



Federal Accounting Standards Advisory Board

FEDERAL FINANCIAL REPORTING

Statement of Federal Financial Accounting Concepts

Exposure Draft

Written comments are requested by January 6, 2017

September 29, 2016

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from FASAB or its website:

- ["Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board."](#)
- ["Mission Statement: Federal Accounting Standards Advisory Board," exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters,](#) and other items of interest are posted on FASAB's website at www.fasab.gov.

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Federal Accounting Standards Advisory Board

September 29, 2016

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

Your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Concepts, entitled *Federal Financial Reporting*, are requested. Specific questions for your consideration appear on page seven, but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by January 6, 2017.

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

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

Wendy M. Payne, Executive Director
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We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at (202) 512-7350 to determine if your comments were received.

The Board's rules of procedure provide that one or more public hearings may be held on any exposure draft. No hearing has yet been scheduled for this exposure draft. Notice of the date and location of any public hearing on this document will be published in the Federal Register and in FASAB's newsletter.

Sincerely,

D. Scott Showalter
Chairman

STATEMENTS OF FEDERAL FINANCIAL ACCOUNTING CONCEPTS

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

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

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

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

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

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

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

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

The proposed concepts would assist the Federal Accounting Standards Advisory Board², in developing reporting models for the government-wide and component reporting entities. The concepts focus on providing information to contribute to the achievement of the Operating Performance and Stewardship objectives of financial reporting and to support achieving the Budgetary Integrity objective. The concepts would also assist preparers and users in understanding the purposes of information required by GAAP and how this information relates to ORFI.

¹ Disclosures are an integral part of financial statements.

² The American Institute of Certified Public Accountants (AICPA) designated the Federal Accounting Standards Advisory Board as the source of GAAP for federal reporting entities.

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QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Statement. Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

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

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

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

All responses are requested by January 6, 2017.

- Q1. The Statement illustrates the relationship between financial statements and required supplementary information (RSI) and the larger body of information available to users for assessing the government’s accountability and for decision making. The reporting objectives are intended to be broad to address the range of information users need. In this Statement, FASAB focuses on the Operating Performance and Stewardship objectives and supports reporting budgetary information. The proposed concepts will assist the Board in determining the types of information presented in financial statements and RSI and will assist users in understanding the relationship between information presented in financial statements and RSI and other reported information (ORFI). Refer to paragraphs 6 to 11 and Figure 1: Information for Assessing Accountability and for Decision Making.

Do you agree or disagree with the discussion and illustration? Please provide the rationale for your answer.

Q2. The Financial Statements and RSI section of the Statement discusses the role of financial statements and RSI in achieving the financial reporting objectives. Refer to paragraphs 16 to 25.

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

Q3. The Other Reported Financial Information and Its Relationship to Financial Statements and RSI section of the Statement discusses ORFI that contributes to achieving the financial reporting objectives and its relationship to financial statements and RSI. Refer to paragraphs 26 to 31.

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

Q4. The Concepts for Government-Wide and Component Reporting Entities section of the Statement discusses concepts for the government-wide and component reporting entities. The concepts include a discussion on the types of information the government-wide reporting entity financial statements and RSI collectively provide and the types of information component reporting entity financial statements and RSI collectively provide. Refer to paragraphs 33 to 48.

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

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

Q5. The Concepts for Budgetary Information in Component Reporting Entity Financial Statements and RSI section of the Statement discusses component reporting entity budgetary concepts. Refer to paragraphs 49 to 56.

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

Q6. The Performance Results section of the Statement discusses the role of financial statements and RSI in providing information on the reporting entity's performance results. Refer to paragraphs 57 to 62.

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

Q7. The Summary Level Information section of the Statement discusses summary level information with respect to financial statements and RSI. Refer to paragraphs 63 to 70.

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

INTRODUCTION

PURPOSE

1. This Statement provides a platform to address current and evolving reporting needs and capabilities and discusses concepts to assist the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in developing reporting models for the government-wide and component reporting entities. The proposed concepts will also assist preparers and users in understanding the purposes of information required by generally accepted accounting principles (GAAP)³ and how this information relates to other reported financial information (ORFI). Hereinafter, information required by GAAP will be referred to as financial statements⁴ and required supplementary information (RSI).⁵
2. The proposed concepts will enhance the Board’s conceptual framework regarding
 - a. the relationship between financial statements and RSI and ORFI contributing to the financial reporting objectives,
 - b. the content and presentation of financial statements and RSI for government-wide and component reporting entities,
 - c. the presentation of budgetary information in component reporting entity financial statements and RSI,
 - d. the presentation of performance information in financial statements and RSI, and
 - e. summary level information relating to financial statements and RSI.
3. The enhancements to the conceptual framework address users’ need to better understand the variety of information available and its relationship to financial statements and RSI. Since FASAB developed its earlier concepts statements, the range of data and information available to the public has evolved. This information includes reports that comprise financial statements and RSI, budgetary information, non-financial performance information, and information on systems and control.
4. Moreover, the enhancements address users’ need to better understand 1) the relationships among budget, cost, and performance information for federal programs and services, 2) the government’s financial condition, 3) component reporting entity budgetary information, and 4) the relationship between the government-wide and component reporting entities’ financial statements and RSI.

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

⁴ Disclosures are an integral part of financial statements.

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

5. In developing the concepts proposed in this Statement, the Board fully considered the concepts that are most important to addressing users' needs. As a result, some existing FASAB concepts statements are reemphasized, amended, or rescinded to clarify users' needs.

SCOPE

6. As intended, the overall financial reporting objectives discussed in Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, are broad. They reflect the needs of federal financial information users and are intended to improve the quality (for example, relevance and consistency) of data available for a wide variety of reports.
7. This Statement clarifies SFFAC 1 by emphasizing the objectives most relevant for financial statements and RSI and, therefore, most important for the development of standards.
8. This Statement focuses primarily on concepts to support achieving the Operating Performance and Stewardship objectives. Also, this Statement provides concepts for reporting budgetary information. The concepts will guide the development of standards for the government-wide and component reporting entity financial statements and RSI.
9. With respect to FASAB's focus, the Board develops GAAP for reporting on the financial results of operations, financial position, financial condition, and operating performance of the federal government and its component reporting entities, including the status of budgetary resources provided to component reporting entities. These basic items require a variety of financial measures and ORFI that complements the information available in the budget. Financial statements and RSI that include information on budgetary activity and results will provide a more comprehensive and insightful understanding of the government's financial position, results of operations, financial condition, and operating performance than budgetary and financial information individually. While financial statements and RSI are part of a larger body of information available to users, this concepts statement is limited to FASAB's mission and discussing how financial statements and RSI relate to and supplement this larger body of information.
10. The Board is charged with considering "the budgetary information needs of executive agencies and the needs of users of federal financial information"⁶ and is committed to supporting efforts to ensure the accuracy and reliability of reporting on the budget. While budgetary and financial accounting information are presented on different bases of accounting, the information is, in effect, about different aspects of the same transactions. Thus, information is provided to assist users in understanding those aspects and their relationship.

⁶ FASAB "Memorandum of Understanding," (October 2009), 2.

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

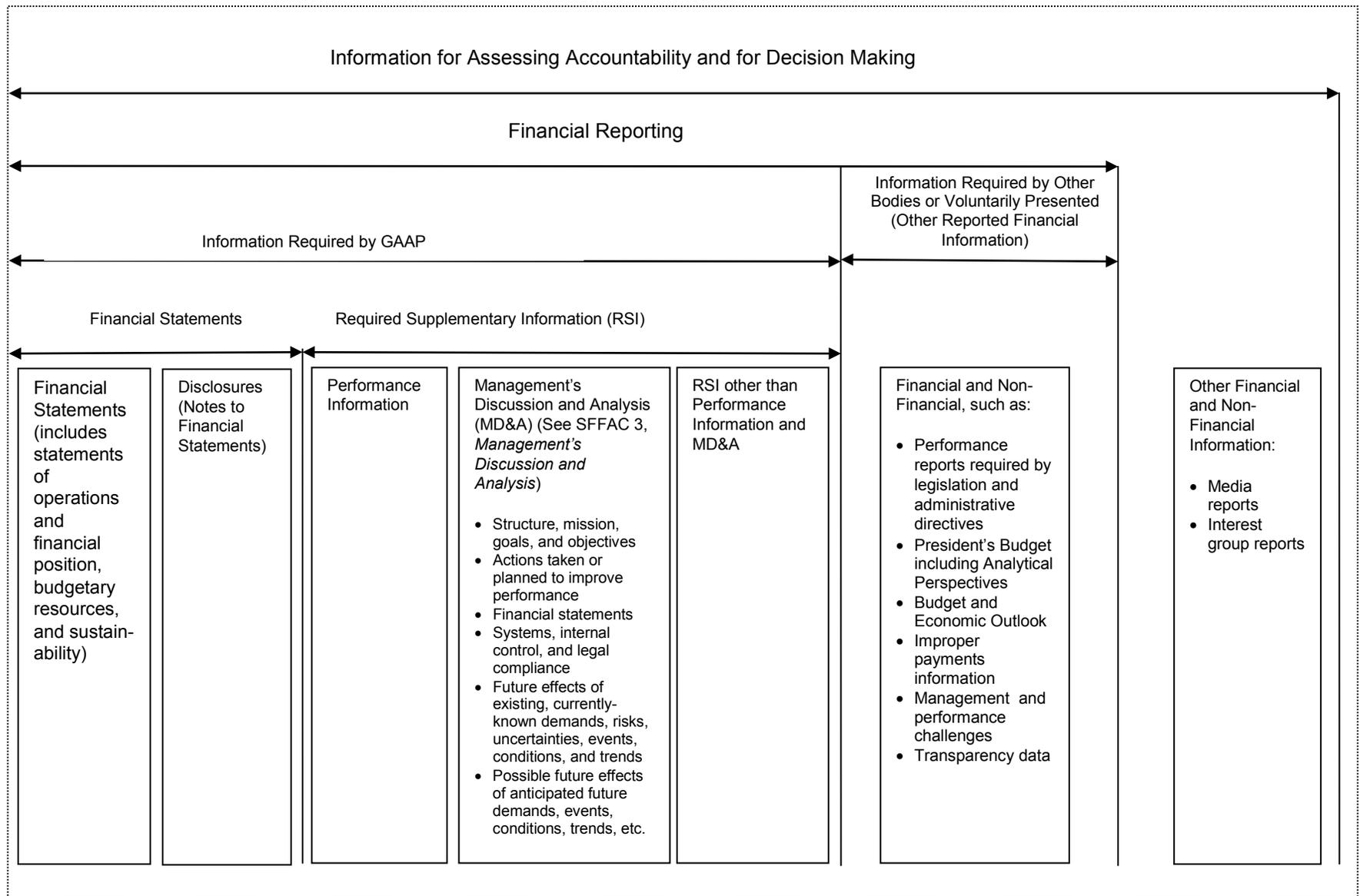


FIGURE 1: INFORMATION FOR ASSESSING ACCOUNTABILITY AND FOR DECISION-MAKING

PROPOSED CONCEPTS

FEDERAL FINANCIAL REPORTING OBJECTIVES

12. While users of federal financial information need similar information as private sector financial information users, they also need additional types of information. Private sector entities primarily earn their resources through voluntary transactions with individuals or other organizations. However, the federal government primarily obtains its resources from the involuntary payment of taxes and borrowing. Users of federal financial information are concerned about matters such as
- a. the sources of resources,
 - b. how the government used the resources it obtained,
 - c. what services the public received from the resources provided,
 - d. whether the resources provided were sufficient to cover the cost of services provided,
 - e. whether the government's financial ability to provide services improved or deteriorated, and
 - f. whether the services provided contributed to the accomplishment of the intended purpose.
13. Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, discusses the types of users of federal financial information, their financial information needs, and the objectives of reporting financial information. There are four overall reporting objectives which form the foundation for all other concepts:
- a. **Budgetary Integrity.** Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government's budget for a particular fiscal year and related laws and regulations.
 - b. **Operating Performance.** Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities.
 - c. **Stewardship.** Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future.

- d. Systems and Control. Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure 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.
14. The report released by the Federal Accounting Standards Advisory Board (FASAB or “the Board”), titled *Clarifying FASAB’s Near-Term Role in Achieving the Objectives of Federal Financial Reporting*, affirmed these objectives and clarified that the Board’s primary focus should be on the Operating Performance and Stewardship objectives. With respect to the Stewardship objective, the Board’s focus is on the government’s financial condition.
 15. SFFAC 2, *Entity and Display*, identifies the financial information needed to meet the objectives. It also recognizes some of the identified information that should be presented in financial statements and required supplementary information (RSI).

FINANCIAL STATEMENTS AND RSI

16. Financial statements and RSI are two categories of information intended to assist users of federal financial information in assessing the financial results of operations, financial position, financial condition, and operating performance of the federal government and its component reporting entities, including the status of budgetary resources provided to component reporting entities. The two categories are needed due to the nature of users’ information needs.
17. Users of federal financial information need a variety of information to assess the government’s finances. However, the degree to which individual items meet certain qualitative characteristics may vary. Thus, as discussed in SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*, different categories may be used to communicate this information and each is subjected to different audit procedures and reporting requirements under generally accepted government auditing standards (GAGAS). For example, if there is a lack of specific criteria for measuring an item, preparers may have great discretion in developing amounts reported and auditors may lack the criteria necessary for the expression of an opinion. Thus, the item of information may be a candidate for RSI.⁷ SFFAC 6, paragraph 73E, provides additional examples.
18. Generally accepted accounting principles (GAAP) provide criteria for categorizing, recognizing, measuring, and depicting the government’s financial activities in financial statements. In addition, GAAP
 - a. is based on a common understanding of terms and elements, as well as the relationships among them;

⁷ SFFAC 6, par. 73E.e.

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

OTHER REPORTED FINANCIAL INFORMATION AND ITS RELATIONSHIP TO FINANCIAL STATEMENTS AND RSI

26. The government-wide and component reporting entities may present information that is not required by federal accounting standards. These entities may present this information voluntarily to help achieve the reporting objectives, such as to assist users in assessing the financial condition of the reporting entity or to comply with laws and administrative directives. For example, to comply with directives regarding performance reporting, component reporting entities present information on how their activities benefit public health, safety, and welfare, their progress on achieving strategic objectives, and their actions to improve performance. Consequently, the government-wide reporting entity and component reporting entities may report other information in addition to the information required by GAAP. Hereinafter this information will be referred to as *other reported financial information (ORFI)*.
27. There may be limitations to ORFI. For instance, ORFI
- a. may lack exposure to the same level of internal controls as financial statements and RSI,
 - b. may lack consistency with GAAP standards for financial statements and RSI,
 - c. may not meet the qualitative characteristics of financial statements and RSI, and
 - d. may not be subject to certain procedures required by GAGAS.
28. Multiple methods of presentation may help facilitate user research. For example, financial statements, RSI, and ORFI may be presented in a hierarchical structure that permits users to review both highly aggregated data and disaggregated data. The different levels of data help provide users with the information at levels of specificity relevant to their particular needs. For example, users may drill-down from the government-wide reporting entity's financial statements to ORFI in schedules provided by a component reporting entity.
29. Narrative descriptions or visual representations may enhance users' understanding of the financial statements, RSI, and ORFI presented and direct them to where they might look for additional information.
30. Financial statements and RSI provide information to assist users in assessing topics, such as the entity's financial results of operations, financial position, financial condition, and operating performance. While financial statements and RSI focus on the widespread needs of different users, ORFI may be required by administrative directives or presented voluntarily to meet the specific needs of a user or user group. For example, a component reporting entity may present information to address a specific Congressional concern.

31. ORFI can also contribute to achieving the objectives of federal financial reporting. For instance, information on the risks that stem from major natural disasters or implicit guarantees may assist users in assessing the government-wide reporting entity's financial condition.

CONCEPTS FOR GOVERNMENT-WIDE AND COMPONENT REPORTING ENTITIES

32. The Concepts for Government-Wide and Component Reporting Entities section of this Statement includes a discussion on 1) the types of information the government-wide reporting entity financial statements and RSI provide, 2) the types of information component reporting entity financial statements and RSI collectively provide, and 3) the relationship between the government-wide and component reporting entities.

THE GOVERNMENT-WIDE REPORTING ENTITY

33. The federal government is responsible for the nation's defense and general welfare and is a single economic entity made up of component reporting entities that provide services to individuals and organizations.
34. The federal government has unique capabilities to finance the services provided and accomplish its objectives. It has the power to levy taxes, charge fees, and borrow.
35. The federal government may accomplish its objectives through provisions in the tax law available to subsets of taxpayers who engage in certain kinds of activities, face special circumstances, or otherwise meet specified criteria. For example, to encourage home ownership and stimulate residential construction, the federal government may approve tax provisions that reduce the tax liability for taxpayers who incur the costs associated with mortgage interest and local property taxes.
36. The federal government can borrow money to finance services when expenditures exceed receipts during the period.
37. Given the operations of the government-wide reporting entity, financial statements and RSI collectively provide information to assist users in understanding
- a. the government's mission, organization, and relationship to component reporting entities;
 - b. the government's performance;
 - c. the government's sources and uses of resources and financial results for the period;
 - d. the government's assets, liabilities, and net position as of the end of the reporting period (financial position);
 - e. the long-term impact of the government's policies on debt held by the public;

- f. the government's budget surplus or deficit for the period, including how the surplus or deficit relates to the government's net financial results and change in monetary assets during the period;
 - g. the government's investments in productivity and economic growth during the period (stewardship investments);
 - h. the relationship among the information presented in each financial statement and RSI;
 - i. the changes in amounts and types of elements presented in financial statements;
 - j. the future effects of existing, currently known demands, risks, uncertainties, events, conditions and trends; and
 - k. the possible future effects of anticipated future demands, events, conditions, trends, risks assumed, etc., management believes would be important to users.
38. SFFAC 1, specifically paragraphs 134 to 145 and paragraphs 180 to 182, discusses users' need for information regarding the government's financial position and financial condition and the relationship between the two concepts. Information on the government's financial position is the starting point for assessing the government's financial condition. SFFAC 1, paragraph 144, states the following:

Financial condition is a broader and more forward-looking concept than that of financial position. Reporting on financial condition requires financial and nonfinancial information about the national economy and society, as well as about the government itself...

Assisting users in understanding the government's financial condition requires multiple indicators,⁸ including information regarding the changes in the government's financial position, the long-term impact of the government's policies on debt held by the public, and the sustainability of public services as discussed in SFFAC 1, paragraphs 140 to 142. Information on the government's financial position and financial condition is needed to assist users in assessing matters such as whether financial burdens were passed on by current-year taxpayers to future-year taxpayers without related benefits and the long-term sustainability of government policies.

COMPONENT REPORTING ENTITIES

39. Component reporting entities receive budget authority through appropriations made in the legislative process. Their missions and reporting requirements are established in various laws enacted over time, resulting in a complex network of operations and services. Component reporting entities across the federal government are diverse and the scope and nature of each component reporting entity's activities can be diverse and at times overlap.

⁸ SFFAC 1, footnote 14.

40. In light of the reporting objectives of component reporting entities, financial statements and RSI collectively provide information to assist users in understanding
- a. the entity's mission, structure, goals, and objectives, including the relationships among the component reporting entity, other component reporting entities, and the government-wide reporting entity;
 - b. the entity's performance in achieving its goals and objectives;
 - c. the entity's sources and uses of resources and financial results for the period;
 - d. the entity's assets, liabilities, and net position as of the end of the reporting date (financial position);
 - e. the status of the entity's budgetary resources;
 - f. the investments in productivity and economic growth during the period, consistent with the mission of the component reporting entity;
 - g. the relationship among the information presented in each financial statement and RSI;
 - h. the changes in amounts and types of elements presented in financial statements;
 - i. the future effects of existing, currently known demands, risks, uncertainties, events, conditions and trends; and
 - j. the possible future effects of anticipated future demands, events, conditions, trends, etc. management believes would be important to users.
41. Aggregating and classifying component reporting entity information assists users in evaluating the entity's operating performance. The Operating Performance objective of federal financial reporting states, in part, that users need information to help them evaluate the entity's costs and accomplishments and how those costs and accomplishments have been financed.⁹
42. Often, the accomplishment of component reporting entity goals, programs, and objectives is dependent on the delivery of services granted or contracted to state and local governments and for-profit and nonprofit organizations. Users of those component reporting entity financial statements would be interested in the percent of the component reporting entity budget authority allocated to these entities and how the component reporting entity measures the delivery of those services
43. Aggregating and categorizing information by strategic goal is one means of providing information on the entity's costs and accomplishments and its manner of financing. Presenting such information in this manner assists users in understanding the entity's progress in achieving its strategic goals.

⁹ SFFAC 1, par. 122.

44. Disaggregating component reporting entity information assists users in understanding the cost of the entity's services and the efficient and effective use of its assets and liabilities. The Operating Performance objective states users need information about
- a. the costs of providing specific programs and activities and the composition of and changes in these costs;¹⁰
 - b. the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs; and¹¹
 - c. the efficiency and effectiveness of the government's management of its assets and liabilities.¹²
45. Financial position with respect to most component reporting entities is not as meaningful as for the federal government because most component reporting entities are not independent economic entities. The government-wide reporting entity can tax and borrow funds while budget authority specifies the amount, purpose, and duration of funding for most component reporting entities.
46. For component reporting entities that receive budget authority, users need to know 1) the budgetary activity during the period, 2) the extent to which budget authority has been used and remains available, and 3) whether additional funding may be needed. Information is needed on the amount of the entity's appropriations that have not been expended at the end of the period, the amount the entity has accumulated from prior period funding, and the amount of obligations (liabilities) for which the entity has incurred but not received budget authority.
47. Users need information to assess the financial condition of component reporting entities that derive their funding primarily from sources other than through appropriations. Some component reporting entities may be delegated authority to carry on their activities similarly to private sector businesses or maintain their operations and meet their liabilities from revenues received from sources outside of the government-wide reporting entity. Citizens rely on the services provided and are concerned about their sustainability.
48. Given the differences between government-wide and component reporting entities' financing authority, financial statements and RSI provide information to assist users in understanding their relationships and the location of the information.

¹⁰ SFFAC 1, par. 126.

¹¹ SFFAC 1, par. 128.

¹² SFFAC 1, par. 130.

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

49. The budget process is the government’s principal mechanism for the Congress and the president to reach agreement on goals, for allocating resources among competing needs, and for assessing the government’s fiscal effect on economic stability and growth. While most attention is paid to the future-oriented roles of the budget process, budget execution is designed to monitor tax and other receipts; it also monitors whether tax receipts and other resources were used according to the purposes of provided budget authority.
50. In developing budget legislation, Congress decides on targets for spending and receipts, the deficit or surplus, and the limit on debt. Upon determining the targets, Congress provides component reporting entities with budget authority and enacts changes in laws affecting receipts and spending.¹³
51. Budget authority provided by annual appropriation acts is considered discretionary spending. Appropriations provide component reporting entities with the authority to incur obligations for specific purposes. An appropriation can be limited to a single year, multiple years, or be available indefinitely.
52. Budget authority provided by permanent laws, and therefore not subject to annual appropriation acts, is considered mandatory spending.
53. Budget authority comprises the following capacities:
 - a. Appropriations—Provided in annual appropriations acts or authorizing laws, appropriations permit agencies to incur obligations and make payment.
 - b. Borrowing Authority—Usually provided in permanent laws, borrowing authority permits agencies to incur obligations but requires them to borrow funds, usually from the general fund of the Treasury to make payment.
 - c. Contract Authority—Usually provided in permanent law, contract authority permits agencies to incur obligations in advance of a separate appropriation of the cash for payment or in anticipation of the collection of receipts that can be used for payment.
 - d. Spending Authority from Offsetting Collections—Usually provided in permanent law, spending authority from offsetting collections permits agencies to credit offsetting collections to an expenditure account, incur obligations, and make payment using the offsetting collections.¹⁴ Offsetting collections are deductions from spending to reflect the government’s net transactions with the public. They may result from business-like transactions with the public, intragovernmental transactions, voluntary

¹³ Analytical Perspectives, *Budget of the U.S. Government*, Fiscal Year 2016, 92.

¹⁴ Analytical Perspectives pp.101-102.

gifts and donations, and offsetting governmental transactions or collections from the public that are governmental in nature, such as tax receipts.¹⁵

54. When component reporting entities engage in transactions that require either an immediate or future outlay of cash, they use budget authority. While the use of budget authority does not affect the government-wide reporting of an entity's assets, the outlay of cash does. For example, when a component reporting entity awards a contract, it uses budget authority. However, the government-wide reporting entity's cash is not affected until disbursed to the contractor.
55. Budget authority is not always used in a single year. For example, budget authority enacted for the construction of a capital asset may include the estimated total cost for the project at the time the project begins. However, the component reporting entity may outlay cash for the project over several years. Thus, the outlay of cash may relate to budget authority provided in previous years as well as the current year.
56. Budgetary resources include new budget authority, unobligated balances, direct spending authority, and obligation limitations.¹⁶

PERFORMANCE RESULTS

57. Financial statements and RSI provide information to assist users in assessing the 1) amount of financial and non-financial resources required to provide services (efforts), 2) accomplishments of services, 3) efficiency and effectiveness of providing services, and 4) changes in the performance of services over time.
58. Users are concerned about the government's progress in accomplishing its goals. The reporting objectives consider users' concerns and state "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."¹⁷
59. SFFAC 1, paragraphs 192 to 210, provides concepts for considering how financial statements and RSI might contribute to reporting on performance results. The concepts discuss the categories of performance measures that help address the financial reporting objectives—measures of efforts and accomplishments and measures that relate efforts and accomplishments (efficiency and effectiveness measures).
60. SFFAC 1 also states cost is a component of efforts, efficiency, and effectiveness measures, and measuring cost is a function of accounting and the financial reporting system.¹⁸

¹⁵ Analytical Perspectives pp. 99-100.

¹⁶ Government Accountability Office, *A Glossary of Terms Used in the Federal Budget Process* [GAO-05-734SP](#) (Washington, D.C.: Sept. 1, 2005)

¹⁷ SFFAC 1, par. 14.

¹⁸ SFFAC 1, par. 193.

61. SFFAC 3, *Management's Discussion and Analysis*, notes performance information is an integral part of financial reporting,¹⁹ and paragraphs 42-49 of SFFAC 3 discuss concepts for presenting performance information as RSI. Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*, paragraphs 41 through 66, discusses the role of managerial cost accounting in financial reporting, including the following language:

Measuring and reporting actual performance against established goals is essential to assess governmental accountability. Cost information is necessary in establishing strategic goals, measuring service efforts and accomplishments, and relating efforts to accomplishments.²⁰

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

SUMMARY LEVEL INFORMATION

63. For reports to be understandable to different audiences, different reports may be necessary to provide information relevant to the needs of the expected report users, with suitable amounts of detail, explanation, and related narrative.²¹
64. Information presented in financial statements and RSI may be condensed and provided as a presentation of summary level information.
65. Presenting layers of information may be useful for communicating needed information. Different levels help users locate the detail they may need for their specific analysis. The top level may provide highly aggregated information while lower levels provide increasingly more detailed information. However, all lower level information need not be presented in the report itself. Lower level information may be either electronically linked or provided in other reports, with information on how to obtain such reports provided.
66. The highly aggregated top level or summary level may be most useful to citizens and is likely the level where they will begin their review. Citizens need a succinct but comprehensive picture of the reporting entity's activities. They may not have extensive knowledge of accounting and budgeting concepts to fully understand disaggregated financial and non-financial information and the relationship among different items. Accordingly, understandability is an important characteristic of summary level information.

¹⁹ SFFAC 3, par. 13.

²⁰ SFFAS 4, par. 58.

²¹ SFFAC 1, par.159.

67. With respect to data, citizens may rely on visual representations rather than tabular presentations and extensive narratives. Using plain language would also assist users in understanding the information presented.
68. To help inform users of the reporting entity's finances, the summary level information provides information to assist users in assessing
- a. the purpose or the intent of the summary level, informing users of the type of information they might expect to see and the relationship to the government-wide and/or component reporting entity, as appropriate;
 - b. the scope of the summary level, so users understand the information the level includes;
 - c. basic performance goals and measures;
 - d. sources and uses of resources and financial results;
 - e. assets, liabilities, and net financial position as of the end of the reporting period;
 - f. the status of budgetary resources;
 - g. challenges facing the entity;
 - h. financial condition to include sustainability information; and
 - i. trends.
69. Financial information presented in relation to performance goals and measures may assist users in understanding the summary level information presented.
70. A graphic presentation of other levels, including their relationships or links, may assist users in identifying and accessing sources for additional information.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

PROJECT HISTORY

A1. This project is part of the Board's conceptual framework initiative. After several years of progress in federal financial reporting, FASAB decided to revisit its conceptual framework with a focus on ensuring accounting standards are based on a sound and comprehensive framework of objectives and concepts. The conceptual framework project began in 2006. At that time, Board members were concerned the reporting objectives were broad, and some members sought to better define the role of GAAP-based financial statements in achieving them. Also, some preparers were concerned about the need for certain financial statements, such as the component reporting entity balance sheet. Accordingly, the Board began the conceptual framework initiative by revisiting the reporting objectives. The Board affirmed the original reporting objectives and subsequently completed concepts defining elements, identifying measurement attributes, and distinguishing between basic information and RSI. The Board also began engaging the federal reporting community in discussions regarding the government-wide and component reporting entity reporting models.

User Needs and Reporting Community Outreach

A2. In 2006, FASAB staff conducted a series of roundtable discussions to determine whether the objectives remained valid and appropriate and to help define the role of the Board in achieving these objectives. Roundtable participants provided their views on whether the objectives continued to reflect the information needs of users and whether these objectives were being achieved. The participants believed the reporting objectives remained valid, and they noted the objectives could be accomplished by reports and similar materials other than financial statements. Consequently, in November 2006, the Board agreed to retain the broad objectives and issue its report titled *Clarifying FASAB's Near-Term Role in Achieving the Objectives of Federal Financial Reporting*. The report discusses the Board's primary and secondary focuses relative to the reporting objectives.

A3. After completing SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*, the Board began discussing the need for conceptual guidance that describes the reporting model and how it relates to the reporting objectives. The concepts would guide the Board in determining the financial statements that contribute to the achievement of the reporting objectives and help focus on "what should be" versus "what is." The former would help achieve the objectives and

the statements are useful to readers. Members were also concerned about whether a relationship should exist among financial statements, such as the balance sheet and a statement of net cost, and how the model compares with the reporting models of other governments. As a result, staff (1) researched the diverse needs of users and how they access information; (2) surveyed other countries and their reporting models; and (3) conducted discussions with preparers, citizen intermediaries, Congressional staff, program managers, executives, auditors, state and local government planners and analysts, and experts in federal financial reporting.

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

Task Forces and Additional Research

- A8. The Board organized the reporting model task force to consider the user needs and reporting community survey results and provide suggestions for the reporting model to the Board. In 2010, the task force completed its work and presented recommendations to enhance the reporting model. In general, the task force focused on what could be accomplished in the near future. The team also focused on the *Financial Report of the*

U.S. Government (FR) because the public would likely start with the FR to learn about the fiscal health of the federal government. Consequently, the task force recommended (1) the adoption of a centralized, web-based method of reporting financial and performance information, (2) changes to particular financial statements, and (3) additional disclosures. They believed the success of these recommendations require raising public awareness of federal financial reporting.

- A9. In 2011, the Board discussed the task force recommendations. Members discussed systems constraints and challenges and noted many of the recommendations could be adopted voluntarily by preparers. However, Board members did note the conceptual framework to guide accounting standards remained incomplete and out-of-date. The Board, at this time, also discussed its priorities and plans and revisited its *Strategic Directions* report. The Board reaffirmed its conclusions in the *Clarifying FASAB's Near-Term Role in Achieving the Objectives of Federal Financial Reporting* report and noted factors that would likely influence federal financial reporting. Those factors included the notion that citizens and citizen intermediaries are the primary audience for the FR, which implies FASAB standards should focus on the FR and should primarily consider citizens' information needs. Additionally, the Board confirmed component reporting entity reports should support the needs of the FR.
- A10. Later in 2011, the Board discussed the report, *The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General* (CFO Act Report). The report recommended Congress consider directing FASAB, the Office of Management and Budget (OMB), and the Government Accountability Office (GAO) to evolve the financial reporting model. Consequently, the Board decided to review the reporting model of component reporting entities and conduct discussions with CFOs and various groups to help the Board determine the information of value to users.
- A11. Other countries were also reporting on service and financial performance. Given the range of issues, the Board decided the project should be segmented into three separate projects—improving cost, improving performance, and improving budgetary reporting. FASAB organized task forces for each project. This approach allowed members to better focus on issues that needed to be addressed.
- A12. In 2012, the three task forces proceeded to discuss these issues and subsequently recommended the Board revisit SFFAS 4, *Managerial Cost Accounting Standards and Concepts*. The task forces believed adequate cost guidance was necessary to support users of budget and performance information and provide cost information that met expectations. Upon reviewing the task force results, the Board determined the recommended project would involve matters outside of the Board's domain and would require coordination with the Department of the Treasury and OMB. Also, members again raised concerns about systems constraints and challenges in presenting integrated cost, budget, and performance information.
- A13. Subsequently, the Board engaged with the National Academy of Public Administration (NAPA) to learn more about the needs of executives and managers. Members also learned about preparers' needs for resources to guide financial information development. The research informed the Board on (1) the availability of financial and related information, (2) the effective use of financial data by senior managers, (3) the

current and desired role of the CFO, and (4) if gaps exist between the current and desired role of the CFO, the options most likely helpful in closing those gaps. The NAPA team conducted interviews with federal executives and senior managers with operating responsibility for agencies, bureaus, offices, divisions, or comparable organizational units.

- A14. NAPA's report, *Financial and Related Information for Decision-Making: Enhancing Management Information to Support Operational Effectiveness and Priority Goals*, discussed the following topics:
- a. Data generally are highly accurate and granular, but federal agencies face challenges in analyzing and transforming data into readily understood, actionable information for executive decision making—especially the linking of budget, costs, and performance.
 - b. The degree to which financial data are effectively used for decision making is heavily driven by each organization's revenue source (user fee-based versus appropriation-based) and operational approach.
 - c. CFO organizations will increasingly need to offer valuable decision-making support to executives and senior managers, including sophisticated cost and performance analysis.

Developing Ideal Reporting Models without Constraints

- A15. At this point, Board members noted they needed models of the ideal presentation to serve as the end-goal for the project and help guide their direction. Also, given that raising concerns about existing systems and challenges directed the discussions away from "what should be," the Board determined development of ideal models would not be constrained by considering existing systems and what the Board could accomplish immediately. In addition, the models would take a holistic view and consider the other conceptual issues discussed previously and include explanations on why the resulting construct should be considered ideal. Consequently, the Board decided to develop conceptual, ideal models that integrate budget, cost, and service performance information.

Flow Information: The Starting Point for Developing Ideal Models

- A16. During the April 2014 meeting, FASAB members presented their views of ideal reporting models. The presentations addressed the Budgetary Integrity objective generally and each of the sub-objectives of the Operating Performance objective. Also, with respect to the Stewardship objective, the Board decided to focus on the federal government as the entity rather than the nation's economy. In addition, in June of 2014, the Board decided not to revisit the reporting objectives or clarify the role of FASAB with respect to the objectives. Instead, the Board decided to begin developing the ideal reporting model by focusing on the flows and the flow statements that would help achieve the reporting objectives.
- A17. Based on feedback from the reporting community, users still need to better understand flow information, such as costs and budgetary information and how they relate. The

Board considered how cost and budgetary information should be disaggregated and addressed how to reconcile cost and budget at a level that would be clear to users.

- A18. However, members expressed concern about whether the concepts should include illustrations of financial statements and whether concepts should reflect an “aspirational” reporting model or simply describe current practice. Consequently, the Board decided to develop an inventory of concepts and topics that might be included in the concepts statement. Upon completing the inventory, the Board deliberated which items should be retained in the concepts statement.

Inventory of Concepts and Framework for an Exposure Draft

- A19. In February 2015, the Board began developing an inventory of concepts that would help guide development of the reporting models and in December 2015 decided on a framework or outline to guide development of an exposure draft (ED) concepts statement. The Board agreed the framework needed to be comprehensive and include new and existing concepts and topics members had suggested during the project.
- A20. Subsequently, staff began using the framework to develop the ED and the Board determined the guidance should focus on information required by GAAP—financial statements and RSI—rather than information presented in a general purpose federal financial report (GPFRR). GPFRRs are broader and refer to financial statements, RSI, and ORFI. The Board determined the concepts should discuss the purpose of financial statements and RSI and ORFI to assist users in understanding their relationship.
- A21. The Board also determined the concepts should discuss component reporting entity budgetary information, performance results information, and summary level information. Throughout the project, the Board discussed the need to clarify the role of financial statements and RSI with respect to budgetary and performance information. The Board considered both budgetary and performance information include data derived from financial systems and transactions affected by GAAP. Including concepts on budgetary and performance information would assist the Board in contributing to the reporting objectives and requiring information that helps users understand the relationship among budget, cost, and performance information.
- A22. Regarding summary level information, the Board considered citizens’ feedback and concluded that citizens are more likely to understand a summary level presentation of financial and non-financial information than a detailed presentation. Concepts would assist the Board in determining the guidance that might be needed for summary level information.

APPENDIX B: ABBREVIATIONS

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| AICPA | American Institute of Certified Public Accountants |
| CFO | Chief Financial Officer |
| ED | Exposure Draft |
| FR | Financial Report of the U.S. Government |
| FASAB | Federal Accounting Standards Advisory Board |
| GAAP | Generally Accepted Accounting Principles |
| GAGAS | Generally Accepted Government Auditing Standards |
| GAO | Government Accountability Office |
| GPFFR | General Purpose Federal Financial Report |
| MD&A | Management's Discussion and Analysis |
| NAPA | National Academy of Public Administration |
| OMB | Office of Management and Budget |
| ORFI | Other Reported Financial Information |
| RSI | Required Supplementary Information |
| SFFAC | Statement of Federal Financial Accounting Concepts |
| SFFAS | Statement of Federal Financial Accounting Standards |
