



June 11, 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 April 2015 meeting, the Board discussed the main aspects of an ideal reporting model concepts statement. Board members reviewed an outline of the concepts initially developed during the February 2015 meeting. The outline presented several topics, including: the two levels of the federal government's stewardship; intergovernmental financial dependency; financial statements and the interrelationships among them; budgetary reporting; performance reporting; and cost accounting.

Although the current conceptual framework discusses some features of these topics, the Board believes the topics are important for developing an ideal reporting model.

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

While the outline proposed a discussion on national indicators, members were generally not supportive of discussing this topic given that government policies do not always directly influence the indicators. Members believed that discussing the different topics could help clarify the role of the Board and how financial reports presented in conformity with generally accepted accounting principles (GAAP) relate to budgetary and other non-GAAP financial reporting by federal departments and agencies.

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. Financial Condition, Different from Financial Position

To help achieve the Stewardship objective of federal financial reporting, the draft concepts document discusses that government-wide financial reporting should present trends in financial condition. Footnote 1 of the draft provides an excerpt from Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, paragraphs 180 and 181 and discusses the difference between financial condition and financial position as follows:

180. As more environmental data are added to the core data, a concept that is broader and more forward-looking than “financial position” emerges. That concept is “financial condition.” For the U.S. government, the additional data could include financial and nonfinancial information about current conditions and reasonable expectations regarding the national and even the global society. For example, the expected implications of environmental degradation; the relative competitiveness and productivity of the U.S. economy; or expected changes in the population’s composition in terms of age, gender, longevity, education, health, and income all might affect judgments about the government’s financial condition.

181. Information about financial condition can be conveyed in a variety of schedules, notes, projections, and narrative disclosures. Among the most important of these is management’s “discussion and analysis” of known trends, demands, commitments, events, and uncertainties. For federal reporting entities, management’s discussion and analysis might address such topics as budgetary compliance; internal control systems; capital resources and investments; service efforts, accomplishments, and results of operations; and the reasonably possible future impact of known trends, risks, demands, commitments, events, or uncertainties that may affect future operations.

The discussion helps ensure that readers understand that the terms are not synonymous and different information should be presented.

- a. Do members agree that financial condition is different from position?
- b. Does the text from SFFAC 1, paragraphs 180 and 181 need to be updated or expanded to help distinguish the difference?

2. FASAB's Priorities

The Board's Strategic Directions document states that the Board's primary near-term focus objectives are the Operating Performance and Stewardship objectives while its secondary near-term focus objectives are Budgetary Integrity and Systems and Control. The Board believed that Operating Performance was its top priority because the objectives are interrelated and focusing on Operating Performance would allow for progress on all the objectives.²

The draft concepts discuss FASAB's priorities with respect to the objectives and the scope of its role with respect to Budgetary Integrity and Systems and Control (pars. 6-10). The Board has included a discussion of its role in earlier concepts, such as SFFAC 1, and the draft concepts reference SFFAC 1 but do not amend it.

- a. Do members agree that the focus on two of the four established objectives should be documented in the conceptual framework?
- b. If so, do members believe an amendment is needed to SFFAC 1 to ensure objectives are clear?
- c. Do members have comments on the FASAB's Priorities discussion in the draft concepts?

3. Financial Reporting

The Financial Reporting discussion in the draft concepts (pars. 11-25) draws heavily from SFFAC 1. The fact that there have always been many financial reporting sources was recognized then and sources have since expanded to transparency websites such as USASpending.gov. The discussion emphasizes the role of GAAP financial reports as well as the long-standing desire for consistent terminology and data sources. The discussion also begins to address interoperability (a goal articulated in the DATA Act).

- a. Do members agree with the characterization of GAAP reports (pars. 13-17)?
- b. Do members agree with the discussion of interoperability at par. 25?
- c. Do members wish to explore interoperability further?

4. Financial Statements

The Financial Statements section of the draft concepts discusses financial statements (pars. 26-36), including disclosures and required supplementary information.

² FASAB's Strategic Directions, p.16.

- a. Do you agree with the concepts discussed regarding financial statements?
- b. What additional concepts should be discussed regarding financial statements and why?

5. The Government-wide Reporting Entity

The Government-wide Reporting Entity section (pars. 38-52) of the draft concepts discusses the government-wide reporting entity and the term “financial condition” is used in the discussion. However, the term is not used in the component reporting entity discussion. This is a key difference to consider in responding to the following questions.

- a. Do you agree with the concepts discussed regarding the government-wide reporting entity, including the information that the government-wide entity should provide (pars. 46-52)?
- b. What additional concepts should be discussed regarding the government-wide reporting entity and why?

6. The Component Reporting Entity

The Component Reporting Entity section (pars. 53-70) of the draft concepts discusses the component level reporting entity.

- a. Do you agree with the concepts discussed regarding the component level reporting entity, including the information that the component level entity should provide (pars.68-70)?
- b. What additional concepts should be discussed regarding the component level reporting entity and why?

7. Budgetary Information

The Budgetary Information section (pars. 74-83) of the draft concepts discusses budgetary information.

- a. Do you agree with the concepts discussed regarding budgetary information, including what should be presented in financial reports (pars.81-83)?
- b. What additional concepts should be discussed regarding budgetary information and why? For example, the following might be discussed:
 - i. Should financial reporting include a comparison of budget to “actual”?
 - ii. If a comparison should be provided is actual:
 1. outlays
 2. the status of resources shown on the current SBR
 3. accrual results of operations?
- c. Should budgetary statements identify mandatory and discretionary spending?

8. Performance and Cost Accounting Information

- a. Staff has started drafting the Performance Information (pars. 84-88) and Cost Accounting (pars. 89-91) sections of the draft concepts statement. What additional concepts or topics should be discussed?

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

MATERIALITY

2. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.
3. New para

PROPOSED CONCEPTS

FEDERAL FINANCIAL REPORTING OBJECTIVES

4. 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 objectives are the foundation for all other concepts. Thus, other concepts should flow logically from the objectives. 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 condition¹ 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

¹ SFFAC 1 - 180. As more environmental data are added to the core data, a concept that is broader and more forward-looking than "financial position" emerges. That concept is "financial condition." For the U.S. government, the additional data could include financial and nonfinancial information about current conditions and reasonable expectations regarding the national and even the global society. For example, the expected implications of environmental degradation; the relative competitiveness and productivity of the U.S. economy; or expected changes in the population's composition in terms of age, gender, longevity, education, health, and income all might affect judgments about the government's financial condition.

181. Information about financial condition can be conveyed in a variety of schedules, notes, projections, and narrative disclosures. Among the most important of these is management's "discussion and analysis" of known trends, demands, commitments, events, and uncertainties. For federal reporting entities, management's discussion and analysis might address such topics as budgetary compliance; internal control systems; capital resources and investments; service efforts, accomplishments, and results of operations; and the reasonably possible future impact of known trends, risks, demands, commitments, events, or uncertainties that may affect future operations.

accounting standards; assets are properly safeguarded to deter fraud, waste, and abuse; and performance measurement information is adequately supported.

5. The objectives reflect the needs of external and internal users and, due to their breadth and depth, a variety of federal sources of financial information can help achieve them. The objectives require reporting budgetary and accrual basis information, projections, and information about the national economy and society and different federal organizations contribute to providing the information. For example, the Office of Management and Budget provides budgetary information for the federal government, departments and agencies present information on their service efforts, costs, and accomplishments, and the Department of the Treasury provides information on the federal deficit, revenues, expenses, debt, and financial condition. In addition, the different organizations utilized specific systems and methods of delivering the information such as several interconnected pages on the World Wide Web or websites providing machine readable data, mobile applications, and/or printed documents.

FASAB'S PRIORITIES

6. The overall financial reporting objectives are broad. SFFAC 1, par. 10 notes that they apply to both internal and external financial reports. The intention being to improve the quality of data available for a wide variety of applications. However, their breadth combined with the growth in data sources raise questions regarding the FASAB's priorities; particularly with regard to budgetary integrity and systems and controls. These are viewed as unconventional objectives for a GAAP standards-setting body.
7. The Budget of the United States Government is the most widely recognized and used financial report of the federal government. The budget process is the government's principal mechanism for reaching agreement on goals, for allocating resources among competing uses, and for assessing the government's fiscal effects on economic stability and growth. Budgetary measurement is designed to assist in the control and allocation of resources by showing the cash outlays implied by each decision when the decision is made. While most attention is paid to these future-oriented roles of the budget process, budget execution is designed to control and track tax receipts and the use of resources according to the purposes for which budget authority was approved.²
8. The Board's authority does not extend to recommending budgetary standards or budgetary concepts. However, the Board is charged with giving consideration to "the budgetary information needs of executive agencies and the needs of users of federal financial information"³ and has committed to supporting efforts to ensure the accuracy and reliability of reporting on the budget. While budgetary and financial accounting information are based upon distinct standards, the information is, in effect, about different stages of the same transaction and relationships among the information can be understood.⁴

² SFFAC 1, par. 187-190.

³ FASAB Memorandum of Understanding, October 2009.

⁴ SFFAC 1, par. 176.

9. With respect to the Board's focus,⁵ SFFAC 1, paragraph 191 states,

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

10. Consequently, federal financial reports should support access to budgetary and accrual basis financial information. Nonetheless, given the limited role of the Board with respect to budgetary standards and concepts as well as the evolution of systems and controls reporting since the early 1990s, the Board's primary role will be to improve information measured on an accrual basis. This will require the Board to focus on the operating performance and stewardship objectives.

Questions for the Board:

1. The above discusses but does not amend SFFAC 1.
 - a. Do members agree that the focus on two of the four established objectives should be documented in the conceptual framework?
 - b. If so, do members believe an amendment is needed to SFFAC 1 to ensure objectives are clear?
 - c. Do members have comments on the above text?
-

FINANCIAL REPORTING

11. A financial reporting package should explain the purpose, importance, and kinds of information being reported to users and the relationships among the kinds of information. The federal financial reporting objectives can be achieved by a variety of sources. However, a variety of disparate sources can result in redundant, incomplete, or inconsistent presentations. Consequently, a set of criteria is needed to facilitate the interoperability or exchange of information among the sources and user understanding.
12. Financial reporting should align different sources of information to effectively achieve the reporting objectives and is made more useful by the integration of information regarding the federal government's:

⁵ The American Institute of Certified Public Accountants (AICPA) designated FASAB's as the source of generally accepted accounting principles (GAAP) for federal reporting entities.

- a. Planned spending to achieve its objectives during the reporting period and actual spending.
 - b. Actual achievements during the reporting period or over time.
 - c. Full costs incurred to achieve its objectives during the reporting period.
 - d. Financial condition at the beginning and end of the reporting period.
 - e. Long-term sustainability of current policies.
13. While the reporting objectives relate broadly to financial reporting, GAAP reporting seeks an integrated mechanism for meeting these objectives in a single general purpose federal financial report. Other reporting mechanisms may not seek integration to the same degree but may offer other advantages such as greater detail and the ability for users to customize reports.⁶
14. 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.
15. GAAP 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.
16. Financial reports prepared in conformity with GAAP should provide information that is highly relevant in light of the objectives and in determining the government's financial condition. GAAP reports should also help ensure that the underlying data has a level of reliability. GAAP financial reports are subjected to auditing and require disciplined systems and internal controls which may lead to more reliable data for use in other financial reports including those that allow users to query transaction data.
17. While GAAP 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.
18. Other reporting sources complement financial reports prepared in conformity with GAAP when consistent data standards are used. Other financial reporting sources may help users better understand the amounts reported and provide a more detailed view of the government's financial activities.
19. Other reporting may also provide relevant information in light of the objectives and may be understandable and timely. Other reporting sources may provide budgetary or performance

⁶ SFFAC 1, par. 5 and 6.

information, or information on the economy. 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. Also, users may access sources and create their own reports.

20. Financial reporting is leveraging 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. Highly interactive presentations would enhance a user's experience with the data and help them access the data they need.
21. Tools to facilitate user access and interactivity could include drill-downs, links, query capability such as "googling," and Really Simple Syndication (RSS) Feeds. For example, a search feature could enable a user to perform tasks such as identifying the amount of costs related to a particular service and object class.
22. In addition, highly interactive technology could enable users to aggregate and disaggregate the cost of services, such as the cost of services by object class, at various levels within or across the various reporting levels.
23. Also, when an issue develops in the news media, RSS feeds could be used to assist the public in locating related data on the entity's or entities' website(s). This way, users could gain context for what they learn in the news.
24. 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.
25. To enhance consistency and avoid user confusion, financial reports – whether GAAP or other sources – should be interoperable. 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 source⁷ 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.

Questions for the Board:

- 2. The above discussion draws heavily from SFFAC 1. The fact that there have always been many financial reporting sources was recognized then and sources have since expanded to transparency websites such as USASpending.gov. The discussion emphasizes the role of GAAP financial reports as well as the long-standing desire for consistent terminology and data sources. The above also begins to address interoperability (a goal articulated in the DATA Act).
 - a. Do members agree with the characterization of GAAP reports (pars. 13-17)?
 - b. Do members agree with the discussion of interoperability at par. 25?
 - c. Do members wish to explore interoperability further?
-

FINANCIAL STATEMENTS

- 26. Financial statements assist in providing accurate and reliable information to users. As part of the financial reporting package, they are the basic means of communicating the sources, uses, and status of financial resources and are essential for the federal government in demonstrating accountability.
- 27. GAAP helps ensure that the information financial statements provide is complete. Financial statements aggregate and classify the various items of information and require systems and controls to ensure that all the entity's events, transactions, balances and disclosures are depicted. This leads to highly aggregated information on the face of financial statements which is essential for demonstrating accountability but less useful for making specific decisions.
- 28. Disclosures are an integral part of financial statements. They can provide more detailed information related to the items and amounts presented on the face of financial statements. Also, disclosures can help enhance user understanding by defining items, explaining how items are measured, and discussing their relationships.

⁷The 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.

29. In addition, required supplementary information (RSI) provides information important and relevant to the reporting objectives and may be expressed in other than financial measures or may not be subject to reliable estimation. RSI may also be useful for presenting multiple periods of information to help identify trends. Accordingly, RSI may provide a lower cost approach to presenting disaggregated information.
30. Financial statements are 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 GAGAS 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.
31. 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.
32. 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.
33. Accomplishing the broad objectives requires different types of financial statements, budgetary and accrual basis statements and statements presenting projections.
34. Understandable interrelationships among the statements can be accomplished in the following manner:
 - a. Articulation among the statements. There is value in 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. If such a reconciliation is not feasible on the face of the statements, it could be shown in an accompanying schedule or the relationships could be described in a narrative disclosure.
35. In addition, the MD&A should discuss the relationships among the basic financial statements and the significant differences in the information they provide.
36. Also, supplementary information should include links to relevant information in related reports. The supplementary information should discuss what information is included in other reports and how it relates to the information presented in the financial statements.

Questions for the Board

3. The above discusses financial statements.
 - a. Do you agree with the concepts discussed regarding financial statements?
 - b. What additional concepts should be discussed regarding financial statements and why?
-

REPORTING BY GOVERNMENT-WIDE AND COMPONENT REPORTING ENTITIES

37. Financial statements are provided through two different levels of reporting, the government-wide and component levels, and the nature of the organizations at each level differs. Consequently, the primary users of their financial reports differ and the information they expect differs as well. Both levels of reporting should explain their relationships and differences.

THE GOVERNMENT-WIDE REPORTING ENTITY

38. 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.
39. 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.
40. The federal government has unique capabilities to finance the services provided and accomplish its objectives. It has the power to levy taxes, charge fees, and borrow.
41. Also, the federal government may accomplish its objectives without outlaying funds. For example, to encourage home ownership and stimulate residential construction, the federal government may approve tax provisions that reduce the tax liability for taxpayers that meet particular criteria. In addition, the federal government may not tax certain activities, thereby creating incentives for individuals to invest in certain assets.

42. The federal government can continue to provide services even when the cost of providing those services exceeds the amount of revenues received. Also, there is limited competitive market constraint on the number and types of services 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.⁸
43. 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.
44. 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.
45. 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.
46. 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.
47. 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).
48. The government-wide should 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. Citizens and citizen intermediaries are the primary audiences of this level of reporting.
49. The government-wide financial report should communicate:

⁸ SFFAC 1, par. 49. See also par. 50-70 for a more detailed discussion of the federal government.

- a. How the government is funded (the sources and amounts of tax and other revenue received) and what it does with that funding (expenditures to provide services)
 - b. Provisions that reduce the tax liability for taxpayers engaging in certain activities (tax expenditures)
 - c. Overall results of operations
 - d. What resources were obtained (assets), the obligations created as a result of its activities, and how this changed the federal government's financial position
 - e. An explanation and comparison of the different legislative processes (mandatory and discretionary) for funding services
 - f. Sustainability of services
50. 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.⁹
51. Government-wide financial reporting should present the trends in the government's financial condition. In particular, financial statements and disclosures should:
- a. assist report users in understanding the government's financial condition at the end of the reporting period and how it changed from previous periods;
 - b. assist report users in understanding the different sources of financing the cost of services now and in the future;
 - c. assist report users in understanding the cost of services now and in the future; and
 - d. provide links to information on the nation's economy.
52. 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.

⁹ SFFAC 1, par. 236.

Questions for the Board

4. The above discusses the government-wide reporting entity. Note: The term “financial condition” is used above and will not be used in the component reporting entity discussion. This is a key difference to consider in responding to the following questions.
 - a. Do you agree with the concepts discussed regarding the government-wide reporting entity, including the information that the government-wide entity should provide (par. 46-52)?
 - b. What additional concepts should be discussed regarding the government-wide reporting entity and why?
-

THE COMPONENT REPORTING ENTITY

53. Component reporting entities are agents of elected officials who receive authority by delegations made in the legislative and regulatory process. As agents, 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.
54. 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 for the government as a whole and some components are both operating and central. For example, 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.
55. A single component could 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 for consumer product safety while also providing disaster assistance to those who have lost their property and did not have insurance. Each of these services could have a unique group of stakeholders interested in the services’ activities.
56. Different components can contribute to 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.¹⁰ Also, multiple departments have multiple services to support individuals with serious mental illness.

57. To control the resources of individual components and ultimately the federal government as a whole, Congress provides components with the authority to begin, continue, or terminate specific services and, where appropriate, collect revenues, incur obligations, and pay obligations.
58. As agents, 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 Congress considers the service mandatory or discretionary.
59. 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. The mandatory services are the most financially significant services the government provides.
60. 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.
61. Because the legislative processes for funding are not necessarily component specific, a single component may receive mandatory or discretionary funding or both.
62. 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.
63. Citizens interested in greater detail will be served by component level reports.
64. 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.
65. External users interested in specific topics will not find sufficient detail in a government-wide consolidated report. Also, some components are self-sustaining so component level reports are an important tool for monitoring their financial performance and sustainability.
66. Individual component financial reports have limitations and cannot inform a reader about:

¹⁰ Government Accountability Office 2015 High Risk Report

- a. activity across multiple component levels (cross agency priority goals); and
- b. the likelihood that future budgetary resources will be sufficient to meet future obligations and provide services.

67. Consequently, the long-term sustainability of the government's services must be addressed by a government-wide report on the results of elected officials' plans. A component reporting entity can provide information relevant to financial condition but assessing financial condition of the component itself requires consideration of information from the perspective of the government as a whole.

68. Component level reporting should inform users regarding:

- a. the different sources and amount of funding;
- b. amounts expended for specific goals;
- c. amounts spent for specific services;
- d. the relationship of spending to the amounts budgeted;
- e. the total cost of services;
- f. the status of resources (assets) available to provide future services and obligations (liabilities) that must be met in the future; and
- g. the results of spending or performance information.

69. Due to the diversity of federal services it is challenging for individuals to evaluate and influence policies and actions of the federal government.¹¹ 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.

70. 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 should help inform users of the major services provided and their costs. To do so, disaggregated information must be provided and financial reports provide a starting point for disaggregation. So, 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. Consistent definitions are essential to such comparisons.

¹¹ SFFAC 1, par.58.

Questions for the Board

5. The above discusses the component level reporting entity.
 - a. Do you agree with the concepts discussed regarding the component level reporting entity, including the information that the component level entity should provide (pars. 68-70)?
 - b. What additional concepts should be discussed regarding the component level reporting entity and why?
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OTHER LEVELS OF GOVERNMENT

71. The federal system of government includes federal, state, and local levels of government. The federal government relies on states and local governments to administer and provide services and the federal government provides direct financial flows or indirect financial flows derived from purchases of goods and services and/or payments to individuals within those jurisdictions. Consequently, the responsibilities and financial resources of the levels are intermingled and this system makes it challenging for users to determine accountability for the various services being provided.¹²
72. Also, states and local governments can face fiscal challenges and such challenges affect the nation's fiscal well-being.
73. Financial reporting should help citizens understand the relationships among the different levels of government in providing services.

BUDGETARY INFORMATION

74. The federal budget is the most recognized and used financial report of the federal government and it provides a system for controlling expenditures and information for assessing the government's effect on the economy.¹³ It also presents the level of public services that the government provides.¹⁴
75. Federal financial systems integrate budgetary and accrual basis data on transactions with other entities. Systems include information on budget authority, obligations, outlays, and other budget data in addition to accrual basis data such as revenue, expenses, assets, and

¹² SFFAC 1, par. 52.

¹³ SFFAC 2, par. 67.

¹⁴ Analytical Perspectives p.115.

liabilities. As a result, the systems maintain information about different stages of a federal transaction.¹⁵

76. Budgetary measurement is intended to help in controlling and allocating resources and reflects the cash outlay implied at the time a decision is made.¹⁶
77. Congress does not enact a budget, but 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.¹⁷ If they determine that additional authority is needed due to unforeseen circumstances, Congress may enact a supplemental appropriation.
78. The forms of budget authority include:
- a. Appropriations - Provided in annual 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, to make payment;
 - c. Contract Authority - Usually provided in permanent law, permits agencies to incur obligations in advance of a separate appropriation of the cash for payment or in anticipation of the collection of receipts that can be used for payment; and
 - d. Spending Authority from Offsetting Collections - Usually provided in permanent law, permits agencies to credit offsetting collections to an expenditure account, incur obligations, and make payment using the offsetting collections.¹⁸ 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.¹⁹
79. Upon receiving their budget authority, component entities incur obligations to make payments. For budgetary purposes, 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.²⁰
80. 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.

¹⁵ SFFAC 1, par. 176.

¹⁶ SFFAC 1, par. 189.

¹⁷ Analytical Perspectives p.92.

¹⁸ Analytical Perspectives pp.102-103.

¹⁹ Analytical Perspectives pp. 99-100.

²⁰ Analytical Perspectives pp.103.

81. 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.²¹ While this distinction 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.
82. Financial reports should include a discussion of the budget execution process so that readers understand the different elements involved in depicting budgetary aspects of transactions and how they relate to elements depicting accrual basis aspects.
83. Also, financial reporting should provide information on the use of budgeted resources.

Questions for the Board

6. The above discusses budgetary information.
- a. Do you agree with the concepts discussed regarding budgetary information, including what should be presented in financial reports (pars.81-83)?
 - b. What additional concepts should be discussed regarding budgetary information and why? For example, the following might be discussed:
 - i. Should financial reporting include a comparison of budget to “actual”?
 - ii. If a comparison should be provided is actual:
 1. outlays
 2. the status of resources shown on the current SBR
 3. accrual results of operations?
 - iii. Should budgetary statements identify mandatory and discretionary spending?
-
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²¹ Analytical Perspectives, pp. 103.

PERFORMANCE INFORMATION [TO BE DEVELOPED FOR THE AUGUST MEETING]

84. Financial reports should provide performance information so that users understand why the costs reported in the financial statements were incurred and the consequences of doing so.
85. Financial reports should provide measures of the services' performance that are highly relevant to costs, such as:
- a. Input – resources used to provide services
 - b. Output - the quantity of a service or product provided or the percentage of the target group provided the service or product, and that ideally meets a certain quality requirement;
 - c. Outcome - the accomplishments or results that occurred because of the service.
 - d. Efficiency - relate inputs to outputs of services, measuring the cost per unit of output.
 - e. Effectiveness - relate inputs to the outcomes or results of services, measuring the cost per unit of outcome or result.
86. Also, financial reports should include explanations to help users understand the reported measures and the factors that may have impacted the reported performance. Consequently, financial reports should include information on the goals, service efforts, and accomplishments of the reporting entity.
87. Qualitative characteristics of performance information are as follows:
88. The relationship of cost to strategic goals

COST ACCOUNTING [TO BE DEVELOPED FOR THE AUGUST MEETING]

89. Cost accounting is important for reporting on the performance of the governments' 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.
90. Discuss:
- a. The relationship between cost and spending
 - b. Discuss the importance of full costs versus amounts budgeted or cash paid
91. Discuss at what level cost accounting is considered appropriate

- a. At the level reported in the Statement of Net Cost?

SUMMARY REPORTING [TO BE DEVELOPED FOR THE AUGUST MEETING]

- 92. Discuss summary reporting packages.
- 93. A summary report is a primary tool to communicate to the citizens the overall financial results and summary performance information.
- 94. Citizens expect understandable financial information and it may not be reasonable to expect them to read and analyze an entire government-wide or component reporting entity report.
- 95. A summary report should include condensed financial information.
- 96. The reporting entities' summary report should include links to its component report and the government-wide.

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;²²
 - h. statement of program performance measures;²³
 - 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.²⁴
- 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.

²² Component entities could present the Statement of Financing as a financial statement or as a schedule in the disclosures.

²³ FASAB has not developed standards to require the Statement of Program Performance Measures.

²⁴ 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
