



December 5, 2014

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Consolidated Financial Report Budgetary Reporting – **TAB A**<sup>1</sup>

## **MEETING OBJECTIVE**

The objective is to discuss useful budgetary reporting in the Consolidated Financial Report (CFR).

## **BRIEFING MATERIALS**

This memo discusses current concepts and standards for reporting budgetary information in the CFR and attachments:

- Attachment I: Panel Bios provides a brief biographical profile of each panel member.
- Attachment II: Example Statements provides financial statements to illustrate the budget information that the CFR provides today.

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<sup>1</sup> 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 reporting model project, Board members have expressed concern regarding existing budgetary reporting and believe that a budget to actual comparison would provide a more useful presentation. Accordingly, staff has convened a panel of experts to discuss what budgetary information might be useful at the government-wide level. The panel members:

- Robert L. Bixby, Executive Director, Concord Coalition
- Paul L. Posner, Professor and Director of the Masters in Public Administration Program, George Mason University
- C. Eugene Steuerle, Richard B. Fisher Chair and Institute Fellow, The Urban Institute (invited).

The panel members will discuss the usefulness of alternative presentations of expenditures such as by organizations, functions, recipients (other governments, individual beneficiaries, vendors, employees), tools (grants, contracts, benefits, tax expenditures, direct spending), discretionary versus mandatory spending, or other means. Also, panel members will provide insights on the usefulness of budgeted to actual comparisons, trend information, and other presentations that might be beneficial to users.

## **NEXT STEPS**

During the February 2015 meeting, staff plans to continue to discuss draft conceptual guidance.

## **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](mailto:simmsr@fasab.gov) with a cc to [paynew@fasab.gov](mailto:paynew@fasab.gov).

## Concepts and Standards for Reporting Budget Information in the CFR

Federal financial reporting objectives discuss users' needs for budgetary integrity information. Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, states that

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:

- 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.

To help achieve this objective, SFFAC 2, *Entity and Display*, primarily focuses on the component level because components are financed with budgetary resources. The concepts call for the preparation of a statement of budgetary resources and the statement would be audited. The audited statement would provide a level of assurance regarding the reliability of budget execution information.<sup>2</sup>

With respect to the CFR level, the Board appears to believe that aggregated information on budgetary resources and the status of budgetary resources is less useful. FASAB concepts state that the federal government is an economic entity<sup>3</sup> and the Board has noted that information on budgetary resources and the status of budgetary resources is less relevant and meaningful for the CFR.<sup>4</sup> Also, SFFAC 2 indicates that a CFR should include a comparison of budgeted and actual use of resources.<sup>5</sup>

Although, conceptually, a CFR should present a comparison of budgeted and actual use of resources, FASAB has not required this information. Currently, FASAB requires information on how the unified budget surplus or deficit relates to: net operating revenue or cost; and the change in the Government's cash balance and debt held by the public.<sup>6</sup> The standards were not intended to be prescriptive so that the most meaningful display could evolve.<sup>7</sup>

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<sup>2</sup> SFFAC 2, par. 64.

<sup>3</sup> SFAC 2, par. 83.

<sup>4</sup> Statement of Federal Financial Accounting Standards (SFFAS) 24, *Selected Standards for the Consolidated Financial Report of the United States Government*, pars. 21-23.

<sup>5</sup> SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*, par. 21.

Information

<sup>6</sup> SFFAS 24, pars. 10-13.

<sup>7</sup> SFFAS 24, par. 37.

## **Concerns with Current Budgetary Reporting**

Board members have noted that some level of disaggregated planned and actual receipts and outlays is needed to better achieve the budgetary integrity and operating performance objectives. The budgetary integrity objective indicates that financial reporting should help the federal government fulfill its responsibility to be accountable for funds raised and their expenditure. To meet the operating performance objective, it is also important for users to know what the nation's priorities are and the progress being made in achieving those priorities. However, current CFR reporting standards require the reporting of the "actual" budget deficit or surplus, the amount remaining after deducting outlays from receipts. Consequently, users would need to consult additional sources to determine planned and actual receipts and outlays as well as to access disaggregated information.

Opponents of a budget to actual comparison note that they may be more suitable for discretionary rather than mandatory spending programs. Discretionary spending programs often conform to the amount appropriated; however, mandatory spending frequently varies from budgeted amounts and is not subject to annual appropriations. Currently, discretionary spending is decreasing in relation to mandatory spending.

Also, opponents note that current period outlays can relate to prior period budget authority. Consequently, a comparison schedule may need to include multiple periods of activity which could be challenging for some users to understand.

In addition, FASAB's reporting model task force recommended that the Board move the information in the Statement of Changes in Cash Balance from Unified Budget and Other Activities to either a Note or Required Supplementary Information (RSI).<sup>8</sup> The information appears to have a limited audience and, if information is primarily of interest to subject matter experts, the information is likely a candidate for RSI.<sup>9</sup>

## **Other Standards-Setters' Guidance Regarding Budgetary Information**

Budgetary information appears to be a part of the generally accepted accounting principles (GAAP) framework for other government standards-setters. Other government standards-setters emphasize that financial reports should provide budgetary information to hold governments accountable for their activities. Budgetary information demonstrates compliance with laws regarding how funds should be used and complements accrual basis financial statements.

For states and local governments, the Governmental Accounting Standards Board's (GASB) notes that while the scope and method of budgetary practices are outside the scope of financial reporting, "financial reporting guidance for budgetary comparisons is

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<sup>8</sup> FASAB, *Report of the Reporting Model Task Force*, December 2010,

<sup>9</sup> SFFAC 2, par. 73.E.c.

within that scope.”<sup>10</sup> Also, the International Public Sector Accounting Standards Board (IPSASB) states

The inclusion of a comparison of budget and actual amounts in financial statements will provide financial information to assist users to assess whether resources were raised as anticipated and used in accordance with the budget(s) approved by the legislature or other authoritative body.<sup>11</sup>

The IPSASB is also of the view that disclosure of information about budget and actual amounts is a necessary element for the discharge of accountability for such entities, and requirements to ensure appropriate disclosure in financial statements should be included in an IPSAS.<sup>12</sup>

Because of the importance of budgetary compliance, GASB states

Budgetary comparisons should be presented for the general fund and for each major special revenue fund that has a legally adopted annual budget. Governments are encouraged to present such budgetary comparison information in schedules as a part of RSI. [footnote omitted]<sup>13</sup>

Also, IPSASB requires a comparison of budget and actual amounts for entities that are required to or elect to make their approved budgets available to the public. International Public Sector Accounting Standard (IPSAS) 24, *Presentation of Budget Information in Financial Statements*, states

Subject to the requirements of paragraph 21, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts, either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with IPSASs. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- (a) The original and final budget amounts;
- (b) The actual amounts on a comparable basis; and
- (c) By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.<sup>14</sup>

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<sup>10</sup> GASB Cod.sec. 2400.101

<sup>11</sup> IPSAS 24, par. BC3.

<sup>12</sup> IPSAS 24, par. BC8.

<sup>13</sup> GASB Cod.sec.2400.102.

<sup>14</sup> IPSAS 24, par. 14.

The IPSASB notes that the presentation enables users to determine whether resources were obtained and used in accordance with the budget and it completes the accountability cycle.<sup>15</sup> Also, the Board encourages a cross-reference from the financial statements to information about service achievement.<sup>16</sup>

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<sup>15</sup> IPSAS 24, par. 15.

<sup>16</sup> IPSAS 24, par. 28.

## Attachment I: Panel Bios

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## Robert L. Bixby

Robert L. Bixby is executive director of The Concord Coalition, a nonpartisan organization that encourages fiscal responsibility in Washington and helps educate the public about the federal budget and the need to protect our children and future generations from excessive government debt.

Bixby joined Concord in 1992 and served in several positions, including policy director and national field director, before being named executive director in 1999. He has served as a member of the Bipartisan Policy Center's Debt Reduction Task Force (the Domenici-Rivlin commission), which produced a model plan for comprehensive fiscal reform.

He frequently speaks around the country on the nation's fiscal challenges and possible bipartisan solutions, including greater government efficiency, tax reform and improvements in the entitlement program. He has testified at congressional hearings and been interviewed by news organizations around the country. Bixby has appeared on ABC, NBC, CBS, PBS, CNN and Fox News.

He and The Concord Coalition's "Fiscal Wake-Up Tour" were also featured prominently in the critically-acclaimed documentary film "I.O.U.S.A."

Bixby has a bachelor's degree in political science from American University, a juris doctorate from George Mason University School of Law, and a master's degree in public administration from the John F. Kennedy School of Government at Harvard University. Before joining Concord, he practiced law and served as the chief staff attorney of the Court of Appeals of Virginia.

Paul L. Posner

Paul Posner is professor and director of the Master's in Public Administration program. He came to George Mason after serving as Director of Federal Budget and Intergovernmental Relations at the Government Accountability Office. He received his PhD from Columbia University.

#### Areas of Research

- Third Party Governance
- Intergovernmental Management
- Public Budgeting
- Policy Process

## C. Eugene Steuerle

Eugene Steuerle is Richard B. Fisher chair and Institute Fellow at the Urban Institute, and a columnist under the title *The Government We Deserve*. Among past positions, he has served as Deputy Assistant Secretary of the Treasury for Tax Analysis (1987-1989), President of the National Tax Association (2001-2002), chair of the 1999 Technical Panel advising Social Security on its methods and assumptions, Economic Coordinator and original organizer of the 1984 Treasury study that led to the Tax Reform Act of 1986, President of the National Economists Club Educational Foundation, Resident Fellow at the American Enterprise Institute, Federal Executive Fellow at the Brookings Institution, and a columnist for the *Financial Times*.

Dr. Steuerle is the author, co-author or co-editor of fifteen books and close to one thousand articles, briefs, and Congressional testimonies. Books include *Contemporary U.S. Tax Policy* (2nd edition), *Retooling Social Security for the 21st Century*, and *Nonprofits and Government*. He serves on advisory panels or boards for the Congressional Budget Office, the Government Accountability Office, the Joint Committee on Taxation, the Committee for a Responsible Federal Budget, the Independent Sector, the Aspen Institute Initiative on Financial Security, the National Committee on Vital and Health Statistics, and the Partnership for America's Economic Success.

Among other accolades, former top Treasury and White House officials wrote that 1986 tax reform "would not have moved forward without [his] early leadership," and "few people have had greater impact on major changes in the tax law and the principal improvements in tax compliance and administration." Among other honors, he received Outstanding Alumnus awards from his college and high school and the first Bruce Davie-Albert Davis Public Service Award from the National Tax Association in 2005.

### Selected Publications

Steuerle, C. Eugene. 2008. *Contemporary U.S. Tax Policy* (2nd Edition). Washington, DC: Urban Institute Press.

Steuerle, C. Eugene and Melissa M. Favreault. 2008. "The Implications of Career Lengths for Social Security." The Retirement Project Discussion Paper Series No.08-03. Washington, D.C.: The Urban Institute.

Steuerle, C. Eugene, Gillian Reynolds, and Adam Carasso. 2008. "How Much Does the Federal Government Spend to Promote Economic Mobility and For Whom?" Washington, D.C.: Economic Mobility Project, an initiative of the Pew Charitable Trusts.

Steuerle, C. Eugene and Rudolph G. Penner. 2007. "Stabilizing Future Fiscal Policy: It's Time to Pull the Trigger." Washington, D.C.: The Urban Institute.

Steuerle, C. Eugene, Melissa M. Favreault and Gordon B. T. Mermin. 2007. "Minimum Benefits in Social Security: Design Details Matter." Older Americans' Economic Security Series No.10. Washington, D.C.: The Urban Institute.

Steuerle, C. Eugene and Elizabeth T. Boris. 2006. "After Katrina: Public Expectation and Charities Response." Policy Briefs/Emerging Issues In Philanthropy. Washington, D.C.: The Urban Institute.

## Attachment II: Example Statements

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## **INTRODUCTION**

To assist the Board in discussing budgetary reporting in the CFR, this attachment provides the Reconciliations of Net Operating Cost and Unified Budget Deficit and Statements of Changes in Cash Balance from Unified Budget and Other Activities. FASAB standards require each of the presentations to help users understand: the relationship between proprietary net cost and the unified budget deficit; and how the budget deficit relates to the change in the government's cash balance and debt held by the public. The presentations provide the "actual" budget deficit rather than the planned or estimated amount. Also, users need to review other reports to determine the sources of receipts and outlays by function or agency.

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**United States Government**  
**Reconciliations of Net Operating Cost and Unified Budget Deficit**  
**for the Year Ended September 30, 2013, and 2012**

(In billions of dollars)	2013	2012
<b>Net operating cost</b> .....	(805.1)	(1,316.3)
<b>Components of net operating cost not part of the budget deficit:</b>		
<b>(Decrease)/increase in liability for military employee benefits (Note 13):</b>		
Increase in military pension liabilities.....	42.2	120.7
(Decrease) in military health liabilities.....	(85.7)	(9.0)
(Decrease) in other military benefits.....	(0.4)	(0.6)
(Decrease)/increase in liability for military employee benefits.....	(43.9)	111.1
<b>Increase in liability for veteran's compensation (Note 13).....</b>	<b>213.2</b>	<b>227.9</b>
<b>Increase in liabilities for civilian employee benefits (Note 13):</b>		
Increase in civilian pension liabilities.....	95.6	152.6
(Decrease) in civilian health liabilities.....	(1.4)	(14.4)
Increase in other civilian benefits.....	0.8	4.6
Increase in liabilities for civilian employee benefits.....	95.0	142.8
<b>Increase in environmental and disposal liabilities (Note 14):</b>		
Increase in Energy's environmental and disposal liabilities.....	11.8	17.8
(Decrease) in all others' environmental and disposal liabilities.....	(1.7)	(2.9)
Increase in environmental and disposal liabilities.....	10.1	14.9
Property, plant, and equipment depreciation expense.....	62.1	59.1
Property, plant, and equipment disposals and revaluations.....	(36.2)	9.4
Increase/(decrease) in benefits due and payable.....	8.1	(4.8)
(Decrease) in insurance and guarantee program liabilities.....	(26.4)	(5.3)
(Decrease)/increase in other liabilities.....	(20.9)	5.6
Increase in accounts payable.....	1.0	1.8
Decrease/(increase) in net accounts and taxes receivable.....	8.0	(4.9)
TARP yearend (downward) re-estimate.....	(8.1)	(9.0)
(Decrease) in liabilities to Government-Sponsored enterprises (GSEs).....	(9.0)	(307.2)
(Decrease)/increase in valuation loss on investments in GSEs.....	(30.9)	42.3
<b>Components of the budget surplus (or deficit) that are not part of net operating revenue/(or cost):</b>		
<b>Capitalized property, plant, and equipment:</b>		
Department of Defense.....	(37.0)	(33.6)
All other agencies.....	(30.6)	(37.1)
Total capitalized property, plant, and equipment.....	(67.6)	(70.7)
Effect of prior year TARP downward/(upward) re-estimate.....	9.0	(23.3)
(Increase) in inventory.....	(12.1)	(2.9)
(Increase) in investments in GSEs.....	-	(18.6)
Decrease in debt and equity securities.....	2.4	0.4
(Increase)/decrease in other assets.....	(5.2)	21.7
Credit reform and other loan activities.....	(25.4)	38.6
All other reconciling items.....	1.6	(2.0)
<b>Unified budget deficit</b> .....	<b>(680.3)</b>	<b>(1,089.4)</b>

The accompanying notes are an integral part of these financial statements.

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**United States Government**  
**Statements of Changes in Cash Balance from Unified Budget and Other Activities**  
**for the Years Ended September 30, 2013, and 2012**

(In billions of dollars)	2013	2012
<b>Unified budget deficit .....</b>	(680.3)	(1,089.4)
<b>Adjustments for Noncash Outlays Included in the budget:</b>		
Interest accrued by Treasury on debt held by the public .....	242.7	240.1
TARP yearend re-estimates .....	(0.9)	32.3
TARP Subsidy (income) (Note 5) .....	(11.9)	(10.8)
Other Federal entity subsidy (income) (Note 4) .....	(63.4)	(29.4)
Subtotal .....	166.5	232.2
<b>Items Affecting the Cash Balance Not Included in the budget:</b>		
<i>Net Transactions from financing activity:</i>		
Borrowings from the public .....	8,145.4	7,766.9
Repayment of debt held by the public .....	(7,444.0)	(6,614.0)
Agency securities .....	0.7	(0.4)
Subtotal .....	702.1	1,152.5
<i>Transactions from monetary and other activity:</i>		
Interest paid by Treasury on debt held by the public .....	(248.7)	(234.3)
Net TARP direct loans and equity investments activity .....	31.7	52.3
Net GSEs-mortgage-backed securities activity .....	-	70.6
Net loan receivable activity .....	(125.6)	(153.7)
Allocations of special drawing rights .....	(0.2)	(0.7)
Uninvested principal from the Thrift Savings Plan (TSP)		
G Fund .....	119.9	-
Other .....	34.7	(0.3)
Subtotal .....	(188.2)	(266.1)
<b>Cash and other monetary assets: (Note 2)</b>		
Increase in Cash and other monetary assets .....	0.1	29.2
Balance, beginning of period .....	206.2	177.0
Balance, end of period .....	206.3	206.2

The accompanying notes are an integral part of these financial statements.

For budgetary purposes, the effect of the yearend downward re-estimates (reduction of net outlays) and upward re-estimates (increase of net outlays) is not recognized until the subsequent fiscal year.