



August 14, 2015

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 objective is to discuss concepts for an ideal model concepts statement.

BRIEFING MATERIALS

This memo provides background and discusses matters for Board consideration. Also, Attachment I: Reporting Model Draft Concepts, presents the draft concepts.

BACKGROUND

During the June 2015 meeting, the Board deliberated a draft concepts statement that included discussions on the financial reporting objectives and FASAB's priorities with respect to those objectives; reporting on financial condition at the government-wide level; the scope of financial reporting; financial statements and their relationship to other financial information sources; component entity reporting; and reporting budgetary information. The Board decided that the section discussing FASAB's priorities was not needed because the Board's priorities have been communicated in its Strategic Directions document and the priorities are subject to change. Also, Board members suggested that the concepts provide general, aspirational guidance and

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

determined revisions. Staff will provide a revised draft concepts statement at the August 2015 meeting.

MEMBER FEEDBACK

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

QUESTIONS FOR THE BOARD

1. General, Aspirational Guidance and Next Steps

During the June 2015 meeting, the Board indicated that the draft concepts statement should provide general, aspirational guidance and accordingly staff rephrased statements made throughout the document. For instance, rather than stating, “financial reports should...” staff rephrased the sentence to state, “financial reports may...” This approach would be consistent with the Board’s view that conceptual guidance should provide a level of flexibility for developing standards. This approach is also consistent with the approach used by other accounting standards-setters as well. However, a concern is whether the conceptual guidance would provide sufficient detail to assist the Office of Management and Budget (OMB) in executing its responsibility for providing form and content guidance.

FASAB has already started providing detailed guidance in standards rather than in conceptual guidance. For instance, the Board has provided standards for the statement of social insurance. However, the statement is not discussed in conceptual guidance basic display discussions.

The Board could continue with its current practices, conclude this project on ideal reporting model concepts, and focus on developing standards.

Recommendation: Staff recommends that the ideal reporting model concepts statement provide general, aspirational guidance and that the Board should focus on issuing the exposure draft before the December 2015 meeting.

Question 1a: Does the Board agree that it is not necessary to add illustrations to the concepts statement?

Question 1b: If the Board agrees that it is not necessary to add illustrations, does the Board support issuing an exposure draft before the December 2015 meeting?

2. An Introduction for Each Section of the Concepts Document

As part of the revisions since the June 2015 meeting, staff began each section of the concepts document with an italicized statement that informs the reader on what will be discussed in the section. For example, the section on Federal Financial Reporting Objectives begins with the following statement

Users and their information needs determine the objectives of financial reporting and these objectives are the foundation for all other concepts.

Question 2a: Does the Board agree with the approach of including introductory statements in each section of the document?

Question 2b: If the Board agrees that introductory statements should be included, does the Board have suggestions for changes to the proposed language?

3. Performance Information

The draft includes a discussion on performance information.

Question 3a. Does the Board agree with the concepts discussed regarding performance information?

Question 3b. What additional concepts should be discussed regarding performance information and why?

4. Cost Accounting

The draft includes a discussion on cost accounting.

Question 4a. Does the Board agree with the concepts discussed regarding cost accounting?

Question 4b. What additional concepts should be discussed regarding cost accounting and why?

5. Relationship between Financial Reports and Other Financial Reporting Sources

The draft includes a placeholder (paragraph 28) for a diagram or picture depicting the relationship between financial reports, including financial statements, disclosures, and required supplementary information, and other financial reporting sources.

Question 5a: Does the Board agree that a diagram or other illustration would be helpful to readers and should be presented in the document?

Question 5b: If the Board agrees that a depiction would be helpful and should be included, what are some key items that should be captured?

6. Additional Suggestions

Question 6: Does the Board have additional suggestions for changes to the proposed language in the document?

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Attachment I: Draft Ideal Reporting Model Concepts Statement

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Federal Accounting Standards Advisory Board

TITLE
SUBTITLE

Statement of Federal Financial Accounting Concepts

Exposure Draft

Written comments are requested by [date 90 days after issuance]

Month day, year

Working Draft – Comments Are Not Requested on This Draft

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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

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

Additional background information is available from the FASAB or its website:

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

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Federal Accounting Standards Advisory Board

ISSUE DATE

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

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

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

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

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

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

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

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

Sincerely,

Tom L. Allen
Chairman

STATEMENTS OF FEDERAL FINANCIAL ACCOUNTING CONCEPTS

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

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

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

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

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

The answer is not a complete summary. It should hit the main points and include an appropriate catch all reference to other changes such as “additional disclosures are required.” [Style code is Normal]

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

Provide a plain English explanation of what problem the Board is solving, what improvements will result and how this improvement helps meet objectives. The executive summary should not exceed two pages. [Style code is Normal.]

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QUESTIONS FOR RESPONDENTS

The Board encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement. Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

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

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

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

All responses are requested by [insert date].

- Q1. A summary of the issue (one paragraph) should be presented followed by a question. If multiple questions follow one issue summary, use letters to distinguish them.
- Q2. New Question

INTRODUCTION

PURPOSE

1. Brief history
 - a. Use Outline Number for the text format
 - b. It gives
 - i. Several levels
 - ii. For paragraphs

PROPOSED CONCEPTS

FEDERAL FINANCIAL REPORTING OBJECTIVES

Users and their information needs determine the objectives of financial reporting and these objectives are the foundation for all other concepts.

2. Statement of Federal Financial Accounting Concepts (SFFAC) 1: *Objectives of Federal Financial Reporting* (Objectives) discusses the types of users of financial information, their financial information needs, and the objectives of reporting financial information. The overall financial reporting objectives are:
 - 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 Controls.** 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.
3. These objectives are the foundation for all other concepts and other concepts flow logically from them.

FINANCIAL REPORTS

Financial reports provide comprehensive information about the reporting entity. The information is based on a structured framework to ensure the information possesses basic qualities such as relevance and comparability. Ideally, the financial reports integrate data from various sources with needed explanatory material. Significant

judgment is needed in making decisions about the level of detail and basis for aggregating information to best meet user needs.

4. The information in financial reports must possess certain basic characteristics. Those basic characteristics are: understandability, reliability, relevance, timeliness, consistency, and comparability. SFFAC 1¹ discusses each of them in detail. Among other things, these characteristics recognize the importance of reporting transactions and events in accordance with their substance even if that differs from their form. Thus, transactions and other events are analyzed carefully to ensure financial reports possess these basic characteristics.
5. Financial reports include financial statements, disclosures, and required supplementary information (RSI). This structure enables financial reports to provide different levels of aggregated narrative and quantitative information, for a comprehensive perspective about the reporting entity. For example, disclosures may help users better understand aggregated amounts presented in financial statements and provide a more detailed view of the government's financial activities. Also, supplementary information may explain the purpose, importance, and kinds of information being reported to users and the relationships among the kinds of information. SFFAC 2, *Entity and Display*, provides factors for distinguishing among the required components of financial reports.
6. User needs reflected in the reporting objectives are broad and require the integration of data from various sources. Generally accepted accounting principles (GAAP) assists in relating information provided by numerous sources. GAAP is developed through an open and deliberative process that facilitates agreement on criteria that should be used in categorizing, recognizing, measuring, and depicting the government's financial activities in financial reports.
7. GAAP also governs the terms and elements that should be used. Definitions of terms and elements help users consider how the data should be used and how elements relate to each other. In due course, the definitions would facilitate a common understanding and their consistent application.
8. While financial reports must be prepared in a structured manner, the reports are improved when the preparer considers overall objectives and context rather than striving solely for compliance. The level of detail to present in a general purpose report is a matter of judgment and other reporting sources may provide cost-beneficial options for meeting special purpose needs.

¹ SFFAC 1, par. 157 -164.

FINANCIAL STATEMENTS, DISCLOSURES, AND RSI

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

9. Financial statements aggregate, classify and depict various items of information expressed in words (labels) and amounts (dollars). Systems and controls are required to ensure that all the entity's events, transactions, and balances are depicted along with needed disclosures. This leads to highly aggregated but complete information on the face of financial statements. Such information is essential for demonstrating accountability but may be less useful for making specific decisions.
10. Financial statements should be prepared and issued using disciplined processes to ensure that the information is accurate and reliable. GAAP helps ensure that financial statements present information to users in an understandable and consistent manner. Also, financial statements audited in accordance with Generally Accepted Government Auditing Standards (GAGAS) help establish discipline in the underlying financial systems and the established discipline provides an increased level of assurance that the information, such as special purpose reports and transaction level data, provided from the underlying systems is accurate and reliable.
11. Financial statements provide a framework for more detailed analyses. Users may analyze financial statements to identify particular services, accounts, and transactions for detailed review. Accordingly, financial statements can be linked to other sources to facilitate user understanding. For instance, a financial statement presenting costs on the World Wide Web could be linked to performance reports to help users better understand the reason for the costs and the results of the costs incurred.
12. The interrelationship among information presented in financial statements including Management's Discussion and Analysis (MD&A) and non-financial performance information should be understandable. This may be evident from the titles and lines used on the statements or accomplished through narrative explanation elsewhere.
13. Accomplishing the broad objectives requires different types of financial statements. For example, users expect to assess the level and composition of resources that can be used to provide future services and the claims against those resources. Also, users expect to assess the government's adherence to legislation that establishes the entity's budget and to assess the likelihood that future budgetary resources would be sufficient to sustain services. Accordingly, financial reports may include budgetary and accrual basis statements and statements presenting projections.
14. Understandable interrelationships among the statements can be accomplished in the following manner:

- a. articulation among the statements, presenting financial statements in a manner such that the relationships among them are self-evident;
 - b. if the relationships among the statements are not self-evident, a reconciliation on the face of the statements could be shown; or
 - c. the relationships could be described in a narrative disclosure.
15. In addition, the MD&A should discuss the relationships among the basic financial statements and the significant differences in the information they provide.
 16. The federal financial reporting objectives are broad and financial statements cannot reasonably be expected to achieve all of them. As a result, financial reports include disclosures and RSI.
 17. Disclosures are an integral part of financial statements. They can provide more detailed information related to the items and amounts presented on the face of financial statements. Also, disclosures can help enhance user understanding by defining items, explaining how items are measured, and discussing their relationships.
 18. In addition, RSI provides information important and relevant to the reporting objectives and may be expressed in other than financial measures or may not be subject to reliable estimation. RSI may also be useful for presenting multiple periods of information to help identify trends. Accordingly, RSI may provide a lower cost approach to presenting disaggregated information.
 19. Also, RSI may link relevant information in related reports. The RSI should discuss what information is included in other reports and how it relates to the information presented in the financial statements.
 20. Achieving the reporting objectives may require information from a variety of sources. However, a variety of disparate sources can result in redundant, incomplete, or inconsistent presentations. Consequently, GAAP provides criteria to facilitate the exchange of information among the sources and user understanding and ensure that financial statements, disclosures, and RSI are complete.

RELATIONSHIP BETWEEN FINANCIAL REPORTS AND OTHER FINANCIAL REPORTING

Financial reports are significant to providing useful information to meet the common needs of various users. They are essential for demonstrating accountability and supporting decision making. However, it is unlikely that financial reports can provide all the information that a user may need for decision-making. Consequently, other sources help achieve the reporting objectives. Some other sources may rely on the same terminology and data sources used in preparing financial statements to present information at the level of detail needed by the decision maker.

21. Financial reports prepared in conformity with GAAP are significant to providing useful information to users. They seek an integrated mechanism for meeting the reporting

objectives in a single, general purpose federal financial report, focusing on certain qualitative characteristics to facilitate an effective presentation. Consequently, it is not likely that the report can provide all the information that a user may need for decision-making.

22. Other reporting sources may also seek an integrated presentation and provide financial information that may complement financial reports prepared in conformity with GAAP when consistent data standards are used. They may provide information on assets, liabilities, obligations, revenues, expenses, and/or other items. Consequently, both financial reports and other sources may share the same underlying data and systems.
23. However, their objectives of reporting may differ. The objective of other sources may be to address specific questions or present the details of certain types of information, such as the entity's recorded obligations during the period. Such reporting is not intended to comprehensively portray the economic events and transactions of the entity.
24. Users may need reports that address specific issues and, accordingly, consult other reporting sources that provide relevant information in light of the reporting objectives and which may be understandable and timely. These reporting sources may provide budgetary or performance information, or information on the economy. Consequently, these sources may be directed to particular users, such as expert analysts or internal users who have agreed on the form and content of the information and time of delivery. In addition, users may access the sources and create their own reports.
25. Financial reporting in general may leverage technology to create tools providing greater access. The degree to which tools achieve the reporting objectives may depend on user understanding and the quality of available tools. Certain objectives can be met with different levels of aggregated information and require non-financial information. Also, highly interactive presentations would enhance a user's experience with the data and help them access the data they need.
26. In addition, highly interactive technology could be used to enable users to aggregate and disaggregate items presented in financial reports, such as the cost of services. For example, users expect information on the cost of government services and may seek disaggregated information by object class. Reporting could allow the user to interactively select the summary level cost item and move to greater detailed items.
27. However, other sources of reporting and interactive tools may not be exposed to the same level of discipline as GAAP sources. They may not be subjected to an audit and may be prepared using differing criteria with respect to the recognition of events and transactions. Consequently, the information may not have the same level of reliability as GAAP reporting and may not ensure comparability among entities or periods of time.
28. [Placeholder for illustrating the relationship between financial reports, including financial statements, disclosures, and RSI and other sources of financial information.]

29. To enhance consistency and avoid user confusion, financial reports – whether GAAP or other sources – should be interoperable.² A set of criteria may be needed to facilitate interoperability. For example, criteria allowing meaningful aggregation of comparable data within a reporting entity or across government. At a minimum, to support interoperability, publicly available financial reporting sources should:

- a. Rely on consistent and uniform terminology for concepts, practices, and techniques (SFFAS 4, par. 26) by adopting common data elements as well as recognition and measurement requirements to the extent practicable.
- b. Adopt consistent approaches to aggregating data by reporting entity, responsibility segment, strategic goals, program activity, programs, and/or recipients.
- c. Draw cost information developed for different purposes from a common data source³ and support its reconciliation to other sources. (SFFAS 4, page 13 – text box and par. 41-44.).
- d. Identify the basis of accounting to aid users and provide a common access point for all financial reports.

REPORTING BY GOVERNMENT-WIDE AND COMPONENT REPORTING ENTITIES

30. There are two levels for which financial information needs to be reported: the government-wide and component levels. Because the levels have different users for their financial statements as well as different structures, roles, and financing, their financial reporting needs to be different. Both levels of reporting should explain their relationships and differences.

THE GOVERNMENT-WIDE REPORTING ENTITY

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

² The term interoperable refers to a widely-accepted, nonproprietary, searchable, platform-independent, computer-readable coding standard.

³The common data source may include different kinds of data – financial and non-financial – and “data source” is not meant to imply a computerized system. Rather it is used in a broad way to include many sources. The key is that the sources be clearly defined, heavily rely on the system of record, and have integrity.

31. The Constitution established the structure of the federal government; that is the three branches of government and their roles. Each of the three branches has a role in the basic decisions that describe the intent of government and the actions that give force to those decisions. It is through the Executive Branch and its components that the federal government provides most services and acts to finance those services through the means established in law.
32. The federal government is responsible for the nation's welfare and accordingly provides diverse services, such as: military forces to deter war and protect the nation; guaranteed or direct loans for housing, disaster relief, education, agriculture and other needs; deposit insurance; economic assistance to the unemployed, elderly, and disabled; agriculture and food research; and numerous others.
33. 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.
34. Also, the federal government may accomplish its objectives without outlaying funds. For example, to encourage home ownership and stimulate residential construction, the federal government may approve tax provisions that reduce the tax liability for taxpayers that meet particular criteria. In addition, the federal government may not tax certain activities, thereby creating incentives for individuals to invest in certain assets.
35. The federal government can continue to provide services even when the cost of providing those services exceeds the amount of revenues received. Also, there is limited competitive market constraint on the number and types of services that the government can provide. The unique responsibilities and powers of the federal government mean it operates with fewer restraints than other entities and elevates the important role financial reporting.⁴
36. However, the federal government is vulnerable to long-term pressures that create financial risks. Such pressures may include demographic, economic, and environmental trends. For example, the aging of the nation over the long-term may significantly increase the need for health care and retirement services and require additional costs in the future. The increased costs may occur at a time when citizens also expect the federal government to provide disaster assistance, stimulate a stagnant economy, and meet its obligations such as interest payments on debt.
37. In addition to the government's vulnerability to long-term pressures, citizens may expect the federal government to respond to a crisis and provide assistance. For instance, in response to the financial crisis in 2008, the federal government provided temporary assistance to government-sponsored enterprises. However, the enterprises were not specifically backed by the federal government.
38. Given the federal government's unique financing capabilities and long-term and crisis-related risk exposures, conventional measures of net income and cumulative earnings are not adequate measures of the value of the government's services and performance.

⁴ SFFAC 1, par. 49. See also par. 50-70 for a more detailed discussion of the federal government.

39. Financial report users such as the Congress expect highly aggregated information to address and plan for long-term financial and programmatic operations and sustainability of the government. This expectation indicates the need for a consolidated report that aggregates distinct government functions, the government-wide reporting entity level.
40. The government-wide reporting entity level presents the economic aspects of the government as a whole and all its revenues and costs. This highly aggregated reporting level reflects the federal government's power to tax, charge fees, and borrow to finance the cost of services already provided and invest in needed assets. The government-wide reporting entity also presents information needed to assess the federal government's ability to continue, both now and in the future, current policy without change regarding public services and taxation without causing debt to rise continuously as a share of gross domestic product (GDP).
41. Given the operations of the government-wide level, information useful for demonstrating its accountability and decision-making may include :
- a. Revenues. Users expect to understand the sources and amounts of taxes and other revenue received.
 - b. Costs. Users expect information on the how resources were used .
 - c. Overall results of operations. Users expect to know whether taxes and other revenues raised were sufficient to provide the volume of services or whether financing was needed.
 - d. Tax Expenditures. Users expect a comprehensive perspective of the government's services, including services that reduce the tax liability for taxpayers engaging in certain activities.
 - e. Financial Position. Users expect information that helps them identify the resources of the government and the claims against those resources as of the reporting date. Additionally, they expect to know the degree to which the government has executed its responsibility in managing the resources and the level and composition of resources available for use in providing future services. Also, users expect information to assist them in assessing the amount and timing of future cash flows.
 - f. Budgetary Legislation. Users expect to understand the legislative processes for determining the level of resources to raise from taxes, how the resources will be used, and the different measures that may be used to control funds.
 - g. Sustainability of services. Users expect information to assess whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come. .
42. Government-wide report users are primarily concerned about the government's financial condition. They expect financial reports to provide information that would assist them in understanding whether the federal government's financial condition has improved or

deteriorated. Users understand that the federal government’s financial condition has implications on the nation’s well-being and vice versa.⁵

43. Government-wide financial reporting should present the trends in the government’s financial condition. In particular, financial statements and disclosures should assist report users in:
 - a. understanding the government’s financial condition at the end of the reporting period and how it changed from previous periods;
 - b. understanding the different sources of financing the cost of services now and in the future;
 - c. understanding the cost of services now and in the future;
 - d. finding relevant information on the nation’s economy; and
 - e. finding relevant information on the government’s accomplishments.
44. The government-wide reporting level should assist readers in understanding that the federal government engages multiple organizations—including state and local governments, nonprofits, and private sector partners—in delivering services and the organizations frequently provide related services. The public is not always aware of the organizations involved in providing services and generally focuses on the services that impact them.

THE COMPONENT REPORTING ENTITY

The objective of component entity reporting is to provide users with financial and non-financial performance information about the services that the government provides.

45. Component reporting entities receive authority by delegations made in the legislative and regulatory process. Their missions and reporting requirements are established in various laws enacted over time resulting in a complex network of operations and services. Components across the federal government are diverse and the scope and nature of each component’s activities can be diverse and at times overlap.
46. Some components can be considered operating components and others central components. Operating components primarily provide services to the public while central components generally provide services to the government as a whole and some components are both operating and central. For example, as an operating and central component, the Department of the Treasury collects the revenue for the federal government and enables components to provide services; issues payments for most agencies; operates financial and regulatory programs, and prepares and presents government-wide financial information.

⁵ SFFAC 1, par. 236.

47. A single component could have several sub-components that provide several distinct services and each service could have a discrete set of stakeholders. For example, a single component could be responsible for providing direct regulatory responsibility, respond to the release of hazardous materials, provide grants for the construction projects, and provide direct loans. Each of these services could have a unique group of stakeholders interested in the services' activities.
48. Different components can provide similar services across government. Various laws enacted over time contribute to various components having responsibility for similar services. For instance, numerous laws govern the nation's food safety services and 15 federal entities collectively administer the effort.⁶ Also, multiple departments have multiple services to support individuals with serious mental illness.
49. To control the resources of individual components and ultimately the federal government as a whole, Congress determines whether components begin, continue, or terminate specific services and, where appropriate, collect revenues, incur obligations, and pay obligations.
50. Components typically are not provided with cash to operate and provide services. Instead, Congress engages in different legislative processes to provide components with budget authority or the authority to incur financial obligations that will result in spending. Component entities may not spend more than Congress has provided and may only use funds for the purposes specified in legislation. The legislative process can involve a single phase or two phases, depending on whether the service is mandatory or discretionary.
51. For mandatory services the authorizing legislation provides budget authority. Those services include entitlement services such as Medicare and Medicaid, Social Security, Veterans Benefits, Federal Employee Retirement, and others.
52. For discretionary services, Congress (1) authorizes the service and (2) provides appropriations or the authority to incur obligations for specific purposes. An appropriation can be limited to a single year, multiple years, or be available indefinitely. Also, appropriations can be made available prior to or within the fiscal year or can be permanent, always available without Congressional action.
53. Because the legislative processes for funding are not necessarily component specific, a single component may receive mandatory or discretionary funding or both.
54. Components are stewards over the funding provided and have a legal responsibility to: establish and maintain financial management systems; and to evaluate and report on their systems of internal accounting and administrative control.
55. Citizens interested in greater detail will be served by component level reports.
56. Reports about specific components may be of greater interest to internal users such as Congress, appointed officials, senior executives, and others with oversight responsibilities. Congress expects highly disaggregated information to address short-term financial and programmatic operations of the government. Also, component reports may be of interest to

⁶ Government Accountability Office 2015 High Risk Report

users in the component's field. For instance, educators may be interested in the Department of Education's financial report, and environmentalists may be interested in the Environmental Protection Agency's financial report.

57. Individual component financial reports have limitations and cannot inform a reader about activity across multiple component levels.
58. In light of the reporting objectives, component level reporting may help inform users regarding a component's:
- a. different sources and amount of funding;
 - b. use of funding for specific goals or services;
 - c. total cost of services;
 - d. status of resources (assets) available to provide future services and obligations (liabilities) that must be met in the future; and
 - e. accomplishments or performance information.

59. Due to the diversity of federal services it is challenging for individuals to evaluate and influence policies and actions of the federal government.⁷ SFFAC 1, par. 59 states,

As a result, most elected and appointed federal officials, and the groups to which they are responsive, have been interested primarily in information about individual government programs, functions, or activities. They have been less interested in information about the government as a whole and even less concerned about intermediate levels of reporting, such as individual departments.

60. Also, users are concerned more about the purposes for which costs were incurred and less about how the organization is managed. Component level financial reports may help inform users of the major services provided and their costs. To do so, disaggregated information must be provided and financial reports can provide a starting point for disaggregation.
61. In addition, financial reports should strive to disaggregate cost information in a way that is meaningful to users. However, financial reports cannot provide adequate disaggregation for all users. Greater disaggregation may be provided by leveraging technology. Consistent definitions of cost should be used because users may compare cost within and across components and consistent definitions are essential to such comparisons.

BUDGETARY INFORMATION

Budgetary information is helpful for demonstrating compliance with budgetary legislation. Users expect to assess how well the government adhered to legislation regarding the

⁷ SFFAC 1, par.58.

acquisition and use of resources. Also, an explanation of basic federal budget concepts and processes may provide the context relevant to their assessment.

62. Users expect the government to explain its plans for future periods including its resource requirements, the services it expects to deliver, and the level of resources it expects to use to deliver those services.
63. Taxes are the primary source of revenues for the delivery of government services and taxpayers expect to compare the actual level of revenue and expenses with the amounts estimated to determine how well the government adhered to its estimates and the legislation.
64. In addition, federal managers expect to monitor adherence to budgetary legislation. They expect to compare their budgetary resources with obligations.
65. Also, users expect to assess whether the resources obtained have been used in accordance with legislation that establishes the government's budget.
66. Providing information that would assist users in determining how well the government adhered to estimates and the government's adherence to legislation regarding the use of budgetary resources is significant to demonstrating accountability.
67. Also, discussing the distinction between mandatory and discretionary spending, the federal budget execution process, and basic federal budgeting concepts in financial reports may be helpful to users. This information may help users understand the different elements involved in depicting budgetary aspects of transactions and how they relate to elements depicting accrual basis aspects in financial statements. In addition, users would need to understand basic federal budgeting concepts and processes to determine how to conduct their analysis of budgetary information.

BASIC CONCEPTS TO CONSIDER

68. The majority of federal spending is not subject to an annual appropriations process. Congress primarily provides budget authority in laws other than appropriations acts. Annual appropriations acts only fund about one-third of total spending while authorizing legislation controls the remainder.⁸ Authorizing legislation can provide reporting entities with the authority or requirement to spend without requiring the Congressional Appropriation Committees to enact funding.⁹
69. The federal budget provides a system for controlling expenditures and information for assessing the government's effect on the economy.¹⁰ It also presents the level of public services that the government provides.¹¹

⁸ Office of Management and Budget, Analytical Perspectives, Budget of the U.S. Government, FY 2016, p.93.

⁹ Analytical Perspectives p.93.

¹⁰ SFFAC 2, par. 67.

¹¹ Analytical Perspectives p.115.

70. Federal financial systems integrate budgetary and accrual basis data on transactions. Systems include terms for items and concepts specific to federal budgeting and may require explanation. For instance, systems include items such as budget authority, obligations, and outlays. These items are integrated with other budget data and accrual basis data such as revenue, expenses, assets, and liabilities. As a result, the systems maintain information about different stages of a federal transaction.¹²
71. Budgetary measurement is intended to help in controlling and allocating resources and reflects the cash outlay implied at the time a decision is made.¹³
72. The budget classifies budget authority and spending as discretionary or mandatory to measure the extent of spending actually controlled through the appropriation process. Discretionary budget authority is generally provided through annual appropriations. Mandatory budget authority is available to programs for which the authorizing legislation entitles beneficiaries—persons, households, or other levels of government—to receive payment, or otherwise legally obligates the Government to make payment and thereby effectively determines the amount of budget authority required, even though the payments are funded by a subsequent appropriation.¹⁴
73. While this distinction between mandatory and discretionary is commonly used, the substance relates primarily to frequency with which authority is provided and evaluated. For example, an “entitlement” can be provided through an annual appropriation that is renewed each year and an existing “permanent” entitlement can be rescinded by new laws at any time.
74. Congress decides on targets for: spending and receipts; the amount of the deficit or surplus; and the limit on debt. Upon determining the targets, Congress provides component entities with budget authority and enacts changes in laws affecting receipts and spending.¹⁵ If they determine that additional authority is needed due to unforeseen circumstances, Congress may enact a supplemental appropriation.
75. The forms of budget authority include:
- a. Appropriations - Provided in appropriations acts or authorizing laws, permit agencies to incur obligations and make payment;
 - b. Borrowing Authority - Usually provided in permanent laws, permits agencies to incur obligations but requires them to borrow funds, usually from the general fund of the Treasury;
 - c. Contract Authority - Usually provided in permanent law, permits agencies to incur obligations in advance of a separate appropriation of the cash for payment or in anticipation of the collection of receipts that can be used for payment; and

¹² SFFAC 1, par. 176.

¹³ SFFAC 1, par. 189.

¹⁴ Analytical Perspectives, pp. 103.

¹⁵ Analytical Perspectives p.92.

- d. Spending Authority from Offsetting Collections - Usually provided in permanent law, permits agencies to credit offsetting collections to an expenditure account, incur obligations, and make payment using the offsetting collections.¹⁶ Offsetting collections are deductions from spending to reflect the government's net transactions with the public. They may result from business-like transactions with the public, intragovernmental transactions, voluntary gifts and donations, and offsetting governmental transactions or collections from the public that are governmental in nature such as tax receipts.¹⁷

76. Upon receiving their budget authority, component entities incur obligations to purchase goods or services. For example, an obligation is considered incurred when the component enters into a contract. When components make payments to liquidate the obligation, an outlay is recorded and outlays are the measure of government spending.¹⁸

Also, budget authority is not always obligated or spent during a single year. Outlays may liquidate obligations incurred in previous years and obligations may be incurred against unobligated budget authority provided in prior years. As a result, outlays flow from current and prior period budget authority.

PERFORMANCE INFORMATION

The government has continuing responsibility for the nation's common defense and general welfare. This involves many goals and objectives and financial measures alone are not adequate to enable users to assess the government's operations. Consequently, performance information is needed to help provide context for the financial measures and help users assess the efficiency and effectiveness of the government's services.

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

78. Also, in some instances, the government's performance may be communicated by an explanation of the quality of the services or the service's outcome. For example, quantifiable units of outputs may be less identifiable for reporting entities with regulatory or policy-oriented goals. Consequently, an explanation of what was planned to be achieved and the actual progress may inform users.

79. Presenting performance information in financial reports provides context and helps users understand why the costs reported in the financial statements were incurred and the

¹⁶ Analytical Perspectives pp.102-103.

¹⁷ Analytical Perspectives pp. 99-100.

¹⁸ Analytical Perspectives pp.103.

consequences of doing so. In addition, how well the government met predetermined goals can help inform decisions about what services to deliver in the future.

80. Performance measures that may be helpful to present include:

- a. Output - the quantity of a service or product provided.
- b. Outcome - the accomplishments or results that occurred because of the service.
- c. Efficiency - relate inputs to outputs of services, measuring the cost per unit of output.
- d. Effectiveness - relate inputs to the outcomes or results of services, measuring the cost per unit of outcome or result.

81. In addition, presenting multiple periods of performance information help users identify long-term trends. Trend information can be helpful for evaluating services and planning future services.

82. Also, including explanations with the performance information may help users understand the reported performance measures and the factors that impact the reported performance. Explanations may include: external factors affecting results, such as the environment, economy, and social conditions; and internal factors affecting results, such as funding levels, legal requirements, significance of result, explanation of trends, reasons why the results did not achieve the target and plans for achieving the target, and reasons for significantly exceeding the target.

COST ACCOUNTING

Cost accounting is important for reporting on the performance of the government's services. Citizens expect information on the cost of services and how well the government manages its resources. Also, comparing cost to the performance of services can be useful to managers when choosing among alternative actions and for formulating their budget proposals. Consequently, cost information can be beneficial for all user groups, internal and external.

83. The cost of services and how well the government manages its resources is a significant concern of users. Increasing costs and inefficient use of resources may lead to increased national debt and the potential for tax increases. Consequently, the cost of current services and their results is relevant to decisions about future services.

84. Reporting costs in the proper period is important for assessing the government's performance. Information relevant to assessing the government's performance includes comparing the resources consumed with the services provided during the reporting period. Accordingly, costs must be recorded in the same period that the services were provided to facilitate the comparison.

85. For reporting purposes, economic events can be measured using different bases, such as cash, obligation, or accrual basis. When using the cash basis, events are recorded on the basis of cash flows. For instance, revenues are recognized when cash is received and costs are recognized when cash is paid. While this basis may be relevant to managing cash and borrowing needs, it is less relevant to assessing the performance of services. The basis could distort the current year costs of services because it does not include the consumption of resources paid for in previous years.
86. Also, to demonstrate compliance with legislation established in authorization and appropriation acts, component entities apply the budgetary or obligation basis. This basis recognizes economic events when the government enters into agreements which obligate the government to make payments in the future, such as placing orders or awarding contracts. Because it primarily focuses on the purchase of resources, the obligation basis is less relevant for reporting on how well the government used the resource after its purchase.
87. Using the accrual basis, costs are recognized when resources are consumed. As a result, the accrual basis facilitates an assessment of service performance because costs reflect the resources consumed in the same period that the services were provided. It helps users determine how well the government used resources after their purchase.
88. Citizens, Congress, government executives, and government managers expect to assess the cost of government services and determine the efficiency and effectiveness of service delivery. Accrual basis costs are recognized to facilitate comparisons of resource use with service delivery which can help users develop the measures relevant to their assessments.

SUMMARY REPORTING

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

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

APPENDIX A: BASIS FOR CONCLUSIONS

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

PROJECT HISTORY

- A1. The Board developed the initial reporting models for government-wide and component level reporting in the early 90s. The Board believed that users of government-wide level reports primarily expect information to help them determine whether the government has been a proper steward. Accordingly, the government-wide level model consisted of the following components:
- a. management’s discussion and analysis;
 - b. statement of financial position (commonly referred to as balance sheet);
 - c. statement of net costs;
 - d. statement of operations and changes in net position;
 - e. reconciliation of net operating revenue (or cost) and unified budget surplus (or deficit);
 - f. statement of changes in cash balance from unified budget and other activities;
 - g. comparison of budgeted and actual use of resources;
 - h. statement of program performance measures;
 - i. accompanying footnotes;
 - j. required supplementary information; and
 - k. other accompanying information.
- A2. For component level reporting, the Board believed that aspects of each of the four reporting objectives should be achieved. Consequently, the component level model consisted of the following components:
- a. management’s discussion and analysis;
 - b. statement of financial position (commonly referred to as balance sheet);
 - c. statement of net costs;
 - d. statement of changes in net position;
 - e. statement of custodial activities, when appropriate;
 - f. statement of budgetary resources;

- g. statement of financing;¹⁹
 - h. statement of program performance measures;²⁰
 - i. accompanying footnotes;
 - j. required supplementary information; and
 - k. other accompanying information.
- A3. Also, the Board acknowledged that users expect information on component level programs. The Board noted that a component could consist of many dissimilar activities and the activities of a specific program or multiple programs are as important to users as information on the entire component. Hence, the Board expressed that components may, in some manner, provide information concerning programs in addition to information on the entire component.²¹
- A4. However, the resulting model did not provide users with the different levels of aggregation being sought. The statements of net cost appeared to present strategic goals and highly aggregated information that may not be meaningful to citizens. Also, readers may have difficulty relating to department-level strategic goals. They would need to review notes to understand the details that support the broad goal. Citizens may be more likely to understand cost by function, which would require a lower level of aggregation.
- A5. However, there are complexities involved in presenting data at that level as well. In particular, the function categories are broad and, in some cases, appear to overlap. For instance, Health and Medicare are separate functions but both appear to concern healthcare services.
- A6. In addition, the Board noted that the budgetary integrity objective could be better achieved. Participants in roundtables and other discussions have noted that the statement of budgetary resources is challenging to understand and they noted that other possible presentations could be more useful, such as a schedule of spending or a budget to actual comparison.
- A7. Also, the resulting government-wide and component level models needed to better leverage technology. Although the models provided extensive information for users, constituents expressed concern about the length of the documents and technical language used. These features would require more use of their time to discern what is being reported and how the information might be used. They preferred to initially review brief depictions such as a single page summarizing the most important matters, charts, or graphs, and the depictions needed to be highly interactive, including links from one source to another and drill-down capability.
- A8. Moreover, users sought better integration of the budget and cost of services, and their results.

¹⁹ Component entities could present the Statement of Financing as a financial statement or as a schedule in the disclosures.

²⁰ FASAB has not developed standards to require the Statement of Program Performance Measures.

²¹ SFFAC 2, Entity and Display, par. 75.

APPENDIX B: ILLUSTRATIONS

This appendix illustrates the application of the provisions of this Statement to assist in clarifying their meaning. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the situations or methods illustrated. Additionally, these illustrations are not intended to provide guidance on determining the application of materiality. Application of the provisions of this Statement may require assessing facts and circumstances other than those illustrated here and require reference to other applicable Standards.

APPENDIX C: ABBREVIATIONS

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

APPENDIX D: GLOSSARY
