decisions, it could define fair presentation at a department or agency level, and possibly provide materiality consideration at that level.
- Perspective at the agency level comes from performance information and budget information and cost information being linked together.
- Now note, as I gave you this history, there was limited concern expressed with the government-wide statements. And even with the agency report, there was not much concern with the stock statement. The concern that we have been hearing is with the agency level flow statement.

Staff Analysis

Given that the “what” appears to have been expressed, the question remains “how?” How best to advance operating performance reporting in financial reports has been a repeated concern of the Board. While user studies indicate the high level of interest in program cost and performance, some members have noted that other sources could provide reporting guidance and agencies are providing performance information in separate reporting mechanisms such as the Performance.gov website or in their annual performance reports. Concerns expressed during the ideal model presentations include the following:

- Linking cost information to budget information, also the performance and outcome information should be done at the agency level, but to a large degree driven by OMB (Office of Management and Budget) and Treasury (Department of the Treasury) with the necessary standard support coming from us (FASAB).

- Linking cost and performance may have a place in the model, but going too far into performance information can be a “slippery slope.”
- Primarily, the concern is how much information do we need to put in our statements versus what is provided elsewhere.
- Financial statements are not the only source of information.

While sources other than financial statements are providing performance information, the cost and performance information provided is not always integrated and presented at the level that users seek. For instance, an entity may present cost and performance information for its strategic goals, while users may be interested in the cost and performance of the programs that help achieve those goals. Also, given the recommendations discussed in the National Academy for Public Administration report, *Financial and Related Information for Decision-Making: Enhancing Management Information to Support Operational Effectiveness and Priority Goals*, FASAB has the expertise to conceptualize a framework for integrating budget, cost, and service performance information.²⁰

Also, while there was not strong agreement on a particular approach for presenting program cost and performance information, members appeared to agree that program cost and performance should at least be presented at the agency level. Members noted that information at the government-wide level would need to be more highly aggregated than information at the agency level.

In addition, members discussed the challenges in defining a program. For examples, members noted:

- The big dispute is, “At what level of information do you want this information?” Because...some are programs; some are sub-organizations of organizations; and some are the whole organization itself. Also, they (agencies) get their budget by account code, and that is the legal limit for budget authority currently.
- Moreover, we all need to figure out how to define program.

To address this challenge, it was noted that the government could report on the ‘programs’ that would most likely be of interest to citizens. A task force could be organized to assist the Board in identifying characteristics of programs that are of interest to citizens.

²⁰ National Academy for Public Administration, *Financial and Related Information for Decision-Making: Enhancing Management Information to Support Operational Effectiveness and Priority Goals*, 2014, p. 25.

Enhancing the Reporting of Budgetary Information

During the ideal model presentations there were a number of remarks to provide more useful budgetary information and, in some instances, members linked budget information to performance information. Member's comments included the following:

- We really do not have a very good budget versus actual reporting in the federal government...along with narrative related to what are we trying to accomplish with those expenditures? So that the public would have some sense of, "What did we get for what we incurred?"
- Budget integrity... means, "Is the budget...a reasonable estimate of what the costs will be?" And to evaluate that, you have to compare the actual results with the costs and ...if that is what we mean by budget integrity, it seems to me our statements fail that test.
- ...we know there is a disconnect between some of the statements required government-wide and the statements required by the agencies. Instead of the traditional approach to develop new reconciliation statements, what if we rethink what should be reported and match the information at various levels.
- SBR (Statement of Budgetary Resources) – Is it reporting the right information on receipts and outlays, which are the components of the budget deficit? Also, disclosures reconciling accrual to obligations need revision because the budget deficit is on an outlay basis not on an obligation basis.
- So here is the budget statement, budget resources statement (SBR), and I would contend that very, very few people other than people who are intimately involved with the federal government can understand this statement.

Consequently, members presented different approaches for improving budgetary reporting in financial statements. Those approaches included the following:

- Budgetary integrity requires information to determine whether the budget provides a reasonable estimate of what the costs will be – a budget-to-actual comparison.
- Comparison of Cost and Accomplishments to Budget – Presents the expenditures incurred compared to budget for the current year and a discussion on the progress of the major priorities.
- Significant changes in the budget from one year to the next should be disclosed in MD&A (Management's Discussion and Analysis) and recorded in the notes.
- I would scrap the statement of budgetary resources as we have it now. I think it would be much better if we are able to assess the actual flows with the projected or budgeted flows. And that way users could assess whether the

entity has used what it was budgeted, used less than what is budgeted, whether there's any monies that are there that could be moved to other budget accounts. Statement that would present the strategic goals of the agency, budgetary resources, obligations, outlays, and accrued costs.

Again, similar to operating performance, the topic of improving budgetary reporting in financial reports involves deciding what information should be presented at the government-wide versus agency level. Some members noted changes to the agency level model while others focused on the government-wide or both.

Staff Analysis

Users seek information about topics such as how well did federal entities anticipate program needs and efficiently use resources; however, 'how' to provide the information in an understandable manner appears to be the challenge. FASAB user studies and Board members continue to note the need for the information and the related challenges, including the concepts used and how the budgetary measurement basis compares with the accrual basis. For instance, focus group participants appeared to have difficulty understanding presentations intended to provide a reconciliation or a comparison of different measurement bases, and they stated that it would be good to find a way to relate concepts and terms to the average person.²¹

In addition to the different concepts and terms used for measuring costs in the federal government members noted other challenges such as:

Also, much of the spending involves mandatory programs rather than discretionary. Budget authority is not the driver for mandatory programs; instead, recipients need to meet certain criteria to receive the funds.

In addition, it has been noted that obligations will likely equal budgeted authority and outlays likely pertain to different budget periods. As a result, the presentation may not be particularly informative or able to understand.

Despite the challenges, enhancing how budgetary information and accrual bases information is reported can help provide the information users are seeking and help address a current reporting concern. For instance, during the ideal model presentations it was noted that:

Also, there is significant opportunity with improving the reporting of budget and accrual information. It could facilitate efforts to resolve some of the audit weaknesses at the government-wide level, particularly with respect to reconciling the accrual and budgetary information.

Currently, to help users understand the differences between the complementary bases of accounting at the agency level, FASAB standards require component entities to present a reconciliation. The reconciliation would explain the relationship between

²¹ FASAB, *Reporting Model: Citizens Focus Group Discussions – TAB B-3*, December 2011.

budgetary resources obligated during the period and the entity's net cost of operations. However, users are also interested in the government-wide budget deficit which is prepared based on receipts and outlays rather than budgetary resources obligated. Therefore, a reconciliation of net cost to amounts used in the government-wide deficit calculation would help support government-wide reporting and improve the information available to users.

Other Information

Although operating performance and budget reporting in financial reports appeared to be discussed more frequently, members also noted the need to provide other items of information. Other items noted during the presentations included financial condition, trend information, forward-looking information, and the money supply. Examples of views expressed were as follows:

- I think we need to look at not only financial position, which we talked about as being from the beginning of the year to the end of the year, what has changed over the year, to maybe also looking at financial condition. Have things improved or deteriorated?
- What is the financial condition and the working of the federal government? Is the federal government better off?
- For instance, risk-based reporting is becoming more of a prominent topic as agencies are considering risks and Treasury has started a Risk Management office.
- We need to find a way of tracking long-term views of needs and commitments, and I think we need to talk about how to look longer term at revenues and costs.
- The existing model addresses many of the unique aspects of the federal government, except the money supply. As I indicated, managing the money supply is a key function of government. Yet our statements say very little about it.

Alternatives for addressing these matters included the following:

- Statement of financial trends – pulls information from other statements, including statement of long-term projections and shows the government's net financial condition.
- Statement of Net Cost showing multiple periods
- Federal Reserve Statement of Changes in Key Assets and Liabilities - could indicate the assets and liabilities of the Federal Reserve; the increases during the year; the decreases during the year; and the ending balance.
- Current project on risk assumed.

Staff Analysis

Except for the money supply, users and task forces have noted an interest in the additional information. During the course of the reporting model project, users and task forces primarily engaged in discussions regarding topics such as program budgetary needs, costs, and performance. However, on occasion, the groups would raise an interest related to Stewardship reporting (financial condition and forward-looking information) and the need to identify patterns or changes in conditions (trend information). Consequently, user and financial reporting community input have been provided to support additional research.

With the focus on program cost, budget, and performance, most of the user and financial reporting community input during the reporting model project has been limited with respect to the money supply. Additional research would be needed.

Revisiting the Conceptual Guidance

Some Board member presentations referred to the need to revisit the conceptual guidance. Examples of comments made include the following:

- I do think we need to confirm or modify the objectives of concept statements one and two.
- I think we should state what type of information we expect people to get when they look at component unit. I think we should state what type of information we expect people to get -- government-wide.
- I believe that financial statements should articulate.
- So when I looked at the objectives, to me they all sat under stewardship.
- What probably needs to be defined more is financial condition, and some way to be able to measure that.

Staff Analysis

In the past, the Board has been reluctant to revisit the reporting objectives and possibly other conceptual guidance. The primary concern appears to be the time and resources required at a time when other issues require more immediate action.

Levels of Reporting

Board members noted or implied the need for criteria regarding appropriate levels for reporting information. At times, the discussion would involve better distinguishing what information should be reported at the government-wide and agency levels. Examples of the comments expressed during the ideal model presentations are as follows:

- There is really only one economic entity. It is the government as a whole.
- Department reporting should continue to provide audited information necessary to prepare the CFR (Financial Report of the U.S. Government), to provide disaggregated CFR information, and should provide even further disaggregated information useful for program managers and other internal users. However, their financial statements need not all be structured the same as the CFR. So, and importantly, some latitude as to what is audited, how often it is audited, the nature of the audit report should be given to the sponsors.
- I think we also need to clarify the information presented at the component level versus at the federal level. I do not think we have to have a total alignment between what is at the component level. But what is presented and how it is presented, I think, can be different.
- Perspective at the agency level comes from performance information and budget information and cost information being linked together.
- I believe the government-wide should contain government-wide disclosures. I think most performance measures are at the agency level, but there may be other things at the future that get into that area. On the agency side, I am more inclined to just an operating statement.
- I do not think, I personally do not think citizens look at federal government agency financial statements at all. They are going to look, if anything, at the Citizen's Guide.
- I think we should state what type of information we expect people to get when they look at component unit. I think we should state what type of information we expect people to get -- government-wide.

Staff Analysis

The Board has discussed that users' diverse information needs necessitate conceptual guidance for different reports or reporting levels²² and those reporting levels should not necessarily be defined based on the type of reporting entity (government-wide or agency). Rather, reporting levels may be defined by the type of information needed. For instance, long-term projections of receipts and spending could provide a long-term perspective of broad, federal policies and could be part of one level of reporting while an operating statement, balance sheet, notes, and required supplementary information could be part of another level of reporting. In addition, program cost and performance could constitute yet another reporting level. Accordingly, users' needs and the reporting objectives can be addressed through different reports instead of through one report from the government-wide level and one report from the entity level.

The Governmental Accounting Standards Board (GASB) and FASAB constituents have indicated the need for different levels of reporting. For instance, GASB expressed the following:

Because of the diverse nature of the information that needs to be communicated to users to meet the various objectives of financial reporting, [footnote omitted] no single general purpose external financial report may be sufficient to adequately meet all the objectives. Information that is relevant for meeting certain financial reporting objectives may be better provided by basic financial statements, notes to basic financial statements, and supporting information presented with basic financial statements, but other information may be better provided by using other methods of communication. Therefore, some general purpose external financial reports will contain basic financial statements, notes to basic financial statements, and supporting information (the methods of communication that are the subject of this Concepts Statement), whereas other general purpose external financial reports that may be developed in the future may use other methods of communication.²³

However, with advancements and technology, users' current interests seem to focus on seeking a single, integrated source for information rather than consulting multiple documents. Also, a user's perception of where they would need to look for information may not always align with where the data might actually reside. During focus group discussions, citizens did not appear to be aware of the federal government's organizational structure, and that some programs and policies could involve a single agency while others may involve several agencies. For instance, a user may be concerned about the costs of the war in Afghanistan; however, they may not be aware that different agencies contribute to these costs and that they may need to consult these different sources.

In addition, the recurring topic of what information should be presented at the government-wide versus agency levels, at times, appears to presume a linear, print-based reporting model where users review items from cover to cover or from

²² FASAB, Minutes, April 28-29, 2010. Accessed at <http://www.fasab.gov/board-activities/meeting/prior-calendar-years/#2010> May 30, 2014.

²³ GASB Concepts Statement 3, Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements, par. 9.

aggregate to disaggregate. However, in today's electronic environment, users can directly access the data they need by querying a database, effectively removing some of the need for a construct such as a government-wide or agency report. A member noted that an ideal reporting model would involve a natural language query where one could enter a question and an answer would be provided. Thus, there would not always be a need to drill-down or read from cover to cover and how users view standard reports could change. For instance, some users may use standard reports to: help provide context and frame questions for more research; make them aware of changes in the information; inform them where additional information might be located; and inform them on the challenges and opportunities particular entities face.

Opportunities to Streamline Financial Reports

Board member presentations indicated opportunities to streamline the reporting of information in financial reports. For instance, members noted the following:

- Department reporting should continue to provide audited information necessary to prepare the CFR, to provide disaggregated CFR information, and should provide even further disaggregated information useful for program managers and other internal users. However, their financial statements need not all be structured the same as the CFR.
- I believe the government-wide should contain government-wide disclosures. I think most performance measures are at the agency level, but there may be other things at the future that get into that area. On the agency side, I am more inclined to just an operating statement.
- The question should be who benefits from the reconciliations and disclosures? And if there's no appreciable additional useful information obtained, we must ask whether the cost of preparing is worth the effort.
- I would scrap the statement of budgetary resources as we have it now.

Staff Analysis

Board members have noted that the reporting objectives are important in determining what information should be included in financial reports²⁴ and some members have noted that reporting on flows and performance is an important objective for agency level reporting.²⁵ Also, members suggested observing how states focused on a consolidated financial report for the state government and moved away from department level audited financial statement requirements.²⁶ The approach could result in focusing on improving the day-to-day information needed for decision-making. Accordingly, most of the Board discussions have concerned streamlining agency level reports.

²⁴ FASAB, Minutes, April 16-17, 2008.

²⁵ FASAB, Minutes, December 17-18, 2009.

²⁶ FASAB, Minutes, April 16-17, 2008.

In contrast to the views on streamlining agency reporting, other members have responded that changes in the audit standards and requirements would not change the accounting standards and that some agencies would always be material and require a full audit.²⁷ Also, circumstances have not changed to indicate that required agency level information is no longer of interest to users or not needed to facilitate their understanding. Users continue to expect financial information, such as assets and liabilities, and performance information.²⁸ Instead, there is significant interest in obtaining the information in a more understandable manner. This may require concepts that promote changes in design and organization of information.

Staff Recommendation

Staff recommends that the Board begin the next phase of the project by concurrently focusing on: 1) conceptual guidance for the presentation of understandable cost information regardless of the medium (print or electronic, web-based) so that users can better assess operating performance; and 2) guidance for helping users compare cost and budgetary information. The Board member illustrations and remarks indicated the need to address both the operating performance and budgetary integrity objectives and various studies have demonstrated the interest in understandable program cost and performance information and budget information.

FASAB's technical agenda includes projects on managerial cost accounting and linking cost and performance, and reconciling budget and accrual information.²⁹ Both of these projects would involve determining what and how to present information and consideration of related users' needs. Users are seeking less aggregated cost information and are interested in the value being provided for the costs incurred. Also, users would like to know what has been budgeted and spent and how expenditures compare to accrual costs. In addition, users are highly interested in the budget deficit and how it compares with net cost of government operations.

Considering that the Board often looks to address imminent financial reporting concerns as soon as possible, developing guidance for presenting cost and budgetary information could help address audit weaknesses at the government-wide level and help progress toward an audit opinion on the government-wide financial statements. Consequently, the staff proposal would provide a prompt approach, consistent with the general themes that members expressed during the ideal model presentations.

²⁷ Ibid.

²⁸ FASAB, *User Needs Study: Citizens*, April 2010.

²⁹ FASAB, *Annual Report for Fiscal Year Ended September 30, 2013*.

Appendix I
Ideal Model Presentations

Tom L. Allen

Ideal Reporting Model Recommendations

Tom Allen

GUIDING PRINCIPLES

I. The CFR needs to be more intuitive and understandable and focus on decision useful information for its primary users (citizens).

Concepts 4: Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government- From summary "This concepts statement provides that the CFR shall be a "general purpose" report directed to external users (citizens and their intermediaries), should address the Board's objectives, should have highly understandable information, and should be timely."

Paragraph 6. The CFR should be a general purpose statement of accountability to the public. A general purpose report should be easily understandable to the "average citizen" who has a reasonable understanding of Federal Government activities and is willing to study the information with reasonable diligence. Moreover, the CFR is a general purpose report that is aggregated from agency reports and tells users where to find information in other formats, both aggregated and disaggregated, such as individual agency reports, agency websites, and the President's Budget.

Paragraph 7. The CFR should generally be directed to five user groups: Citizens, Citizen Intermediaries, Congress, Federal Executives, and Program Managers. However, citizens and citizen intermediaries should be the audience to whom the CFR is primarily directed.

Paragraph 21. Internal users are those groups inside the Federal Government who typically have more access to the myriad of Federal Government information including summarized and detailed financial, program, budget, cost, and economic reports and analysis for all entities. Because they are able to get information on their specific issues of interest, they might benefit from the CFR but are not its primary audience. Internal users include Congress, Federal Executives, and program managers. Of these three internal users, some have considered Congress as the ultimate intermediary between the public and its Government. That notwithstanding, Congress, as would the other internal users, has access to more specific internal information and reports for conducting its work. Thus they are not the main audience of the CFR. However, these users may rely on the CFR with its broad indicators and summarized information as "a reference document to lead to more detailed or disaggregated information in specific areas." Each internal user has access to detailed, disaggregated information, but relies on summarized data in a more limited capacity as indicators for general Governmental

financial position and condition. Internal users would use the CFR to provide “an overall picture of the financial health of the Government that is not available elsewhere...[and provide it with] a general framework to situate [its] own activities.

II. The CFR needs to do a better job of reporting in an understandable manner, the financial position (condition) of the Federal Government and change in that financial position (condition) during the reported fiscal year.

OCED – Public Consultation on the International Public Sector Accounting Standards Board (IPSASB) Governance Review “There is currently an urgent need to improve governments understanding of their fiscal position and prospects, and to provide legislators, markets, and citizens, with the information they need to make efficient financial decisions and to hold governments accountable for their performance.”

From paragraph 21 (above) “Internal users would use the CFR to provide an overall picture of the financial health of the Government that is not available elsewhere...”

Was the Federal Government financially better off at the end of fiscal 2000, than it was three years earlier before the period of budget surpluses began? Public debt holdings were down, unaudited GAAP numbers and budget surplus numbers were positive but debt subject to the debt ceiling grew all three years and actuarial deficits for social insurance programs were trillions higher.

Is the Federal Government financially better off at the end of fiscal 2013 than it was at the end of fiscal 2012? Net position went down \$800 billion, Social Insurance Net Expenditure increased by \$1 trillion, Total Federal Government Non interest Net Expenditures went down by \$12 trillion.

III. All financial reporting, and most especially Federal Financial reporting needs perspective and context for understandability and decision usefulness. In the Federal Government, financial trend information is necessary for context at the CFR level. Performance information, budget information, etc. provide perspective and context at the agency level.

IV. Department and agency reporting should be structured to best provide information to their intended users. Department reporting should continue to provide audited information necessary to prepare the CFR, and should provide disaggregated CFR information and even further disaggregated information useful for program managers and other internal users. However, their financial statements need not all be structured the same as the CFR. An example is financial reporting standards for not-for-profit organizations where certain key information, subtotals, totals, etc. are required but the actual structure of the financial statements is up to the organization preparing them.

Importantly, some latitude as to what is audited, how often it is audited, the nature of the audit report etc. should be given to the sponsors. (While FASAB would have no role in these decisions, it could define "fair presentation" at a department or agency level and possibly provide materiality consideration.)

Quotes from Concept Statement 2 paragraphs 11-29

"The Federal Government is an extremely complex organization composed of many different components. For accounting and financial reporting purposes, it may be viewed from at least three perspectives. However, the nature of each component and the relationship among the components and perspectives are not always consistent." These components are Organization, Budget, and Program Perspective.

Quotes from Budget Perspective: "Budget accounts are not the same as Treasury accounts. ...nor are budget accounts the same as the uniform ledger accounts... A budget account may coincide with an organization or one or more of its sub organization. Other times accounts are also categorized, as mandated by law and defined by OMB, into functions and sub-functions..."

Quotes from Program Perspective: "Each program and activity is responsible for producing certain outputs in order to achieve desired outcomes. There is no firm definition for the term "program"; it varies in the eye of the beholder. ...the term "program" is often used interchangeably with the term "Function" and "sub-function".

Quotes from Intertwining of the Perspectives: "In a few instances, there is a one-to-one relationship among the three perspectives. ---However, most programs are financed by more than one budget account, some of which might not be under the control of the organizational unit administering the program. ---Furthermore, some of the support necessary to perform a program is frequently provided by other organizations and/or financed by other budget accounts.

Paragraph 29. As stated, reporting entities are entities that issue general purpose financial statements to communicate financial and related information about the entity. For any entity to be a reporting entity, as defined by this Statement of Federal Financial Accounting Concepts, it would need to meet all of the following criteria.

- There is a management responsible for controlling and deploying resources, producing outputs and outcomes, executing the budget or a portion thereof (assuming that the entity is included in the budget), and held accountable for the entity's performance.
- The entity's scope is such that its financial statements would provide a meaningful representation of operations and financial condition.
- There are likely to be users of the financial statements who are interested in and could use the information in the statements to help them make resource allocation

and other decisions and hold the entity accountable for its deployment and use of resources.

- V. Linking cost information to budget information and also to performance and outcome information should be done at the department and agency level but to a large degree should be driven by OMB/Treasury with the necessary “standards” support of FASAB.

FINANCIAL STATEMENTS

CFR –

- Statement of Financial Trends
- Statement of Net Cost (multiple years) (Possibly note on more detail of Program Collections)
- Statement of Operations and Changes in Net Position
- Statement of Sustainability (now called statement of long-term projections)
- Balance Sheet
- Statement of Social Insurance
- Statement of Changes in Social Insurance
- Footnotes rather than statements on:
 - Reconciliations of Net Operating Cost and Unified Budget Deficit
 - Statement of Changes in Cash Balance from Unified Budget and Other Activities

Departments and Agencies, etc. –

- Statement of Net Cost (Linked to CFR Statement of Net Cost)
- Other statements as appropriate (i.e., some may have a Balance Sheet or a Statement of Significant Assets and Liabilities and Others may not, some would have statements of social insurance)

STATEMENT OF FINANCIAL TRENDS					
Dollars in Billions	2013	2012	2011	2010	2009
Operating Information					
Gross Cost	(\$3,940.9)	(\$3,844.9)	(\$3,998.3)	(\$4,472.3)	(\$3,735.6)
Less: Earned Revenue	\$415.5	\$350.8	\$365.6	\$309.2	\$300.9
Gain/(Loss) from Changes in Assumptions and Other Adjustments	(\$122.2)	(\$340.4)	(\$43.7)	(\$133.7)	(\$17.4)
Net Cost	(\$3,647.6)	(\$3,834.5)	(\$3,676.4)	(\$4,296.8)	(\$3,452.1)
Less: Taxes and Other Revenue	\$2,842.5	\$2,518.2	\$2,363.8	\$2,216.5	\$2,198.4
Net Operating Cost	(\$805.1)	(\$1,316.3)	(\$1,312.6)	(\$2,080.3)	(\$1,253.7)
Budget Deficit					
Unified Budget Deficit	(\$680.3)	(\$1,089.4)	(\$1,298.6)	(\$1,294.1)	(\$1,417.1)
Financial Position and Condition					
Assets					
Cash, Loans Receivable, and Investments	\$1,228.6	\$1,065.8	\$1,162.2	\$1,371.1	\$1,236.5
Property, Plant and Equipment, Inventories, and Other	\$1,739.7	\$1,682.5	\$1,545.1	\$1,512.7	\$1,431.4
Total Assets	\$2,968.3	\$2,748.3	\$2,707.3	\$2,883.8	\$2,667.9
Liabilities					
Federal Debt Held by the Public & Accrued Interest	(\$12,028.4)	(\$11,332.3)	(\$10,174.1)	(\$9,060.0)	(\$7,582.7)
Federal Employee & Veterans Benefits	(\$6,538.3)	(\$6,274.0)	(\$5,792.2)	(\$5,720.3)	(\$5,283.7)
Other	(\$1,310.9)	(\$1,243.0)	(\$1,526.4)	(\$1,576.3)	(\$1,257.4)
Total Liabilities	(\$19,877.6)	(\$18,849.3)	(\$17,492.7)	(\$16,356.6)	(\$14,123.8)
Net Financial Position (Assets minus Liabilities)	(\$16,909.3)	(\$16,101.0)	(\$14,785.4)	(\$13,472.8)	(\$11,455.9)
Sustainability Measures					
Long Term Projected Social Insurance Expenditures over Projected Revenues					
Social Security (OASDI)	(\$12,294.0)	(\$11,278.0)	(\$9,157.0)	(\$7,947.0)	(\$7,677.0)
Medicare (Parts A, B, & D)	(\$27,404.0)	(\$27,276.0)	(\$24,673.0)	(\$22,910.0)	(\$38,201.0)
Total	(\$39,698.0)	(\$38,554.0)	(\$33,830.0)	(\$30,857.0)	(\$45,878.0)
Other Long Term Projected Expenditures Over Projected Revenues	(\$4,000.0)	(\$16,500.0)	(\$6,400.0)	(\$16,300.0)	n/a
Net Financial Condition	(\$60,607.3)	(\$71,155.0)	(\$55,015.4)	(\$60,629.8)	n/a

Statement of Net Cost Trends

	2013	2012	2011	2010	2009
National Defense					
Military Readiness					
Military Conflicts					
Airport and Internal Security, Intelligence					
Veterans Benefits					
Other National Defense					
Human resources					
Social Security					
Medicare					
Medicaid					
Health Insurance Support					
Other Health Related					
Education and Training Support					
Unemployment Benefits and Other Income Security					
Other Human Resources					
Physical resources					
Transportation					
Energy					
Environmental					
National Parks and Public Lands					
Regional Development					
Other Physical Resources					
Net interest					
Other functions					
International Affairs					
General Science, Space, and Technology					
Agriculture Support					
Food Inspection					
Administration of Justice					
General Government					
Revenue					
Medicare, Deposit Insurance, and Other Premiums					
Postal Services					
Military Assistance Program Sales					
Interest					
GSE Dividends					
Other					
Net Cost					

Illustrative Net Cost by Function
(Dollars in Millions)

	2013	2012	2011	2010	2009
National Defense	633,385	677,852	705,554	693,485	661,012
Human resources	2,417,949	2,348,587	2,414,742	2,386,633	2,155,793
Education, Training, Employment, and Social Services	72,808	90,823	101,233	128,598	79,749
Health	358,315	346,742	372,504	369,068	334,335
Medicare	497,826	471,793	485,653	451,636	430,093
Income Security	536,511	541,344	597,352	622,210	533,224
Social Security	813,551	773,290	730,811	706,737	682,963
Veterans Benefits and Services	138,938	124,595	127,189	108,384	95,429
Physical resources	89,997	215,463	161,923	88,835	443,828
Energy	11,042	14,858	12,174	11,618	4,755
Natural Resources and Environment	38,145	41,631	45,473	43,667	35,573
Commerce and Housing Credit	-83,199	40,823	-12,573	-82,316	291,535
Transportation	91,673	93,019	92,966	91,972	84,289
Community and Regional Development	32,336	25,132	23,883	23,894	27,676
Net interest	220,885	220,408	229,962	196,194	186,902
Other functions	185,174	178,353	179,345	174,048	162,781
International Affairs	46,418	47,189	45,685	45,195	37,529
General Science, Space, and Technology	28,908	29,060	29,466	30,100	28,417
Agriculture	29,492	17,791	20,662	21,356	22,237
Administration of Justice	52,601	56,277	56,056	54,383	52,581
General Government	27,755	28,036	27,476	23,014	22,017
Revenue	-416	-351	-366	-309	-301
Net Cost	3,454,605	3,537,127	3,603,059	3,457,079	3,517,677

For illustration only - Net Outlays From President's Budget

Illustrative Agency Statement of Net Cost
(Dollars in Millions)

	2013	2012
Human Resources Programs		
Medicare	\$ 498,576	\$ 477,687
Medicaid	<u>266,624</u>	<u>247,508</u>
Other Health Related		
Research	31,125	32,362
Children's Health Insurance Program (CHIP)	9,548	9,260
Immunization and Respiratory Diseases (including Infectious Diseases)*	4,331	5,484
Primary Care	3,328	3,411
Clinical Services	2,378	2,402
HIV/AIDS Programs	<u>2,203</u>	<u>2,414</u>
Total Other Health Related	<u>52,913</u>	<u>55,333</u>
Unemployment Benefits and Other Income Security - Temporary Assistance to Needy Families	<u>18,021</u>	<u>17,131</u>
Health Insurance Support - Affordable Care Act Program	<u>5,047</u>	<u>3,800</u>
Education and Training - Head Start	<u>7,915</u>	<u>7,805</u>
Other Human Resources		
Child Welfare	7,719	7,643
Child Care	5,211	4,982
Child Support Enforcement	4,085	3,955
Low-Income Home Energy Assistance	3,495	3,860
Total Other Programs	<u>26,644</u>	<u>25,843</u>
Total Other Human Resources	<u>47,154</u>	<u>46,283</u>
Total Net Cost of Operations	<u>\$ 896,250</u>	<u>\$ 855,547</u>

D. Scott Showalter



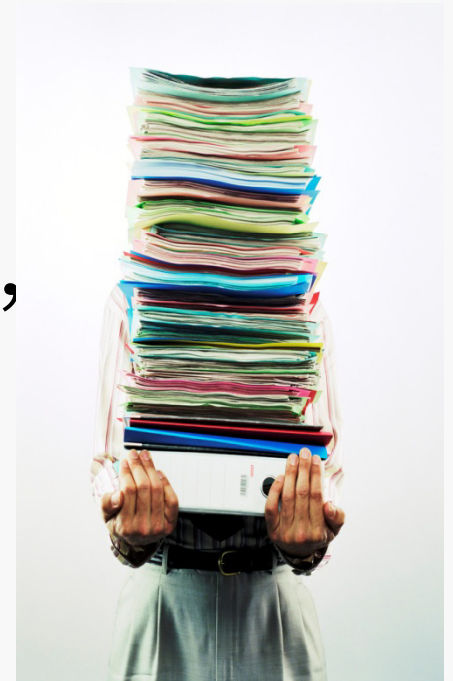
Ideal Reporting Model

**PERSONAL VIEWS OF
D. SCOTT SHOWALTER**

**PREPARED FOR APRIL 2014
FASAB MEETING**

Purpose of Reporting Model Project

“This project is being undertaken by the board because of increased demands for financial information to facilitate decision-making and demonstrate accountability, and the changes in how users expect financial information be delivered”

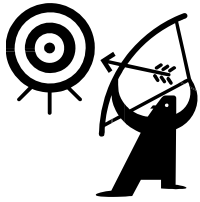




Primary Objectives

“The primary objectives of this project are to:

- Determine what financial information would be helpful for decision-making, demonstrating accountability, and achieving the reporting objectives.
- Determine how financial information should be presented to be most responsive to users and the manner in which they obtain information.
- Consider how the information in a schedule of spending should relate to other financial statements and financial information presented in reports.”



Primary Objectives

“The primary objectives of this project are to:

- Determine what financial information is helpful for decision-making, demonstrating accountability, and achieving reporting objectives.
- Determine how financial information should be presented to be responsive to users and the manner in which the information.
- Consider how the information in a schedule of spending should relate to other financial statements and financial information presented in reports.”

Ideal Reporting Model

Expectations for the Project

- Not limited to current reporting model
- Expand types of information (financial and nonfinancial) included
- Explore different ways to present information
- Confirm or modify ...
 - Objectives of financial reporting by the federal government (SFFAC 1)
 - Display information provided under SFFAC 2
- Clarifying the information presented at component level verses the entire federal government
- Should not be limited to current accounting system restraints
 - no consolidated general ledger



Guiding Principles

- Project should provide guidance about the *type of information* included in government-wide vs. component reporting
- Determine financial statements and other information required for government-wide vs. component reporting
- Align reporting objectives with the applicable financial statements and other disclosures

Guiding Principles, cont.

- Determine whether financial statements should articulate among each other
- Financial statements not only source of information
- F/S would include reporting on KEY programs – which may vary over time

Foundation

- Need to focus on government-wide and component entity models at same time
- Primary users are:
 - Citizens
 - Others who don't have access to information
- Financial statements should articulate – if not, make it a note or other disclosure
- Ultimate reporting objective is *stewardship*
 - Like Justine Kilpatrick's revised stewardship description
- Ultimate display and disclosure elements determined by 3 reporting objectives & may vary between GW & CE

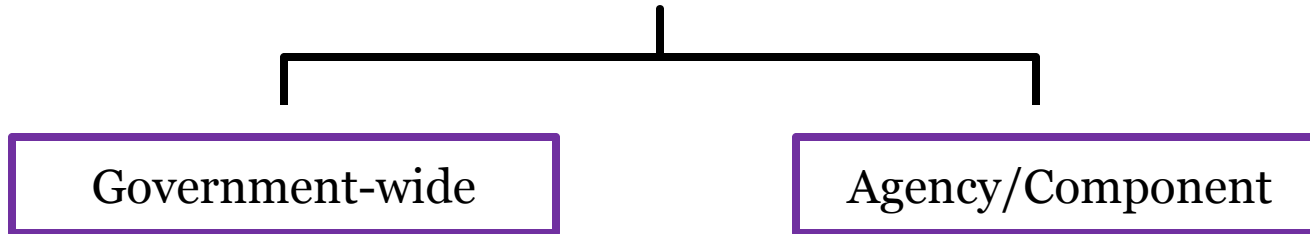
Foundation

- Government-wide
 - Government as a whole disclosures
 - Cross-cutting disclosures (e.g., how much does it cost...)
 - Government as a whole performance measures
- Component/agency
 - Specific to key mission/programs of the agency/component
 - Program performance measures
- Willing to revisit previous decisions about liabilities and assets & their location

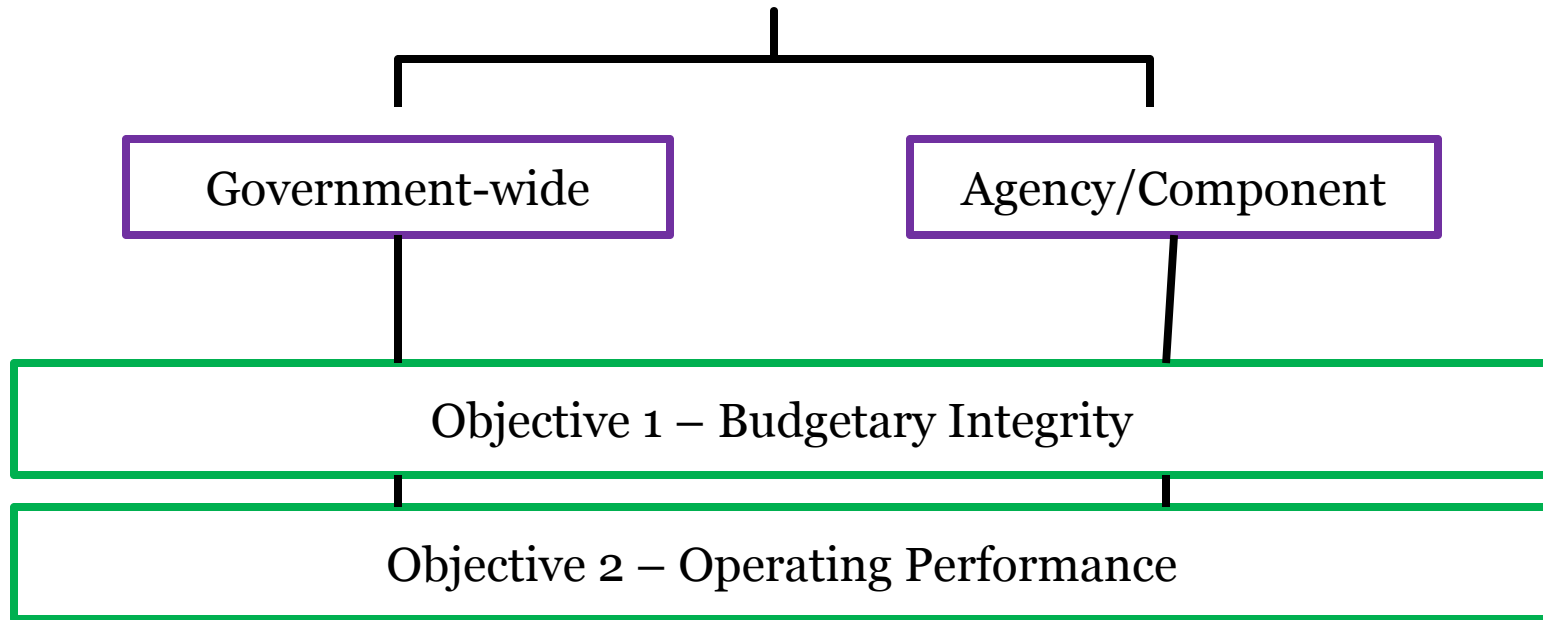
Foundation

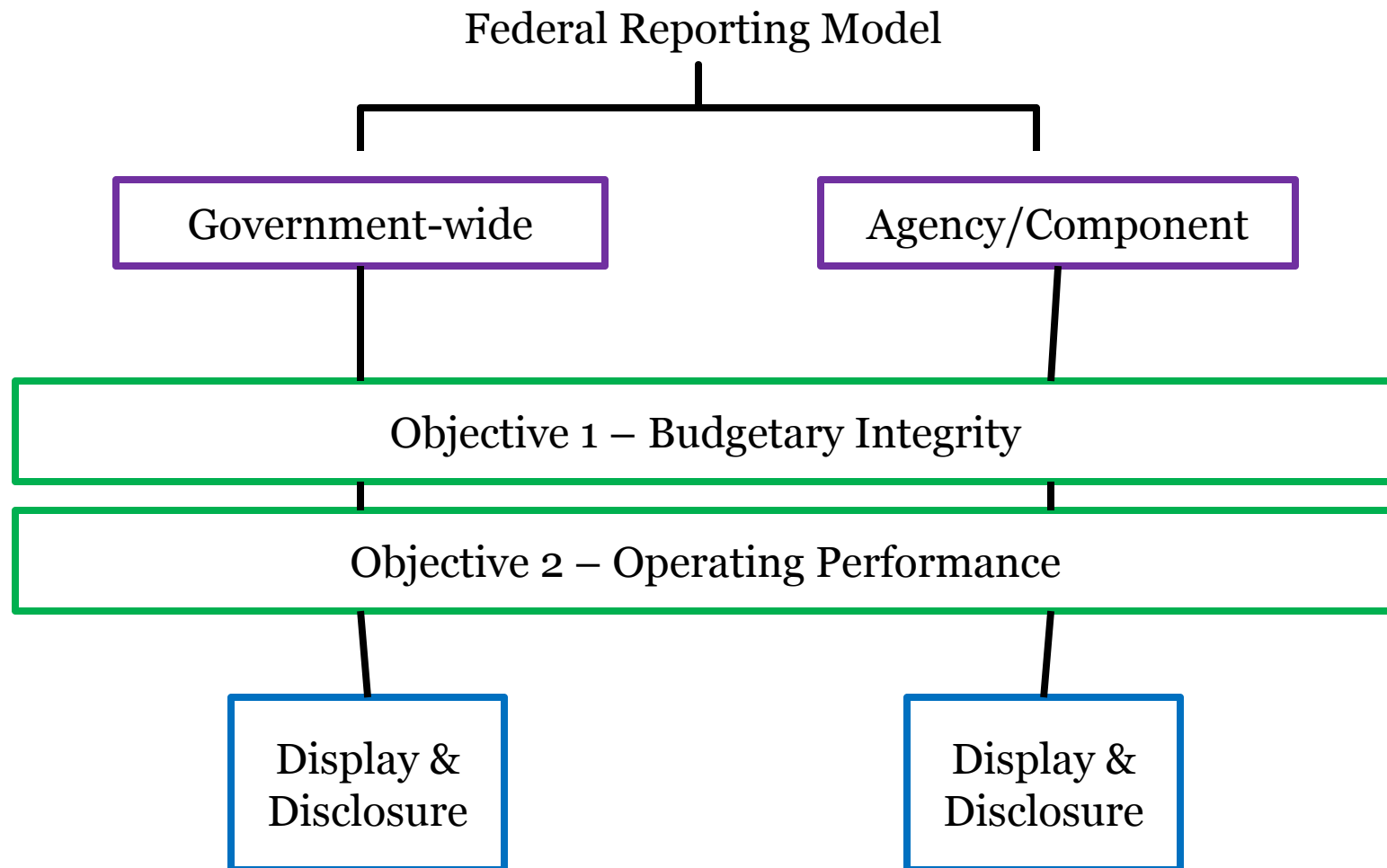
- Possibility only government-wide F/S would contain “full-set” of financial statements
- For Agency/component F/S. primary focus should be operations
- Closer linkage between costs, outputs, performance (NAPA Study)
- Higher level presentation, except for key programs
- Possible change in current F/S preparation model
- Encourage, but not require electronic reporting

Federal Reporting Model

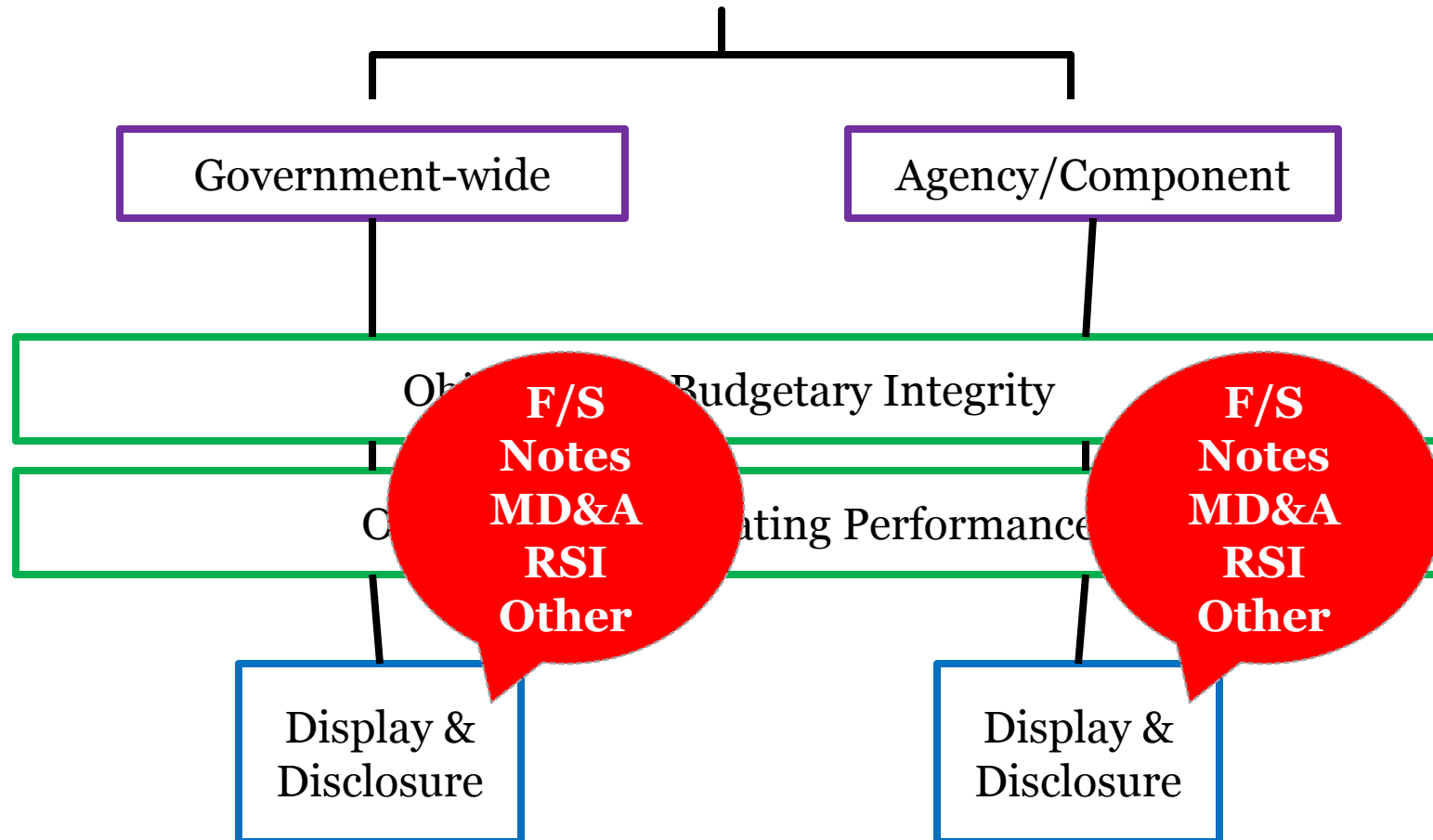


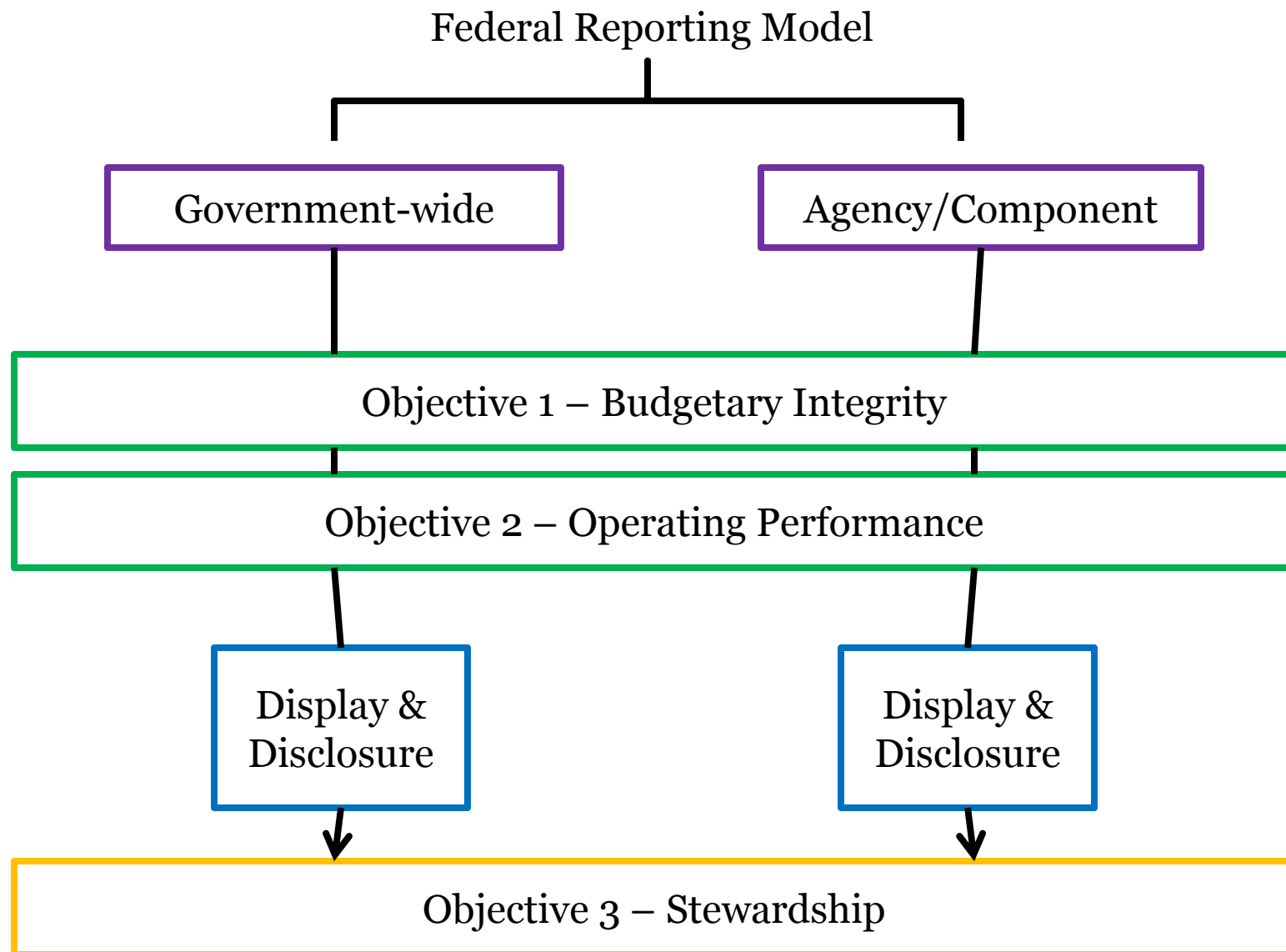
Federal Reporting Model



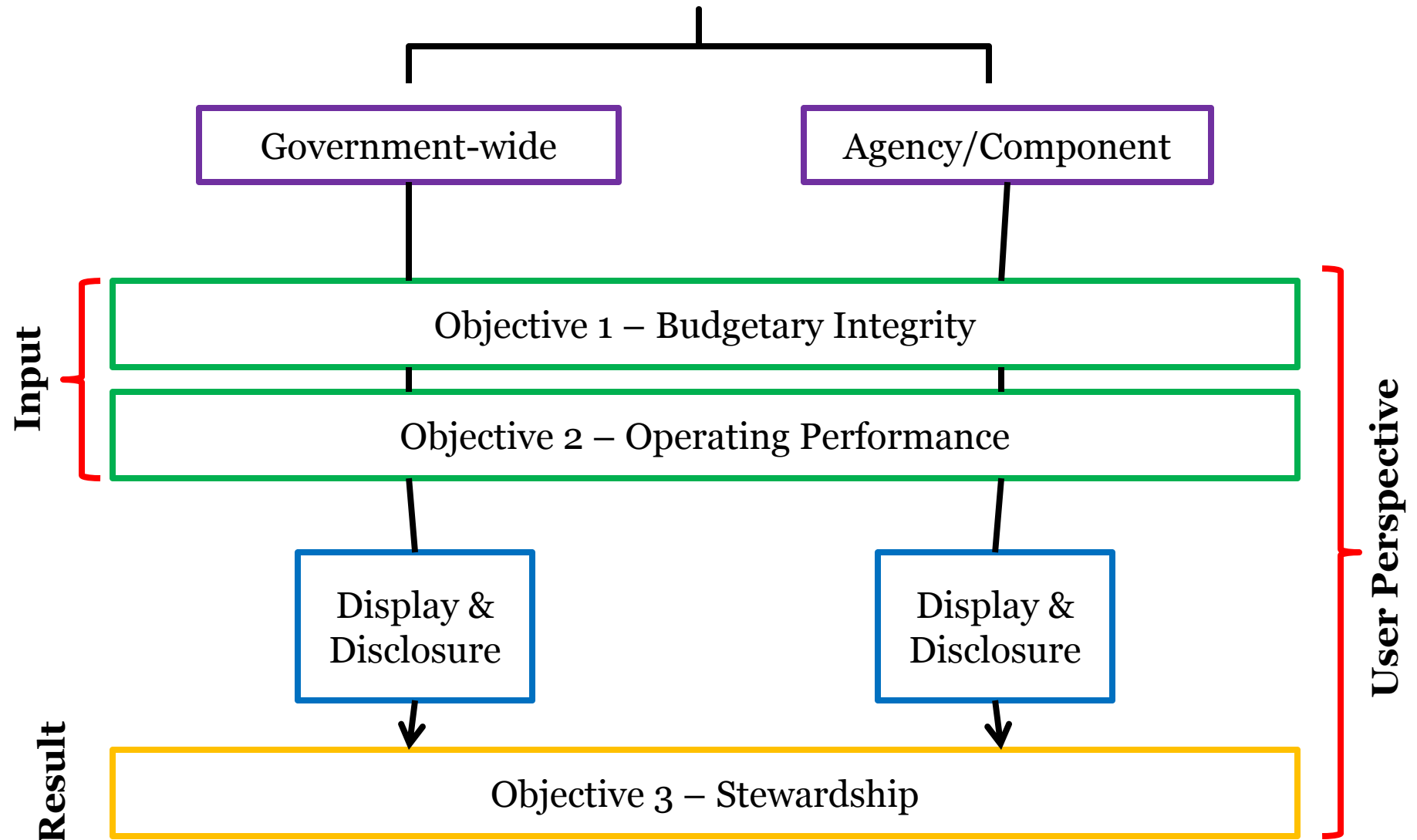


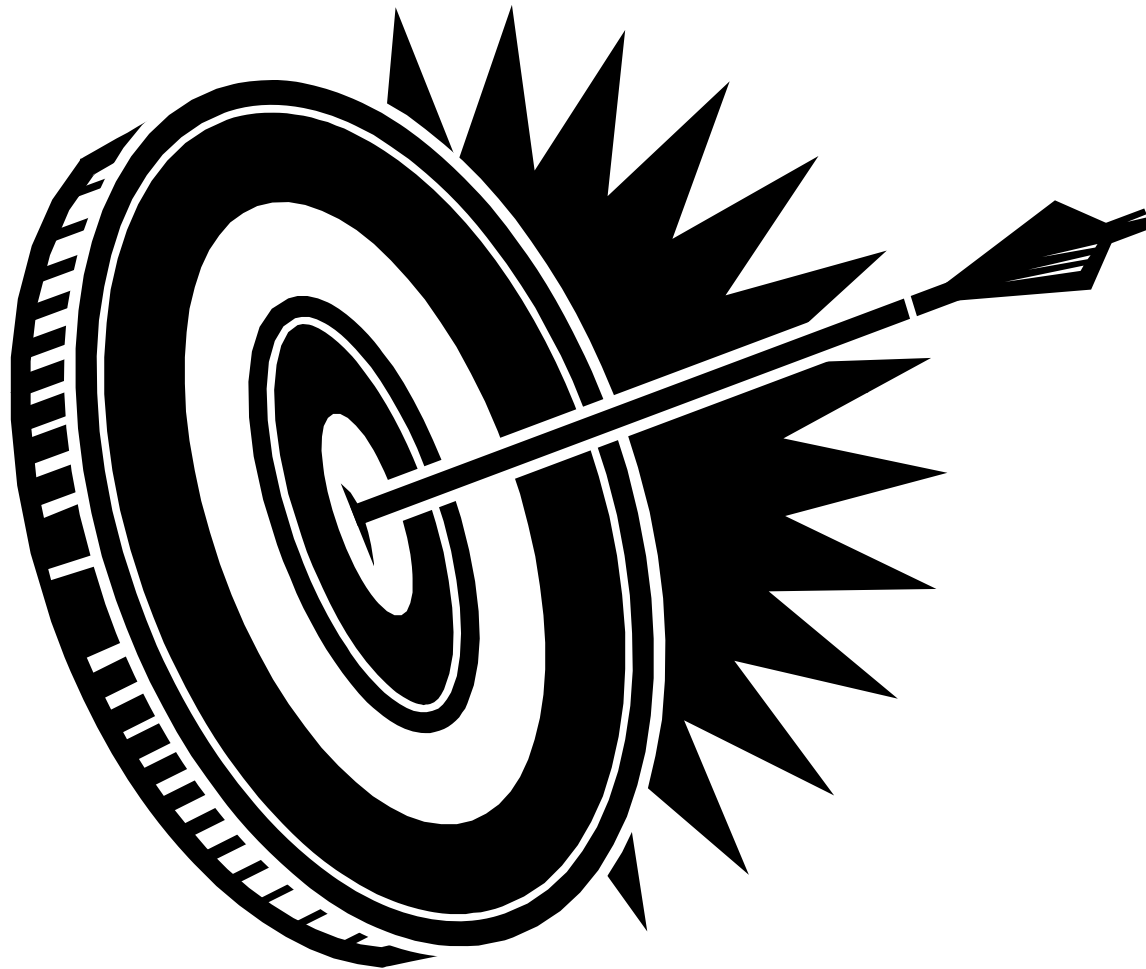
Federal Reporting Model





Federal Reporting Model





Graylin E. Smith

**UNITED STATES OF AMERICA
PROPOSED FINANCIAL STATEMENTS
TO THE REPORTING MODEL**

Limitations of the Present Reporting Model

Objective	Proposed Statements or RSI
<u>Budgetary Integrity</u> – Federal financial reporting should assist in fulfilling the government’s duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government’s budget for a particular fiscal year and related laws and regulations. Federal financial reporting should provide information that helps the reader to determine: <ul style="list-style-type: none">• how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization,• the status of budgetary resources, and• how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.	Statement of Budgetary Resource Statement of Financing Statement of Comparison of Cost and Accomplishments to Budget
<u>Operating Performance</u> – Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity’s assets and liabilities. Federal financial reporting should provide information that helps the reader to determine: <ul style="list-style-type: none">• the costs of providing specific programs and activities and the composition of, and changes in, these costs;• the efforts and accomplishments associated with federal programs• and the changes over time and in relation to costs; and	Statement of Net Cost Statement of Progress on Major Priorities

Limitations of the Present Reporting Model

- **the efficiency and effectiveness of the government's management of its assets and liabilities.**

Stewardship – Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future. Federal financial reporting should provide information that helps the reader to determine whether:

- **the government's financial position improved or deteriorated over the period,**
- **future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, and**
- **government operations have contributed to the nation's current and future well-being**

Systems and Control – Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that:

- **transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with federal accounting standards;**
- **assets are properly safeguarded to deter fraud, waste, and abuse; and**
- **performance measurement information is adequately supported.**

Balance Sheet

Statement of Changes in Net Position

Statement of **Progress on Major Priorities**

Statement of Budgetary Resources

Limitations of the Present Reporting Model

- **Government expenditures are not incurred to generate a funding source (revenue), they create a commitment and need for future taxes which means these future commitments should be understood**
- **Future resources that will be consumed because of today's policies**
- **Expenditures that are investments for the future that create future benefit compared to expenditures that only have current benefit and little or no future benefit and create a future obligation**
- **Need to know if expenditures have expanded greater than the original interest or approval of policy**
- **Whether expenditures were effective with their original intended purpose**
- **Importance of expenditures to our policy priorities**
- **The efforts and accomplishments associated with programs**
- **Level of spending in excess of the original intent or expected spending**
- **Efficiency and effectiveness of the management of programs**
- **Operations contribution to the nations well being**
- **Safeguard of assets from fraud, waste and abuse**
- **Tax expenditure reporting**

Proposed Principal Financial Statements

- **Balance Sheet.** Presents those resources owned or managed by the Department which are available to provide future economic benefits (assets); amounts owed by the Department that will require payments from those resources or future (liabilities) and residual amounts retained by the Department, comprising the difference (net position).
- **Statement of Net Cost.** Presents the net cost of the Department operations for the year ended. The Department's net cost of operations includes the gross costs incurred by the Department less any exchange revenue earned from the Department's activities.
- **Statement of Changes in Net Position.** Presents the change in the Department's net position resulting from the net cost of the Department operations, financing sources other than exchange revenues and the change in the Department's unexpended appropriations during the year.
- **Statement of of Budgetary Resources.** Presents the budgetary resources available to the Department during the year, the status of these resources at year end and the outlay of budgetary resources during the year.
- **Statement of Financing.** Reconciles the net cost of operations with the obligation of budgetary resources for the year ended.
- **Statement of Custodial Activity.** Presents the sources and disposition of non-exchange revenues collected or accrued by the Department on behalf of other recipient entities for the year.
- **Statements of Comparison of Cost and Accomplishments to Budget.** Presents the expenditures incurred compared to budget for the current year and a discussion on the progress of the major priorities.
- **Statements of Progress on Major Priorities.** Presents the expenditures for the current year by term specific funding and ongoing expenditures, next year and five years of expected expenditures to achieve goals of major priorities, and the percentage of total expenditures incurred to percentage of goal accomplished for major priorities.

BALANCE SHEET
As of September 30

ASSETS

Intra-governmental	
Funds with U.S. Treasury	\$ 10,964,910
Investments	89,094,324
Accounts receivable	4,959,842
Total intra-governmental	<u>105,019,076</u>

Accounts receivable, net of allowance	759,691
Advances	179,567
Property, plant and equipment, net of depreciation	<u>777,686</u>

Total assets	<u><u>\$ 106,736,020</u></u>
---------------------	------------------------------

LIABILITIES AND NET POSITION

Intra-governmental liabilities	
Accounts payable	\$ 37,837
Advances from U.S. Treasury	7,253,557
Other liabilities	107,423
Total intra-governmental	<u>7,398,817</u>

Accounts payable	330,837
Accrued leave	93,238
Accrued benefits	1,558,846
Future workers' compensation benefits	586,217
Employees compensation benefits	3,200,000
Other liabilities	<u>213,029</u>

Total liabilities	<u>13,380,474</u>
--------------------------	-------------------

Net position

Unexpended appropriations	11,281,332
Cumulative results of operations	<u>82,074,214</u>

Total net position	<u>93,355,546</u>
---------------------------	-------------------

Total liabilities and net position	<u><u>\$ 106,736,020</u></u>
---	------------------------------

STATEMENT OF NET COST
For the Year Ended September 30

**NET COST OF OPERATIONS BY
MAJOR PROGRAMS in PRIORITY ORDER**

Program A

Department spend	\$ 808,751
Grants and Contributions	36,609,990
Total cost	<u>37,418,741</u>
Less earned revenue	<u>(2,570,342)</u>
Net program cost	<u>34,848,399</u>

Program B

Department spend	42,361
Grants and Contributions	5,823,371
Total cost	<u>5,865,732</u>
Less earned revenue	<u>(9,437)</u>
Net program cost	<u>5,856,295</u>

Program C

Department spend	111,264
Grants and Contributions	417,709
Total cost	<u>528,973</u>
Less earned revenue	<u>(12,509)</u>
Net program cost	<u>516,464</u>

Program D

Department spend	132,066
Grants and Contributions	587,521
Total cost	<u>719,587</u>
Less earned revenue	<u>(3,024)</u>
Net program cost	<u>716,563</u>

OTHER PROGRAMS

All of Programs

Department spend	149,297
Grants and Contributions	314,841
Total cost	<u>464,138</u>
Less earned revenue	<u>(4,829)</u>
Net program cost	<u>459,309</u>

Department Administrative Cost

	88,448
Less earned revenue not attributed to programs	<u>(25,612)</u>
Net cost not assigned to programs	<u>62,836</u>

Net cost of operations	<u><u>\$ 42,459,866</u></u>
-------------------------------	-----------------------------

STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30

CHANGE IN NET POSITION

Net cost of operations	<u>\$ 42,459,866</u>
Net financing sources	
Non-exchange revenue	
Employer taxes	27,234,707
Interest	5,775,266
Assessments	146,713
Other	<u>1,072,686</u>
Total non-exchange revenue	34,229,372
 Appropriations used	 7,953,537
 Transfers	 <u>(1,511,019)</u>
Total net financing sources	<u>40,671,890</u>
 Net results of operations	 (1,787,976)
Increase in unexpended appropriations	<u>1,186,269</u>
Change in net position	(601,707)
Net position, beginning of period	<u>93,957,253</u>
Net position, end of period	<u><u>\$ 93,355,546</u></u>

STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30

BUDGETARY RESOURCES

Budget authority	\$ 44,403,052
Unobligated balances, beginning	2,555,115
Transfers of prior year authority	1,526
Spending authority from offsetting collections	2,087,500
Adjustments	<u>(1,645,805)</u>

Total budgetary resources	<u>\$ 47,401,388</u>
----------------------------------	-----------------------------

STATUS OF BUDGETARY RESOURCES

Obligations incurred	\$ 44,386,257
Unobligated balances available	2,382,784
Unobligated balances not available	<u>632,347</u>

Total status of budgetary resources	<u>\$ 47,401,388</u>
--	-----------------------------

OUTLAYS

Obligations incurred	\$ 44,386,257
Less spending authority from offsetting collections	(2,087,500)
Less recoveries of prior year obligations	(240,216)
Change in unfilled customer orders	1,901
Obligated balance, net, beginning	8,942,392
Less obligated balance, net, ending	<u>(10,281,482)</u>

Total outlays	<u>\$ 40,721,352</u>
----------------------	-----------------------------

STATEMENT OF FINANCING
For the Year Ended September 30

OBLIGATIONS AND NON-BUDGETARY RESOURCES

Obligations incurred	\$ 44,386,257
Less spending authority from offsetting collections	(2,087,500)
Recoveries of prior year obligations	(240,216)
Financing imputed for cost subsidies	86,835
Transfers, net	2,146
Exchange revenue not in budget	(117,400)
Trust fund exchange in revenue	(389,789)

Total obligations as adjusted and non-budgetary resources	41,640,333
--	-------------------

RESOURCES NOT FUNDING NET COST OF OPERATIONS

Change in amount of goods, services and benefits ordered but not yet received or provided	(743,569)
Capitalized costs	(85,598)
Other	656

Total resources not funding net cost of operations	(828,511)
---	------------------

COST OF OPERATIONS NOT CONSUMING RESOURCES

Depreciation and amortization	40,126
Revaluation of assets and liabilities	207,114
Benefit overpayments	(229,177)
Other	1,629,981

Total cost of operations not consuming resources	1,648,044
---	------------------

Net cost of operations	\$ 42,459,866
-------------------------------	----------------------

STATEMENT OF CUSTODIAL ACTIVITY
For the Year Ended September 30

SOURCES OF CUSTODIAL REVENUE

Cash collection of fines, penalties, assessments and related interest	\$ 115,521
Less refunds	170
Net cash collections	<u>115,691</u>
Increase (decrease) in amounts to be collected	<u>(5,413)</u>

Total sources of custodial revenue	<u>110,278</u>
---	----------------

DISPOSITION OF CUSTODIAL REVENUE

Net transfers to U.S. Treasury general fund	115,691
Increase (decrease) in amounts to be transferred	<u>(5,413)</u>

Total disposition of custodial revenue	<u>110,278</u>
---	----------------

Net custodial activity	<u><u>\$ -</u></u>
-------------------------------	--------------------

STATEMENT OF COMPARISON OF COST AND ACCOMPLISHMENT TO BUDGET
For the Year Ended September 30

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Progress Achieved Against Goal During Year</u>
NET COST OF OPERATIONS BY				
MAJOR PROGRAMS in PRIORITY ORDER				
Program A				
Department Spend	\$ 900,000	\$ 808,751	\$(91,249)	
Grants and Contributions	37,400,000	36,609,990	(790,010)	
Total cost	38,300,000	37,418,741	(881,259)	
Less earned revenue	(700,000)	(2,570,342)	(1,870,342)	
Net program cost	37,600,000	34,848,399	(2,751,601)	
Program B				
Department Spend	50,000	42,361	(7,639)	
Grants and Contributions	5,000,000	5,823,371	823,371	
Total cost	5,050,000	5,865,732	815,732	
Less earned revenue	(10,000)	(9,437)	563	
Net program cost	5,040,000	5,856,295	816,295	
Program C				
Department Spend	110,000	111,264	1,264	
Grants and Contributions	410,000	417,709	7,709	
Total cost	520,000	528,973	8,973	
Less earned revenue	-(10,000)	(12,509)	(2,509)	
Net program cost	510,000	516,464	6,464	
Program D				
Department Spend	132,000	132,066	66	
Grants and Contributions	590,000	587,521	(2,479)	
Total cost	722,000	719,587	(2,413)	
Less earned revenue	(3,000)	(3,024)	(24)	
Net program cost	719,000	716,563	(2,437)	
OTHER PROGRAMS				
All Other Programs				
Department Spend	150,000	149,297	(703)	
Grants and Contributions	315,000	314,841	(159)	
Total cost	465,000	464,138	(862)	
Less earned revenue	(5,000)	(4,829)	171	
Net program cost	460,000	459,309	(691)	
DEPARTMENT ADMINISTRATIVE COST				
Less earned revenue not attributed to programs	(20,000)	(25,612)	(5,612)	
Net cost not assigned to programs	74,052	62,836	(11,216)	
Net cost of operations	\$ 44,403,052	\$ 42,459,866	\$(1,943,186)	

STATEMENT OF ROGRESS ON MAJOR PRIORITIES

For the Year Ended September 30

		Current Year	Cumulative Spending to Achieve Goal	Next Year Expected	Five Years Expected	Percentage of Expected Expenditures to Achieve Goal	Percentage of Goal Accomplished	Expected Outcome
NET COST OF OPERATIONS BY MAJOR DEPARTMENT PRIORITY								
TERM SPECIFIC SPENDING TO ACCOMPLISH GOAL								
Program A								
Department Spend	\$	735,913	\$3,125,000	\$ 750,000	\$3,750,000	20%	15%	
Grants and Contributions		23,578,936	104,166,667	25,000,000	125,000,000			
Total cost		24,313,849	107,291,667	25,750,000	128,750,000			
Program B								
Grants and Contributions		5,00,000	22,916,667	5,500,000	27,500,000	37%	40%	
Program C								
Department Spend		98,723	416,667	100,000	500,000	32%	35%	
Grants and Contributions		357,733	1,196,667	360,000	1,800,000			
Total cost		456,456	1,613,334	460,000	2,300,000			
Program D								
Department Spend		96,567	327,926	100,000	500,000	28%	23%	
Grants and Contributions		433,567	1,875,925	450,000	2,250,000			
Total cost		530,134	2,203,851	550,000				
OTHER PROGRAMS								
All Other Programs								
Department Spend		45,700	123,236	50,000	250,000			
Grants and Contributions		283,756	687,926	300,000	1,500,000			
Total cost		329,456	811,162	350,000	1,750,000			

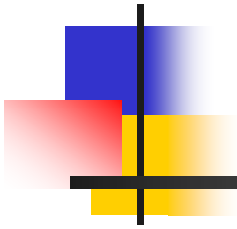
STATEMENT OF PROGRESS ON MAJOR PRIORITIES (continued)
For the Year Ended September 30

	<u>Current Year</u>
ONGOING PROGRAM SPENDING	
Program A	
Department Spend	\$ 72,838
Grants and Contributions	13,031,054
Total cost	<u>13,103,892</u>
Less earned revenue	<u>(2,570,342)</u>
Net program cost	<u>10,533,550</u>
Program B	
Department Spend	42,361
Grants and Contributions	<u>823,371</u>
Total cost	865,732
Less earned revenue	<u>(9,437)</u>
Net program cost	<u>856,295</u>
Continuous spending to achieve goal	<u> </u>
Program C	
Department Spend	12,541
Grants and Contributions	<u>59,976</u>
Total cost	72,517
Less earned revenue	<u>(12,509)</u>
Net program cost	<u>60,008</u>
Program D	
Department Spend	35,499
Grants and Contributions	<u>587,521</u>
Total cost	189,453
Less earned revenue	<u>(3,024)</u>
Net program cost	<u>186,429</u>
OTHER PROGRAMS	
All Other Programs	
Department Spend	103,697
Grants and Contributions	<u>31,085</u>
Total cost	134,682
Less earned revenue	<u>(4,829)</u>
Net program cost	<u>129,853</u>
DEPARTMENT ADMINISTRATIVE COST	
Less earned revenue not attributed to programs	<u>(25,612)</u>
Net cost not assigned to programs	<u>62,836</u>
Net cost of operations	<u>\$ 42,459,866</u>

Sam M. McCall

FASAB

The Federal Reporting Model



April 23-24, 2014

Sam M. McCall



Concept Statement 1 – Objectives of Federal Financial Reporting

- Budgetary Integrity
- Operating Performance
- Stewardship
- Systems and Controls



Budgetary Integrity – Current Criteria and Suggested Changes

- How ~~budgetary~~ resources have been obtained and used and whether their acquisition and use were in accordance with the legal and budgetary authorization
- The status of ~~budgetary~~ resources budgeted compared to resources actually received and used
- How information on ~~budgetary~~ resources obtained and used relates to information on the cost of program operations and whether information on the status of ~~budgetary~~ resources budgeted is consistent with GAAP based ~~other~~ accounting information for ~~on~~ assets, and liabilities, revenues, and expenditures.



Financial Reporting on Budgetary Integrity

- FASAB does not establish standards for budgetary accounting and reporting. As such budgetary accounting is not currently GAAP
- A budget to actual receipts and disbursements statement should be presented either in the notes or as RSI
- There should be a reconciliation of actual receipts and disbursements received and used as a result of the budget process to the GAAP based financial statement revenues and expenditures. The reconciliation should be shown in the notes to the financial statements or as RSI. Significant changes in the budget from one year to the next should be disclosed in MD&A and reported in the notes.
- Users should be educated about the difference in budgeting on a cash basis of accounting versus accounting on a GAAP basis. The goal should be to have the same budget and GAAP basis of accounting for budget and financial statement reporting.



An Alternative Approach

- As an alternative to including budget comparison statements and budgeted disbursements to GAAP expenditures, refer users of GAAP based financial statements to OMB or CBO. Many users of federal financial statements do not understand the difference in the budget basis of accounting for budgets and the GAAP basis of accounting for financial statement reporting. Also, those that prepare budgets do not currently get overly concerned with reconciliations of resources received and used to GAAP based financial statements. To reconcile the two requires significant effort.
- The question should be who benefits from reconciliations and disclosures in MD&A, the notes, or RSI of budgetary accounting on a cash basis to financial accounting on a GAAP basis. If there is no appreciable additional useful information obtained one must ask whether the cost of preparation is worth the effort.



Operating Performance – Current Criteria and New Suggested Criteria

- A description of the Department/major programs and their purpose, goals and objectives, services provided, the segment of the populations served, and Department/program desired and intended outcome
- The cost of providing specific programs and activities and the composition of any changes in these cost
- The efforts, ~~and~~ accomplishments, and challenges associated with administering federal programs and program changes over time in relation to costs
- The efficiency and effectiveness of the government's management of its resources and obligations ~~assets and liabilities~~



Operating Performance Reporting

- Performance measurement reporting should be in one or more of the following:
 - MD&A
 - RSI
 - A separate report
- The hope is that at some point in time SEA reporting would move into the financial statements, notes, or supplemental statements and notes.



Cost versus Managerial Cost Accounting

- After review of the NAPA Study I have concerns that the meaning of “cost” was not clearly understood by all:
- The term cost, cost accounting, managerial accounting, and managerial cost accounting have different meanings to different people:
 - Cost can simply mean the price paid to acquire, produce, accomplish, or maintain anything – this can be for internal or external reporting
 - Cost accounting is cost accumulation for inventory valuation and income determination and more closely aligns with internal use
 - Managerial cost accounting is using cost data for planning, control, and decision making purposes most often within an organizations
- What are the priorities of the FASAB – external financial reporting for users of financial statements or internal cost accounting for financial management decision making?



Operating Performance

- Financial reporting should provide information on not only what has been spent, but also what had been accomplished.
- Government has the responsibility to provide such information whether or not asked for by the public.



Support in Accounting Literature for Performance Reporting

- 1971 – AAA Committee on Concepts
- 1972 – AICPA Trueblood Committee
- 1978 – FASB – Accounting in Non-business organizations
- FASB Concepts Stmt. 1 – financial reporting is not restricted to fin./stmts.
- 1980 FASB – Reporting SEA for non-businesses
- 1980 FASB Concept Stmt. 4 – information in units other than money may be needed to help in assessing performance for non-business units. Appropriate for non-profit and government



GASB – Service Efforts and Accomplishment Reporting

- 1984 – GASB established
- 1987 – Concept Stmt. 1. F/S reporting should assist in assessing SEA
- 1994 – Concept Stmt. 2 – SEA is integral to GPEFR
- 1996-2002 SEA Research
- 2003 – Suggested criteria for SEA
- 2008 – Concept Stmt. 5 – It is beyond GASB's scope to develop performance measures or benchmarks for SEA.
- 2008 – Concept Stmt. 2 Amended
- 2008 – Suggested Guidelines for Voluntary Reporting SEA.



Federal Performance Measurement Initiatives

- Government Performance and Results Act of 1993
- President's Management Agenda Budget and Performance Integration Initiative
- OMB's Program Assessment Rating Tool
- Unlike state and local governments, the federal government has only one governing body



Operating Performance At the Component and Consolidation Level Should Address Major Department/Programs

- Department/program mission, the segment of the population served, and services provided
- Description of major programs and goals and objectives for each
 - Explain how one would know the program is working
- Key (five and no more than ten) performance measures for each major Department/program with reasons for selecting these financial and non-financial measures -
- Department/program accomplishments
- Department/program challenges



Defining “Program”

- A task force should be assembled to assist in defining the term “Program”
- From *Evaluation* – Rossi and Freeman
 - The origin of a social program is the recognition of a “social problem” - by which we mean defects in human and social conditions – and resolve to take purposive, organized actions to remedy the problem.



Stewardship Objective – Current Criteria and Suggestions

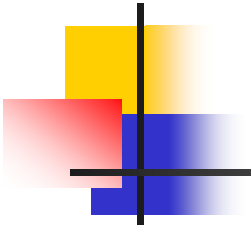
- Whether:
 - The government's financial position and condition improved or deteriorated ~~over the period~~
 - Future ~~budgetary~~ resources will likely be sufficient to sustain promised public services and to meet obligations as they come due
 - Government operations have contributed to the nation's current and future economic and social well-being



Stewardship – Financial Condition and Financial Position

- A complete assessment of the Government's **financial or fiscal condition** requires analysis of historical results, projections of future revenues and expenditures, and an assessment of the Government's long-term fiscal *sustainability*. This Report (2013 Federal Govt. Financial statements) discusses the Government's **financial position** at the end of the fiscal year, explains how and why the **financial position changed during the year**, and provides insight into how the Government's **financial condition may change in the future**.
- **Source – Financial Statements of the Federal Government**

Stewardship - Either MD&A or RSI for



- Financial reporting on Stewardship should address changes over the reporting period and changes into the future given current policy.
- For Major Federal programs, stewardship (and sustainability) areas of public interest include:
 - Social security
 - Medicare
 - Medicaid
 - Debt due the public
 - Federal pensions & benefits
 - Defense/Veterans Affairs
 - Interest on the Federal debt

* Federal employee and VA benefits payable increased from \$4.769 trillion in 2007 to \$6.538 trillion in 2013



Stewardship and Sustainability

- Research should be initiated to decide whether stewardship also includes the term sustainability or whether Concept Statement 1 should be expanded to also include sustainability as an additional concept or to include within stewardship



Other Considerations

- For major programs selected, show what is being paid by a citizen for expected benefits compared to what it actually will cost to provide that citizen the promised benefit in the future. For example, what does a typical person pay into social security or Medicare compared to the benefits expected to be received at sometime into the future. Relates to sustainability.

Harold I. Steinberg

Why Should the Reporting Model be Addressed?

- Origin of the species
 - SFFAC 2-Entity and Display
 - Form and Content/A-136
- Evolution
 - GPRA & GPRAMA
 - User Groups/spending.gov/FASAB Task Forces



What Should the Focus be On?

- Agency statements
- Flow statement



What are the Concepts?

- Organization
 - Strategic Goals
- Budget
 - Scrap Statement of Budgetary Resources
 - Budget resources and obligations
- Actual spending
 - Outlays
- Accrued costs

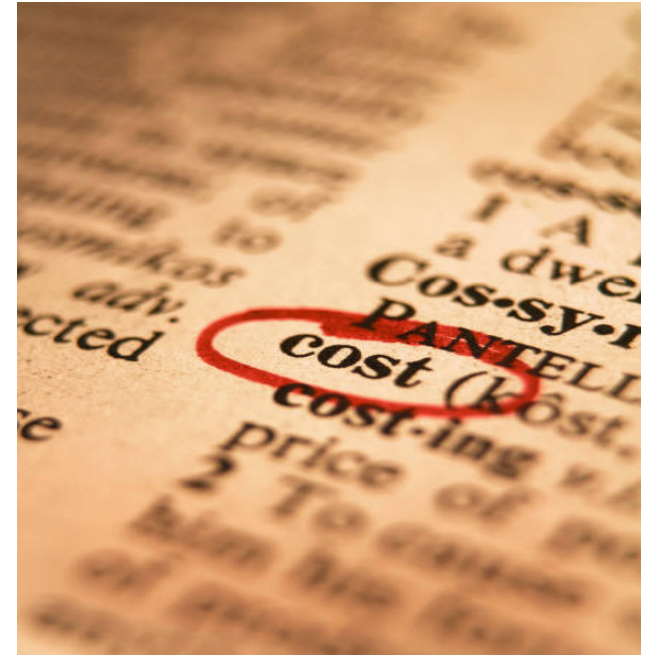


And What is a Possible Format?

	Budget Resources	Obligations	Outlays	Accrued Costs
PROGRAM COSTS:				
Strategic Goal A				
Gross costs	\$xxx	xxx	xxx	xxx
Less: earned revenue	-xxx	-xxx	-xxx	-xxx
Net program costs	xxx	xxx	xxx	xxx
Strategic Goal B				
Gross costs	xxx	xxx	xxx	xxx
Less: earned revenue	-xxx	-xxx	-xxx	-xxx
Net program costs	xxx	xxx	xxx	xxx
Strategic Goal C				
Gross costs	xxx	xxx	xxx	xxx
Less: earned revenue	-xxx	-xxx	-xxx	-xxx
Net program costs	xxx	xxx	xxx	xxx
Totals	\$xxx	xxx	xxx	xxx
(Gain)/Loss on pension, ORB assumption changes				-xxx
Net program costs including assumption changes				x,xxx

What About Costs?

- Problems
 - Number
 - Different organization structures
 - Different constituencies
- Pick your poison
- Impact on cost accounting



And What Else?

- Reporting results
- Electronic reporting



Handouts and Questions



THE FEDERAL FINANCIAL REPORTING MODEL:

Where to

NOW?

By: Harold I. Steinberg, CGFM, CPA

The information in this article is the unofficial view of one of the FASAB members. Official positions of the FASAB are determined only after extensive due process and deliberations.

The Federal Accounting Standards Advisory Board (FASAB) is embarking on a project titled "Reporting Model." The purpose of this project is to revisit agency-level presentations of financial statements first defined in the early 1990s in OMB Bulletin 91-15, "Form and Content of Agency Financial Statements," and "Statement of Federal Financial Accounting Concepts (SFFAC) No. 2, Entity and Display"; and to determine needed improvements.

The Federal Accounting Standards Advisory Board (FASAB) is embarking on a project titled "Reporting Model." The purpose of this project is to revisit agency-level presentations of financial statements first defined in the early 1990s in OMB Bulletin 91-15, "Form and Content of Agency Financial Statements," and "Statement of Federal Financial Accounting Concepts (SFFAC) No. 2, Entity and Display"; and to determine needed improvements.

It is a much-needed project. The current financial reporting model has served well, but updates are required. In the past, financial statements have greatly improved the reliability of the agencies' financial data. In 1991 auditors were able to render an unqualified opinion on only one agency's financial statements, and it required 11 months. By 2011, 21 of the 24 agencies covered by the Chief Financial Officers Act received unqualified opinions 45 days after year-end.

Equally important has been the disclosure of considerable, heretofore unknown or ignored financial information. Examples are supposedly "self-supporting" revolving funds operating at substantial deficits and exceptionally large "receivables" balances determined not to be receivables, much less collectible. Hence, a report titled "The Chief Financial Officers Act of 1990—20 Years Later" stated, "The current financial statement reporting model and independent audit process provide credibility in financial operations and information."¹

But considerable time has passed since the early 1990s, a lot has been learned, and a lot has changed. The above report recommended that FASAB, in consultation with the Council of the Inspectors General on Integrity and Efficiency, "evolve the financial reporting model to better meet the needs of all stakeholders." A task force established by FASAB to study the understanding and use of information in the government-wide financial statements made at least four recommendations that are also pertinent at the agency level. They include a need for more meaningful information in the Statement of Net Cost, spending information, improved performance information and an electronic Web-based reporting method.²

This article provides a perspective for a new agency-level reporting model based on the premise that agency-level financial statements will continue to be required. The fact that most CFO Act agencies routinely receive an unqualified opinion on their financial statements is not evidence that the requirement for annual, independently audited financial statements is no longer valid. Preparing financial statements and subjecting them to audit provides a discipline that assures agencies maintain reliable financial records, and just because an agency receives an unqualified opinion does not mean it will receive one forever. Just ask the Departments of Energy, Labor, or State, the National Aeronautics and Space Administration, or the Federal Aviation Administration.

THE BASIC MODEL

Having established the benefit of and need for financial statements, the first question in regards to evolving the model is "Where should stronger emphasis be placed?" The answer: on the operating statement. With businesses, profit is the objective; the balance sheet is important because it helps users forecast a business's future returns and cash flows. The objective of a government, however, is not profit; it is to provide services. The ideal operating statement, then, is the statement most closely related to services provided because it reveals the cost of those services. Hence, that is where the emphasis should be placed.

The second question is "What kind of operating statement will serve the variety of stakeholders?" Congress and senior managers are concerned with compliance with the budget and available spending authority. The Recovery Act showed that the public, and particularly program beneficiaries, have an interest in spending information. And since it is easy in government to defer payment for services to future periods — which is frequently several years into the future — knowing the full cost of programs and services is important, indeed vital, information. The model, therefore, should provide an operating statement that meets all those needs.

The third question is "How should the information be aggregated or disaggregated in an operating statement?" Congress passed the Government Performance and Results Act (GPRA) and updated it with the GPRA Modernization Act of 2010 (GPRAMA) to improve federal program effectiveness and accountability by "promoting a new focus on results" to "improve service delivery and ... congressional decision-making by providing more objective information." The heart of the Act is that each agency, in consultation with Congress, must define its mission and

FIGURE 1

Department of X
Statement of Budget, Spending and Costs
For the Year Ending September 30, 20XX

	Budget Resources	Obligations	Outlays	Accrued Costs
PROGRAM COSTS:				
Strategic Goal A				
Gross costs	\$xxx	xxx	xxx	xxx
Less: earned revenue	-xxx	-xxx	-xxx	-xxx
Net program costs	xxx	xxx	xxx	xxx
Strategic Goal B				
Gross costs	xxx	xxx	xxx	xxx
Less: earned revenue	-xxx	-xxx	-xxx	-xxx
Net program costs	xxx	xxx	xxx	xxx
Strategic Goal C				
Gross costs	xxx	xxx	xxx	xxx
Less: earned revenue	-xxx	-xxx	-xxx	-xxx
Net program costs	xxx	xxx	xxx	xxx
Totals	\$xxx	xxx	xxx	xxx
(Gain)/Loss on pension, ORB assumption changes				-xxx
Net program costs including assumption changes				x,xxx

strategic goals and thereby specify what it is trying to achieve with the services it is providing. It is logical, therefore, to aggregate the agency's costs by strategic goal in order to identify for Congress and others the amount the agency is expending on each of the strategic goals it is trying to achieve. This also provides the statements' users with dollar amounts against which they can begin to compare the outputs and outcomes achieved for the strategic goals and decide whether the amounts are commensurate with the achievements.

Some agencies have preferred to report their costs by sub-organization (HHS), appropriation (DOD), program (DOL, HUD), and/or fund (GSA). They claim that that is the aggregation Congress understands and wants. For those agencies, the aggregation of costs should still be

organized by strategic goal in order to present how much is expended to pursue the different elements of the mission, with a note used to disclose how those costs can be crosswalked to the sub-organizations, appropriations, programs or funds. In this way, the agencies can provide Congress with the costs arrayed both by goal and by sub-organizations, appropriations, programs or funds.

Equally important, this approach must meet the needs of those who want to know the costs of programs, no matter how the term "program" is used. Many will say that strategic goals are achieved through the conduct of various programs. Thus, the costs of strategic goals would be aggregations of the costs of the programs comprising the strategic goals. The reporting model should encompass disclosure of the costs of an agency's largest programs or at

least the costs of programs of interest based on specified criteria.³

Application of the requirement to disclose the costs of strategic goals and at least some programs would require agencies to ascertain costs at the program level. Hence, the new model would be a major stimulant in agencies, where it has not yet occurred, to the adoption of the cost accounting requirements of the Statements of Federal Financial Accounting Standards No. 4, "Managerial Cost Accounting Concepts and Standards."

The fourth question in developing the basic model is "How should the financial information be presented?" I envision a presentation in which the following information for each strategic goal would be arrayed in four columns (see Figure 1):

- **Column 1** — Budget resources, to present the amount that could be spent for each goal and program
- **Column 2** — Obligations, to present the extent to which the budget resources have been used and, by calculation, the amounts of budget resources still available
- **Column 3** — Outlays, to present what was actually spent for the strategic goals and on the programs
- **Column 4** — Accrual-based costs, to present the full cost for the goal (e.g., costs paid presently, costs paid in prior years, and most importantly, costs yet to be paid)

Although I have labeled this statement a "Statement of Budget, Spending and Costs" to reflect its comprehensiveness, it could well be labeled differently. The important consideration is its content.

Some have said that this format will not provide a good comparison between budget and obligations because the obligations could be against prior year or no-year appropriations. Although that is true, for an obligation to be made there must be budget resources — which is different from budget authority.⁴ Hence, the second column would be total budget resources available, regardless of source, so users can see how much of those resources have been both obligated and not yet obligated.

ADDING THE PERFORMANCE ELEMENT TO THE MODEL

The new reporting model should also address performance information. The agencies are already required by the GPRA and GPRAMA to report performance information. SFFAC 2, "Entity and Display," and SFFAS 15, "Management's Discussion and Analysis," require that agency **financial** statements include performance information. Since the financial reporting model will address reporting the use and results of financial resources, it seems only logical that the FASAB statement also address performance information, e.g., the results, as well as address financial **information**.

Fortunately, the Governmental Accounting Standards Board (GASB) has already identified six qualitative characteristics that represent the attributes performance information should possess in order to effectively communicate performance to users.⁵ They are:

- **Relevance** — The performance information should have a close logical relationship to the purpose for which it is intended to be used and capable of making a difference in a user's assessment.
- **Understandability** — The performance information should be readily understandable and include explanations and interpretations to help users comprehend the information.
- **Comparability** — Users should be able to make comparisons in order to have a basis and context for assessing performance.
- **Timeliness** — The performance information should be reported to users before it loses its value for assessing accountability and informing decisions.
- **Consistency** — The performance measures should be reported in the same way over time.
- **Reliability** — Performance information should be verifiable, objective, comprehensive in coverage and faithfully representative.

Research reveals another characteristic that is important if performance information is to be **useful** for decision-making. That characteristic is "Actionable." The information should be able to point to whether or not actions are needed and whether or not decisions can be made that will affect behavior and/or outcomes.

GASB also identified some essential components of reports containing performance measures that deserve consideration. Reporting should be limited to the key measures so that readers can focus on the essentials. There must be links between the goals and measures. Analytical information is essential to understanding performance, such as challenges, why targets were not met, plans for meeting unmet targets, reasons targets have been exceeded and reasons why targets have changed.

Finally, GASB addresses what is necessary for effective communication of performance **information**. This includes such matters as iden-

tifying and considering the intended users of the **performance** information and considering whether they can be satisfied with references or drill-downs to additional information.

In other words, the framework for the new reporting model can and should provide guidance for reporting performance information in the Performance and Accountability Reports and Agency Financial Reports. Even though GASB's work provides a solid foundation, it would need to be tailored to the federal environment.

ADDING THE ELECTRONIC REPORTING ELEMENT

This leads to a possible third element in the new model: electronic reporting, a recommendation of the FASAB Financial Reporting Model Task Force.⁶ The initial reaction of many, however, is that electronic reporting is a matter for preparers and auditors, not accounting standards.

The advertisement features a background image of a person's hands using a calculator. Overlaid on this is a large pink rectangle containing the text "Audimation 1/3 pg p/u Fall12". Above the pink rectangle, the "IDEA Data Analysis Software" logo is visible. Below the pink rectangle, there is a QR code and some smaller text about improving results and extending capabilities with IDEA, along with contact information for a free demo.

Audimation
1/3 pg
p/u Fall12

IDEA Data Analysis Software

Improve results and extend your capabilities with IDEA. For a free demo, contact sales@audimation.com or call 888-641-2800.

Keep in mind, there are numerous accounting/reporting issues associated with electronic reporting. Examples include:

- What are the boundaries of an electronic financial report?
 - ▶ Should there be a statement identifying the contents and structure of a financial report based on generally accepted accounting principles (GAAP)?
 - ▶ Should there be a warning message showing when the boundaries of the financial report have been crossed?
- What markings are necessary for information accessible through but provided outside of the GAAP-based financial report?
 - ▶ How should the markings address potential departures from the principles established for the GAAP-based financial report?
- Should the excerpts from a GAAP-based financial report provide a reference to the complete financial report?
- What kind of linking is necessary to the significant accounting principles used to prepare the financial statements?
- Should a notation that the financial information has been audited be required on the Web pages?
- What kind of dating is necessary for the Web pages?
- What type of access to historical information should be available?

In actuality, these issues are currently having no impact on the preparers and probably little impact on the users. For the preparers, electronic reporting facilitates making information more readily available, complete and timely. For the users, electronic reporting facilitates access. For these reasons, electronic reporting is becoming popular among both groups.

The Board can therefore wait and issue statements that confirm what will become common practices, or it can get ahead of the curve and help both preparers and users by setting meaningful guidelines.

CONCLUSION

Implementing the above ideas would be a big order. For some agencies, some of the above notions would be a significant change. For all agencies, there would be lots of pieces to absorb.

But the federal government has been working with the current financial reporting model for twenty years. Although that model helped launch the financial management improvement process and provides considerable useful information today, there is increasing demand for disaggregated information and electronic access.

Also, while there are strong voices calling for evolution, such as the recommendation in the Chief Financial Officers Council and the Council of the Inspectors General on Integrity and Efficiency report, "The Chief Financial Officers Act of 1990—20 Years Later," there are also expressions of dissatisfaction with the existing model and calls for more substantial changes.

It would be hard not to support a measured effort to develop a new financial reporting model that will serve the new needs. ■

End Notes

1. "The Chief Financial Officers Act of 1990—20 Years Later," a report of the Chief Financial Officers Council and the Council of the Inspectors General on Integrity and Efficiency, July 2011, required by the Improper Payments Elimination and Recovery Act of 2010.

2. "Financial Reporting Model Task Force Report to the FASAB: Electronic Web-based Financial Reporting," December 2010.

3. Congress has already expressed an interest in the budget resources provided by each program. Section 1122(a) of the Government Performance and Results Modernization Act of 2010 requires an identification of each agency's programs, consistent with guidance provided by the Office of Management and Budget, and an identification of the funding for those programs for the current and previous two fiscal years.

4. "Budget authority" is the authority provided by law to enter into financial obligations that will result in immediate or future outlays involving federal government funds. The basic forms are 1) appropriations, 2) borrowing authority, 3) contract authority, and 4) spending authority from offsetting collections and receipts. "Budgetary resources" is a broader term. It includes not only new budget authority, but also unobligated balances from prior years' budget authority, direct spending authority and obligation limitations.

5. SEA Performance Information: The Governmental Accounting Standards Board's Suggested Guidelines for Voluntary Reporting, Governmental Accounting Standards Board, Norwalk, CT, 2010.

6. Ibid.



Harold (Hal) I. Steinberg, CGFM, CPA, was appointed in 1991 as the first Deputy Controller/Acting Controller for the Office of Federal

Financial Management to oversee the implementation of the recently-enacted Chief Financial Officers Act. He previously served in the Office of Management and Budget as the Associate Director for Management; and as a partner in KPMG, first as head of the state and local government practice, and then as head of the Federal government practice. He is a member of the Federal Accounting Standards Advisory Board and of AGA, where he directs the Certificate of Excellence in Accountability Reporting program.

REPORTING MODEL
POSSIBLE OUTLINE FOR A CONCEPTS STATEMENT

INTRODUCTION

1. Statement of Federal Financial Accounting Concepts 2, *Entity and Display*, established a conceptual framework for a reporting model for Federal agencies.
2. The conceptual framework became the foundation for the form and content of agency financial statements that the Office of Management and Budget (OMB) is statutorily required to prescribe.
3. The framework and the form and content enabled the agencies to generally fulfill the objectives for financial reporting set forth in Statement of Federal Financial Accounting Concepts 1, *Objectives of Financial Reporting*.
4. Specifically, the framework identified that the Federal government's financial reporting objectives can be met with "stock" statements that present financial information as of a particular point of time, and by "flow" statements that provide information for a period of time.
5. The framework also recognized that one of the reporting objectives is concerned with budgetary integrity, namely a) how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization, and c) the status of the budgetary resources, and c) how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities. Hence a report would be needed to enable that objective to be met
6. Statement of Federal Financial Accounting Concepts 2 then suggested that the reporting objectives could be met by reporting entities (i. e., Federal agencies) with the issuance of the following basic financial statements:
 - Balance Sheet
 - Statement of Net Cost
 - Statement of Changes in Net Position
 - Statement of Custodial Activities, when appropriate
 - Statement of Budgetary Resources
7. Statement of Federal Financial Accounting Concepts 2 also specified that a Statement of Program Performance Measures, although not a basic financial statement, is nevertheless an important component of a financial report and should be issued by the reporting entities.

8. The framework suggested in Statement of Federal Financial Accounting Concepts 2 was adopted by OMB for the form and content of agency financial statements, first in a series of Bulletins, and subsequently in Office of Management and Budget Circular A-136, *Financial Reporting Requirements*. More specifically, not only were the above financial statements were required. In light of the Budgetary Integrity sub-objective, ***how information on the use of budgetary resources relates to information on the costs of program operations***, an additional Statement of Financing was added that reconciled obligations incurred, which is determined from the budgetary accounting. to the net costs, which is determined from the financial accounting. Also, agencies were required to include in the document containing the financial statements, a Performance Section that was analogous to the Statement of Program Performance Measures.

DEVELOPMENTS SINCE ISSUANCE OF SFFAC 2

9. This reporting model and the resulting statements have generally been followed for the past twenty years. The only changes have been:
 - OMB determined that the Statement of Financing is actually a reconciliation between two basis of accounting and that the disclosures in the Statement would be more appropriate to present in a footnote.
 - The Federal Accounting Standards Advisory Board (FASAB) recognized that the Federal government operates several social insurance programs, e. g., Social Security, Medicare, for which the Stewardship objective is particularly germane. Hence it issued standards requiring agencies that operate such programs to issue statements that enable users to assess **whether future budgetary resources will likely be sufficient to sustain these public services and meet obligations as they come due.**
 - **OMB permitted the agencies to delete from their financial reports, the Performance Section (which was analogous to the Statement of Program Performance), and instead issue the performance information in a separate document several months after the basic financial statements are issued.**
10. Considerable time has passed since definition of the original reporting model in Statement of Federal Financial Accounting Concepts 2. Hence, the views of how the reporting model should meet the reporting objectives have changed. For example:
 - The enactment of the Government Performance and Results Act and Government Performance and Results Act Improvement Act Modernization Act have placed emphasis on the importance of establishing and working toward accomplishment of strategic goals, improving the effectiveness and efficiency of Federal programs and spending, and reporting the results in an integrated manner.

- User groups established by FASAB have stated a desire to know the costs of the programs and services the Federal agencies provide.
 - User groups have also stated that the financial information reported by the agencies needs to be integrated with the budgetary information which is used to enact appropriations and manage spending.
 - The Coburn-Obama Act, www.spending.gov, and the establishment of www.recovery.gov following enactment of the American Recovery and Reinvestment Act revealed a significant interest in the spending of the Federal dollars.
 - The Chief Financial Officers Council and OMB decided to fulfill this interest by experimenting with a statement that provides an overview of how and where agencies are spending money.
 - A Task Force established by FASAB to study the financial reporting model recommended that FASAB explore how best to report additional government-wide performance information. It also recommended the establishment of minimum requirements for a Schedule of Spending.
11. The above developments do not indicate any concern with the stock statement, that is the reporting of what the agencies own and/or owe. The concern is with the flow statements, and an expectation that, ideally, they would reveal the monies budgeted, intended to be spent, actually spent, and accrued but unspent for services; and the results of those expenditures.
12. Moreover, the ideal flow statement would attempt to fulfill the above information desires/needs without being overly complex or difficult to understand.

MODEL FOR A NEW FLOW STATEMENT

13. The first matter to address is how to organize the flow statement. One could argue that Congress stated in the Government Performance and Results Act and Government Performance and Results Act Improvement Act that it wanted to promote a new focus on results and improve service delivery. Hence, organizing the flow statements in accordance with the strategic goals the agencies establish to define and guide the delivery of services would be the simplest way for users to assess what is budgeted, intended to be spent, actually spent, and accrued but unspent for those services.
14. Organizing the flow statements in accordance with the strategic goals the agencies establish would also enable users to compare the financial amounts against the results achieved for the strategic goals and decide whether the amounts are commensurate with the results.
15. Despite the appropriateness of organizing the flow statement in accordance with strategic goals, in some instances, current practice is to organize the flows by organization, appropriation, program, and/or fund. Although this might be because of a perceived Congressional desire to aggregate the flows in accordance with other than the strategic goals,

it need not preclude organizing by strategic goal. The flows can be organized by strategic goal as well as cross-walked to an organization of the flows by organization, appropriation, program, or fund.

16. It is only twenty some years since agencies have been required to issue financial statements presenting monetary flows. Another reason, therefore, that flows have been organized by organization, appropriation, program, and/or fund, rather than by strategic goal, could be a continuing systems inability to capture the information in accordance with the strategic goals. That, however, should not preclude presenting information in a manner that enables users to assess the various dimensions of the flows.
17. Moreover, meeting the above information needs requires the presentation of flows in accordance with strategic goals for several dimensions: the amounts of budgetary resources available during the reporting period; the amounts of budgetary resources expected to be used, the amounts actually spent during the reporting period; and the amounts incurred for each, even if not spent.

PRESENTATION OF BUDGETARY RESOURCES AND THEIR USE

18. The amounts of available budgetary resources are presented in the current reporting model in a separate Statement of Budgetary Resources. This statement presents detailed information about the many types of budget authority; the status of that authority; the use of that authority, i. e., obligations; and the outlays for an entire reporting entity. In fact, the statement is a combination of all of the SF-133s, *Report on Budget Execution and Budgetary Resources*, that an agency must submit to OMB. The SF-133 is a complex report which is used to monitor execution of individual budget accounts, is understandable almost solely by budget personnel.
19. In presenting budget information, it is more appropriate for a flow statement to present the kind of information with which readers can assess the actual flows in comparison to the expected or projected, i. e., budgeted, flows. In this way, users could ascertain whether an entity used more than the budget resources, it did not use the full amount, and/or the extent to which budget resources remain and could be made available for other purposes.
20. It is important to note that budget resources are different than budget authority. Budget authority represents what has been enacted during a reporting period. Obligations and expenditures can be made against prior year budget authority and no-year budget authority. On the other hand, obligations or expenditures cannot be made unless there are budgetary resources. Therefore, the more appropriate value for representing what is expected to be used is budgetary resources, not budget authority.
21. Governments use two types of accounting. Budgetary accounting enables a government to be sure that it does not expend more than it has projected or budgeted to expend. Financial accounting enables a government to ascertain its assets, its liabilities, and the costs of the services that it provides.

22. Statement of Federal Financial Accounting Concepts 1, *Objectives of Financial Reporting*, identified four major groups of users of Federal financial statements: Congress, citizens, executives, and program managers.
23. One user group, Congress, is responsible, according to the U. S. Constitution, for authorizing through a budget, the monies the agencies are allowed to expend. It tends to make decisions based on the amounts reported with budgetary accounting.
24. The other user groups, namely the citizens who pay for the services the government provides, and the executives and managers, who must manage the delivery of the services, are likely to find the information available from financial accounting more informative and useful, particularly for controlling costs.
25. Considering that the funding decisions are made by Congress, who relies upon the information provided by budgetary accounting, the information made available with financial accounting will not be as useful to Congress, and may, as a result, not be of interest to the executives or managers either.
26. Some governments can address this conundrum because their legislatures prepare budgets using the accrual basis upon which financial accounting is based and which recognizes assets, liabilities, and costs. The financial statements of these governments can be used to both monitor budget execution and ascertain assets, liabilities, and costs.
27. It is still possible for a government that does not budget on the accrual basis to adopt a reporting model that uses a single financial statement to meet both needs. Presenting the budgetary resources by strategic goal is the first part of that financial statement. The next part would be presentation of the extent to which the budgetary resources have been used, again in accordance with the entity's strategic goals.
28. In the Federal government, issuance of a written, legal document that binds the government to pay for goods or services when received is deemed to be the use of budgetary resources. It is called an obligation. Therefore, reporting the obligations by strategic goal, which could then be compared against the budgetary resources by strategic goal, would enable entities to report both the use of the budgetary resources appropriated for each strategic goal and their status.

PRESENTING SPENDING

29. As stated, there is considerable interest in the amounts of monies the Federal government actually spends. This has been confirmed by the number of hits on both www.spending.gov and www.recovery.gov.
30. Hence, in concert with the Chief Financial Officers Council, OMB has developed a Schedule of Spending to address this apparent interest in spending information. In a section titled What Money is Available to Spend, the Statement presents a) Total Resources, which is the same as Budgetary Resources, and b) Total Amounts Agreed to be Spent, which are the

entity's Obligations. These amounts are presented for the entity as a whole rather than for individual strategic goals, organizations,, programs, etc.

31. The next step in the flow of funds is the actual spending of the money, which the Federal government characterizes as "outlays." These are the amounts that citizens are likely to be even more interested in than the amounts the government agreed to spend.
32. The outlay amounts are also likely to be important information for the Congress because outlays are one of the determining factors in whether the government has a surplus or a deficit.

PRESENTING TOTAL COSTS

33. Unfortunately, the outlay amounts do not reflect the total costs of an endeavor. Some costs could have been paid for in prior years. More importantly, there are frequently significant costs that do not have to be paid for until the future. Pension costs for the employees, accrued leave, and environmental cleanup costs are just a few examples. It is important to know the total costs, both to know what still has to be paid for and to compare the costs to what is being received for incurring the costs, that is, the results for the strategic goals. .
34. Agencies tend to have a limited number of strategic goals, generally four to six, which means the typical agency would present information for only four to six flows. This would not meet the needs of those who stated a desire to know the costs of the programs and services the Federal agencies provide, or discrete activities such as a war.
35. The problem in establishing a uniform lower level of activity in which agencies can report flows is that each agency is organized differently, has different constituencies with different interests, and provides different programs, services, and activities.
36. On the other hand, since each agency is cognizant of its most important programs, services, and activities, as well as those in which there is the most constituency and other interest, selecting a limited number, say five or so, and reporting budgetary resources, obligations, outlays, and accrued costs for those programs and activities would meet those users' needs. It would not matter whether the programs or activities support a single strategic goal or two or more strategic goals.
37. FASAB issued Statement of Federal Financial Accounting Standards 4 *Managerial Cost Accounting*, in order that Federal agencies would provide reliable and timely information on the full cost of federal programs and activities and their outputs. The Standard has five requirements:
 - Each reporting entity should accumulate and report the costs of its activities on a regular basis for management information purposes.
 - Management of each reporting entity should define and establish responsibility segments.

- Reporting entities should report the full costs of outputs in general purpose financial reports.
- Each entity's full cost should incorporate the full cost of goods and services that it receives from other entities.
- Costs of resources consumed by responsibility segments should be accumulated by type of resource.

These requirements, which are at an extremely high level, assure reliable and timely cost information at only the level at which flows are currently reported, i. e., strategic goals, sub-organizations, appropriations, or funds. Reporting flow information for the limited number of programs or activities drawing significant constituent interest would meet the needs of users interested in the flows for specific programs, activities, etc., plus drive the adoption of cost accounting and the use of cost information deeper into the Federal agencies.

PERFORMANCE INFORMATION

38. As stated, Statement of Federal Financial Accounting Concepts 2, *Entity and Display*, suggested that a Federal agency's financial report should include a Statement of Program Performance Measures. This suggestion was met by the Form and Content requirement for the inclusion of a Performance Section in a Performance and Accountability Report. With the OMB-permitted removal of the Performance Section from Performance and Accountability Reports, the reporting of performance information by some agencies has been limited to historical performance trend data for the entity's strategic goals and selected key performance measures associated with those goals.
39. There are several reasons why agency financial reports should present performance information.
 - Statement of Federal Financial Accounting Concepts, *Objectives of Financial Reporting* states Federal financial reporting should provide information that helps the reader to determine the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs.
 - A report that purports to present the flow of resources is not complete unless it presents the results of the use of the resources.
 - Including performance information in an integrated financial report enables users to assess how much the reported outputs and outcomes are costing and whether they are worth the costs.
 - The FASAB Task Force recommendation that FASAB study how best to report additional government-wide performance information is based on the premise that the agency financial reports should present more performance information

40. Not only does this suggest the need for reiteration of the suggestion for a Statement of Program Performance Measurement. Since Federal agencies are required by the Government Performance and Results Act, as amended, to report performance information annually, it would be appropriate for a concepts statement to address the key components for a report of performance measures. Examples are the importance of identifying and considering the intended users of the performance information; considering the extent to which their needs should be addressed with references or drilldowns to additional information; the importance of assuring linkages between the measures and the strategic and performance goals; limiting the reporting to the “key” measures in order that readers can focus on the essentials; providing sufficient analytical information, e. g., challenges, why targets were not met, the plans for meeting unmet targets, the reasons targets have been exceeded, the reasons why targets have changed, all of which is essential to fully understanding performance.
41. Statement of Federal Financial Accounting Concepts 1 also describes the qualitative characteristics that financial information needs in order to be effective. Relating those qualitative characteristics, as well as an additional characteristic—e. g., Actionable—to performance information could provide further guidance for determining the most effective way to report performance information . Actionable means the information should be able to point to whether actions are needed and whether decisions that hopefully will affect behavior and/or outcomes can be made.

ROLE OF ELECTRONIC REPORTING

42. Financial reporting has traditionally been comprised of paper-based historical reports. The availability of technology has accelerated the demand for information. It has also enabled, indeed stimulated, the delivery of information through additional mechanisms and in additional formats.
43. If agencies are to report electronically, it might be appropriate to establish parameters for such matters as:
- the boundaries of the electronic financial report. It might be desirable to have a statement identifying the contents and structure of a generally accepted accounting principles (GAAP)-based financial report and a warning message showing when the boundaries of that financial report have been crossed;
 - the markings necessary for information accessible through the GAAP-based financial report, but provided outside of the GAAP-based financial report, and whether and how the markings should address departures, if any, from the principles established for the GAAP-based financial report;
 - whether excerpts from a GAAP-based financial statements should provide a reference to the complete financial report

- whether a linking is necessary to the significant accounting principles used to prepare the financial statements;
- whether a notation that the financial information has been audited should be required on the web pages
- the kind of dating needed for the web pages; and
- the type of access that should be made to available historical information

Michael H. Granof

Proposed Changes to Federal Reporting Model

Michael Granof

Unique Characteristics of the Federal Government

- the range of its activities (e.g. defense, Social Security, and managing the money supply);
- the diversity of its resources (e.g. national parks and monuments, stores of gold bullion, and military hardware);
- the nature of its obligations (e.g. Social Security benefits, loan guarantees, and commitments to carry out social programs);
- the role of the budget and the manner in which it is formulated;
- the extent of its powers (e.g. to tax, to print currency and to regulate commerce).

Four Key Objectives Per Concepts Statement No. 1

- Budgetary integrity
- Stewardship
- Operating Performance
- Systems and Control

Key Users Per Concepts Statement No. 1

- Citizens
- Congress
- Executives
- Project Managers

Key Deficiencies of Reporting Model

- It is still rooted in the mid-20th century
- Little evidence that it is used by intended users (e.g., citizens, Congress, executives, project manager)
 - Unclear to whom agency statements are directed
 - They are unintelligible except to experts
 - Main virtue is that they impose discipline on the accounting system
- Although it provides information on costs
 - operating performance implies a need for measures of efficiency
 - Costs are not associated with either objectives or measures of performance

Key Deficiencies of Reporting Model (Cont'd)

- It provides information on budgetary integrity but only in a legal sense
 - Agency statements focus on budgetary resources
 - Budget is on a cash basis, is based on estimates that may be unreliable, and does not always capture anticipated costs; lacks the discipline that would be imposed by actual to budget comparisons.
- Although managing the money supply is a key function of government, it fails (at the government-wide level) to provide key data on the financial position of the Federal Reserve System and the transactions in which it engages

Retain Statement of Net Cost But Link it to Statements of Organizations

**United States Government
Statement of Net Cost
for the Year Ended September 30, 2012 (See Note 1.U.)**

(In billions of dollars)

	Gross Cost	Earned Revenue	Subtotal	Loss from Changes in Assumptions	Net Cost
Department of Health and Human Services	922.4	67.8	854.6	0.3	854.9
Social Security Administration	822.9	0.3	822.6	-	822.6
Department of Defense	769.6	56.0	713.6	70.4	784.0
Department of Veterans Affairs	209.9	4.1	205.8	149.3	355.1
Interest on Treasury Securities Held by the Public	245.4	-	245.4	-	245.4
Department of Agriculture	158.8	12.0	146.8	-	146.8
Office of Personnel Management	82.0	19.1	62.9	96.9	161.8
Department of Labor	102.6	-	102.6	-	102.6
Department of Transportation	77.3	0.8	76.5	-	76.5
Department of Homeland Security	58.9	9.9	49.0	0.4	49.4
Department of Housing and Urban Development	74.0	1.5	72.5	-	72.5
Department of Energy	60.2	4.3	55.9	-	55.9
Department of Justice	38.8	1.3	37.5	-	37.5
Department of State	29.5	3.5	26.0	0.8	26.8
National Aeronautics and Space Administration	18.1	0.2	17.9	-	17.9
Department of the Interior	21.7	2.7	19.0	-	19.0
Agency for International Development	11.4	0.2	11.2	-	11.2
Department of Education	62.6	20.0	42.6	-	42.6
Federal Communications Commission	10.0	0.4	9.6	-	9.6
Railroad Retirement Board	15.2	5.1	10.1	-	10.1
Environmental Protection Agency	10.7	0.3	10.4	-	10.4
Department of Commerce	12.0	2.6	9.4	-	9.4
National Science Foundation	7.3	-	7.3	-	7.3
U.S. Postal Service	81.5	64.2	17.3	-	17.3
Smithsonian Institution	0.7	-	0.7	-	0.7
Small Business Administration	1.5	0.4	1.1	-	1.1
U.S. Nuclear Regulatory Commission	1.0	0.8	0.2	-	0.2
Export-Import Bank of the United States	1.2	0.8	0.4	-	0.4
Farm Credit System Insurance Corporation	-	0.1	(0.1)	-	(0.1)
Pension Benefit Guaranty Corporation	20.2	10.4	9.8	-	9.8
Securities and Exchange Commission	1.2	1.6	(0.4)	-	(0.4)
Tennessee Valley Authority	11.0	11.3	(0.3)	0.1	(0.2)
General Services Administration	0.1	0.5	(0.4)	-	(0.4)
National Credit Union Administration	1.3	1.0	0.3	-	0.3
Federal Deposit Insurance Corporation	2.4	19.3	(16.9)	-	(16.9)
Department of the Treasury	(152.9)	27.5	(180.4)	-	(180.4)
All other entities	54.4	0.8	53.6	-	53.6
Total	3,844.9	350.8	3,494.1	320.2	3,814.3

Link Department Statement of Net Cost to Specific Programs

CONSOLIDATED STATEMENT OF NET COST		
For the Years Ended September 30, 2012 and 2011		
(Dollars in Thousands)		
	2012	2011
NET COST OF OPERATIONS (Note 1-S and 15)		
CROSSCUTTING PROGRAMS		
Income maintenance		
Gross cost	\$ 100,682,210	\$ 129,233,668
Less earned revenue	(4,338,716)	(4,335,839)
Net program cost	96,343,494	124,897,829
Employment and training		
Gross cost	6,695,330	7,658,729
Less earned revenue	(10,606)	(13,914)
Net program cost	6,684,724	7,644,815
Labor, employment and pension standards		
Gross cost	851,197	836,184
Less earned revenue	(10,059)	(9,944)
Net program cost	841,138	826,240
Worker safety and health		
Gross cost	1,058,194	996,362
Less earned revenue	(4,282)	(4,028)
Net program cost	1,053,912	992,334
OTHER PROGRAMS		
Statistics		
Gross cost	682,894	683,562
Less earned revenue	(13,286)	(11,320)
Net program cost	669,608	672,242
COSTS NOT ASSIGNED TO PROGRAMS		
Gross cost	81,176	60,472
Less earned revenue not attributed to programs	(22,166)	(22,774)
Net cost not assigned to programs	59,010	37,698
Net cost of operations	\$ 105,651,886	\$ 135,071,158

Link Program Costs to Major Goals

A. Consolidating Statement of Net Cost by Major Program Agency

Net cost by major program agency for the year ended September 30, 2012 consisted of the following:

<u>(Dollars in thousands)</u>	<u>Employment and Training Administration</u>	<u>Office of Workers' Compensation</u>	<u>Office of Job Corps</u>	<u>Occupational Safety and Health Administration</u>
CROSSCUTTING PROGRAMS				
Income maintenance				
Intra-governmental	\$ 1,364,953	\$ 325,022	\$ -	\$ -
With the public	93,636,205	5,324,918	-	182
Gross cost	95,001,158	5,649,940	-	182
Intra-governmental earned revenue	(1,319,939)	(3,018,284)	-	-
Public earned revenue	-	(22)	-	-
Less earned revenue	(1,319,939)	(3,018,306)	-	-
Net program cost	93,681,219	2,631,634	-	182
Employment and training				
Intra-governmental	37,027	-	33,428	-
With the public	4,644,930	-	1,735,523	-
Gross cost	4,681,957	-	1,768,951	-
Intra-governmental earned revenue	(10,323)	-	-	-
Public earned revenue	(28)	-	-	-
Less earned revenue	(10,351)	-	-	-
Net program cost	4,671,606	-	1,768,951	-
Labor, employment and pension standards				
Intra-governmental	-	-	-	-
With the public	-	-	-	-
Gross cost	-	-	-	-
Intra-governmental earned revenue	-	-	-	-
Public earned revenue	-	-	-	-
Less earned revenue	-	-	-	-
Net program cost	-	-	-	-
Worker safety and health				
Intra-governmental	-	-	-	126,394
With the public	-	-	-	517,626
Gross cost	-	-	-	644,020
Intra-governmental earned revenue	-	-	-	(1,363)
Public earned revenue	-	-	-	(1,225)
Less earned revenue	-	-	-	(2,588)
Net program cost	-	-	-	641,432
OTHER PROGRAMS				
Statistics				
Intra-governmental	-	-	-	-
With the public	-	-	-	-
Gross cost	-	-	-	-
Intra-governmental earned revenue	-	-	-	-
Public earned revenue	-	-	-	-
Less earned revenue	-	-	-	-
Net program cost	-	-	-	-
COSTS NOT ASSIGNED TO PROGRAMS				
Gross cost	-	-	-	-
Less earned revenue not attributed to programs	-	-	-	-
Net cost not assigned to programs	-	-	-	-
Net cost of operations	\$ 98,352,825	\$ 2,631,634	\$ 1,768,951	\$ 641,614

Link Major Goals to Performance Measures and to Costs

ETA contributes to the following Departmental goals in support of the Department's vision of good jobs for everyone:

Outcome Goal 1.1 – Increase workers' incomes and narrow wage and income inequality.

Outcome Goal 1.2 – Assure skills and knowledge that prepare workers to succeed in a knowledge-based economy, including in high-growth and emerging industry sectors like "green" jobs.

Outcome Goal 1.3 – Help workers who are in low-wage jobs or out of the labor market find a path into middle class jobs.

Outcome Goal 1.4 – Help middle-class families remain in the middle class.

Outcome Goal 1.5 – Secure wages and overtime.

Statement of Performance Measures and Costs

ETA – Increase the average earnings of individuals served through the Workforce Investment Act (WIA), Registered Apprenticeship, Community Service Employment for Older Americans (CSEOA), Job Corps, and Trade Adjustment Assistance (TAA) Programs

*Target reached (Y), Improved (I), or Not Reached (N)		FY/PY 2008	FY/PY 2009	FY/PY 2010	FY/PY 2011	FY/PY 2012	FY/PY 2013	FY/PY 2014	What Worked	What Didn't Work	Program Performance Improvement Plan
Six Months Average Earnings (Apprenticeship)	Target	--	Base	\$19,324	\$19,352	\$19,352	\$19,999	\$23,682	Six Months' Average Earnings has increased by \$3,074 since FY 2010. This corresponds to a drop in the construction industry's annual unemployment rate from 20.6% in 2010 to 13% in 2012.		ETA will continue technical assistance strategies that help sponsors increase the numbers of apprentices who complete their programs.
	Result	--	\$20,566	\$20,335	\$22,210	\$23,409	--	--			
	Status	--	--	Y	Y	Y	--	--			
Six Months Average Earnings (WIA Adult)	Target	\$12,862	\$13,741	\$12,721	\$12,865	\$14,450	\$14,765	\$15,086	WIA Adult met its goal for wage earnings in PY 2011. This is an indicator that participant earnings are beginning to return to pre-recession economic downturn rates.	WIA Adult prioritizes resources to be spent on low-income individuals, which may result in lower earnings data compared to other programs.	ETA will continue to promote credential attainment, which is shown to have a strong impact on entering employment, increasing wages, and providing employment security to jobseekers.
	Result	\$14,649	\$13,712	\$13,801	\$13,457[r]	--	--	--			
	Status	Y	N	Y	Y	--	--	--			
Six Month Average Earnings (Dislocated Worker)	Target	\$14,888	\$15,542	\$15,238	\$15,418	\$18,346	\$18,737	\$19,136	Wages for DW placements exceeded their target for PY 2011, indicating improved quality of employment placements.		ETA will use guidance to continue to promote credential attainment to the workforce system; credential attainment is shown to have a strong impact on increasing wages to jobseekers.
	Result	\$16,167	\$16,804	\$17,550	\$16,516	--	--	--			
	Status	Y	Y	Y	Y	--	--	--			
Six Months Average Earnings (TAA)	Target	\$14,050.00	\$13,386.00	\$12,214.00	\$13,074.00	\$13,248.00	\$13,660.00	\$19,381.00	Positive outcomes are a result of continued focus on employment and case management services which has led to effective service strategies.		
	Result	\$14,281.00	\$15,087.00	\$14,214.00	\$18,184.00	\$18,787.00	--	--			
	Status	Y	Y	Y	Y	Y	--	--			
Six Month Average Earnings (INAP)	Target	\$9,157.00	\$9,174.00	\$9,261.00	\$9,363.00	\$10,660.00	\$10,894.00	\$11,133.00	WIA Indian and Native American grantees tailored training opportunities to the needs of low-skilled adults in order to improve quality job placements and career advancement.	Although the target was met, there are still fewer jobs in high growth, high wage occupations available in tribal territories.	ETA will continue to emphasize combined education and occupational skills training to maximize placing customers on a positive career path.
	Result	\$9,780.00	\$9,853.00	\$10,175.00	\$9,858.00	--	--	--			
	Status	Y	Y	Y	Y	--	--	--			

Who but an expert can understand this statement?

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION For the Years Ended September 30, 2012 and 2011 (Dollars in Thousands)						
	2012			2011		
	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total
Cumulative results of operations, beginning	\$ (33,466,525)	\$ (8,471,933)	\$ (41,938,458)	\$ (23,762,133)	\$ (5,785,202)	\$ (29,547,335)
Budgetary financing sources (Note 1-T)						
Appropriations used	-	51,574,836	51,574,836	-	63,729,728	63,729,728
Non-exchange revenue (Note 16)						
Employer taxes	63,653,314	-	63,653,314	52,679,104	-	52,679,104
Interest	1,586,958	3,996	1,590,954	1,886,494	1,402	1,887,896
Reimbursement of unemployment benefits	3,457,681	(9,110)	3,448,571	4,035,503	(21,582)	4,013,921
Total non-exchange revenue	68,697,953	(5,114)	68,692,839	58,601,101	(20,180)	58,580,921
Transfers without reimbursement (Note 17)	35,770,127	(35,545,276)	224,851	45,540,978	(45,333,891)	207,087
Other financing sources (Note 1-U)						
Imputed financing from costs absorbed by others	3,462	121,680	125,142	4,787	153,249	158,036
Transfers without reimbursement (Note 17)	-	966	966	-	2,075	2,075
Other	-	(3,321)	(3,321)	2,950	(762)	2,188
Total financing sources	104,471,542	16,143,771	120,615,313	104,149,816	18,530,219	122,680,035
Net cost of operations	(89,338,088)	(16,313,798)	(105,651,886)	(113,854,208)	(21,216,950)	(135,071,158)
Net change	15,133,454	(170,027)	14,963,427	(9,704,392)	(2,686,731)	(12,391,123)
Cumulative results of operations, ending	(18,333,071)	(8,641,960)	(26,975,031)	(33,466,525)	(8,471,933)	(41,938,458)
Unexpended appropriations, beginning	-	9,210,647	9,210,647	-	10,539,272	10,539,272
Budgetary financing sources (Note 1-T)						
Appropriations received (Note 18-F)	-	62,229,387	62,229,387	-	67,405,860	67,405,860
Appropriations used	-	(51,574,836)	(51,574,836)	-	(63,729,728)	(63,729,728)
Appropriations transferred	-	(4,505)	(4,505)	-	20,157	20,157
Other adjustments	-	(9,384,430)	(9,384,430)	-	(5,024,914)	(5,024,914)
Subtotal	-	1,265,616	1,265,616	-	(1,328,625)	(1,328,625)
Unexpended appropriations, ending	-	10,476,263	10,476,263	-	9,210,647	9,210,647
Net position	\$ (18,333,071)	\$ 1,834,303	\$ (16,498,768)	\$ (33,466,525)	\$ 738,714	\$ (32,727,811)

From where did this number come?

Or this?

COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2012 and 2011
(Dollars in Thousands)

(Note 1-Z)	2012	2011
BUDGETARY RESOURCES		
Unobligated balance brought forward, October 1	\$ 3,376,261	\$ 4,191,543
Recoveries of prior year unpaid obligations	369,860	436,261
Other changes in unobligated balance	(128,341)	(298,581)
Unobligated balance from prior year budget authority, net	3,617,780	4,329,223
Appropriations (discretionary and mandatory) (Note 18-F)	136,219,806	160,845,900
Borrowing authority (discretionary and mandatory)	12,378,421	22,007,749
Spending authority from offsetting collections (discretionary and mandatory)	8,460,059	8,128,492
Total budgetary resources	\$ 160,676,066	\$ 195,311,364
STATUS OF BUDGETARY RESOURCES		
Obligations incurred (Note 18-A)	\$ 156,284,367	\$ 191,935,103
Unobligated balance, end of year		
Apportioned	1,764,188	1,189,123
Exempt from apportionment	56,721	62,478
Unapportioned	2,570,790	2,124,660
Total unobligated balance, end of year	4,391,699	3,376,261
Total budgetary resources	\$ 160,676,066	\$ 195,311,364
CHANGE IN OBLIGATED BALANCE		
Unpaid obligations brought forward, October 1	\$ 15,787,223	\$ 18,448,078
Less: uncollected customer payments from Federal sources brought forward, October 1	(1,968,497)	(1,911,539)
Obligated balance, start of year (net)	13,818,726	16,536,539
Obligations incurred	156,284,367	191,935,103
Less: outlays (gross)	(156,172,562)	(194,159,697)
Change in uncollected customer payments from Federal sources	(356,395)	(56,958)
Less: recoveries of prior year unpaid obligations	(369,860)	(436,261)
Obligated balance, end of year (net)	\$ 13,204,276	\$ 13,818,726
Unpaid obligations, end of year (gross)	\$ 15,529,168	\$ 15,787,223
Less: uncollected customer payments from Federal sources, end of year	(2,324,892)	(1,968,497)
Obligated balance, end of year (net)	\$ 13,204,276	\$ 13,818,726
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget authority, gross (discretionary and mandatory)	\$ 157,058,286	\$ 190,982,141
Less: actual offsetting collections (discretionary and mandatory)	(8,103,665)	(8,071,535)
Less: change in uncollected customer payments from Federal sources (discretionary and mandatory)	(356,395)	(56,958)
Budget authority, net (discretionary and mandatory)	\$ 148,598,226	\$ 182,853,648
Outlays, gross (discretionary and mandatory)	\$ 156,172,562	\$ 194,159,697
Actual offsetting collections (discretionary and mandatory)	(8,103,665)	(8,071,535)
Outlays, net (discretionary and mandatory)	148,068,897	186,088,162
Distributed offsetting receipts	(43,234,920)	(53,119,556)
Agency outlays, net (discretionary and mandatory)	\$ 104,833,977	\$ 132,968,606

Simplified Statement of Changes in Net Position

Budgetary resources and other revenues

Appropriations this year	51,574,836
Nonexchange revenues	68,692,839
Transfers from other entities	224,851
Misc. other financing sources	<u>122,787</u>
Total budgetary resources and other revenues	120,615,313

Cost of operations	<u>105,651,866</u>
--------------------	--------------------

Net results of operations, current year	14,963,447
---	------------

Unexpended appropriations available for future expenditure	10,476,263
--	------------

Net position, beginning of year	<u>(41,938,458)</u>
---------------------------------	---------------------

Net position, end of year	<u><u>(16,498,748)</u></u>
---------------------------	----------------------------

Needed: Federal Reserve Statement of Changes in Key Assets and Liabilities; Link Specific Items to Narrative in Federal Reserve Report

Federal Reserve Banks Combined Statements of Condition as of December 31, 2012 and December 31, 2011 (in millions)		
	2012	2011
Assets		
Gold certificates	\$ 11,037	\$ 11,037
Special drawing rights certificates	5,200	5,200
Coin	2,108	2,306
Loans:		
Depository institutions	70	196
Term Asset-Backed Securities Loan Facility (measured at fair value)	560	9,059
System Open Market Account:		
Treasury securities, net (of which \$9,139 and \$15,121 is lent as of December 31, 2012 and 2011, respectively)	1,809,188	1,750,277
Government-sponsored enterprise debt securities, net (of which \$697 and \$1,276 is lent as of December 31, 2012 and 2011, respectively)	79,479	107,828
Federal agency and government-sponsored enterprise mortgage-backed securities, net	950,321	848,258
Foreign currency denominated assets, net	24,972	25,950
Central bank liquidity swaps	8,889	99,823
Other investments	23	—
Investments held by consolidated variable interest entities (of which \$2,266 and \$35,593 is measured at fair value as of December 31, 2012 and 2011, respectively)	2,750	35,693
Accrued interest receivable	18,932	19,710
Bank premises and equipment, net	2,676	2,549
Items in process of collection	216	273
Other assets	713	711
Total assets	\$2,917,134	\$2,918,870
Liabilities and capital		
Federal Reserve notes outstanding, net	\$1,126,661	\$1,034,052
System Open Market Account:		
Securities sold under agreements to repurchase	107,188	99,900
Other liabilities	3,177	1,368
Consolidated variable interest entities:		
Beneficial interest in consolidated variable interest entities (measured at fair value)	803	9,845
Other liabilities (of which \$71 and \$106 is measured at fair value as of December 31, 2012 and 2011, respectively)	415	690
Deposits:		
Depository institutions	1,491,045	1,562,253
Treasury, general account	92,720	85,737
Other deposits	33,903	65,034
Interest payable to depository institutions	199	178
Accrued benefit costs	3,964	3,952
Deferred credit items	702	904
Accrued interest on Federal Reserve notes	1,407	900
Other liabilities	230	259
Total liabilities	2,862,414	2,865,072
Capital paid-in	27,360	26,899
Surplus (including accumulated other comprehensive loss of \$4,845 and \$4,792 at December 31, 2012 and 2011, respectively)	27,360	26,899
Total capital	54,720	53,798
Total liabilities and capital	\$2,917,134	\$2,918,870

Need for “Actual to Budget” Statement

- Projected revenues, by major category, vs. actual revenues
- Regular (Current) Appropriations
- Continuing Appropriations
- Entitlement Authority
- Supplemental appropriations
- Actual outlays/obligations

Balanced Budget Amendment

- `Section 1. Total outlays for any fiscal year shall not exceed total receipts for that fiscal year, unless three-fifths of the whole number of each House of Congress shall provide by law for a specific excess of outlays over receipts by a rollcall vote.
- `Section 2. The limit on the debt of the United States held by the public shall not be increased, unless three-fifths of the whole number of each House shall provide by law for such an increase by a rollcall vote.
- `Section 3. Prior to each fiscal year, the President shall transmit to the Congress a proposed budget for the United States Government for that fiscal year in which total outlays do not exceed total receipts.
- `Section 4. No bill to increase revenue shall become law unless approved by a majority of the whole number of each House by a rollcall vote.
- `Section 5. The Congress may waive the provisions of this article for any fiscal year in which a declaration of war is in effect. The provisions of this article may be waived for any fiscal year in which the United States is engaged in military conflict which causes an imminent and serious military threat to national security and is so declared by a joint resolution, adopted by a majority of the whole number of each House, which becomes law.
- `Section 6. The Congress shall enforce and implement this article by appropriate legislation, which may rely on estimates of outlays and receipts.
- `Section 7. Total receipts shall include all receipts of the United States Government except those derived from borrowing. Total outlays shall include all outlays of the United States Government except for those for repayment of debt principal.
- `Section 8. This article shall take effect beginning with the later of the second fiscal year beginning after its ratification or the first fiscal year beginning after December 31, 2016.'