



October 9, 2014

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Reporting Model – **TAB C¹**

MEETING OBJECTIVE

The objective of this session is to review a working draft concepts statement.

BRIEFING MATERIALS

The memo introduces the topic and Attachment I: Working Draft provides the working draft concepts statement. Also, the working draft concepts statement discusses the distinctions among government-wide budgetary reporting, component level budgetary reporting, and accrual basis reporting. Accordingly, Attachment II: Illustrated Budget to Accrual focuses on budgetary spending and accrual costs flows to illustrate the distinctions and assist members in preparing for the discussion.

BACKGROUND

During its August 2014 ideal reporting model meeting, the Board discussed various schemes for reporting costs, such as by function, agency, and programs, and what information would be useful to users. The Board expects to continue the discussion.

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

NEXT STEPS

During the December 2014 meeting, staff plans to continue the concepts discussion focusing on budgetary flows; however, the actual next steps would depend on the results of the October 2014 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. The working draft concepts statement begins with the notion that the interrelationship among information presented in financial statements should be understandable. Do you agree or disagree with this notion?
2. During the course of the reporting model project, the Board discussed that there are different levels of reporting, the government-wide and component levels, and their different characteristics necessitate differences in what should be presented in financial statements. Do you agree or disagree that the characteristics of the two levels should be discussed in the conceptual statement?
3. If you believe the two levels should be discussed in the concepts statement, do you agree or disagree that the government-wide is the economic entity and components are not economic entities?
4. If you agree that the two levels should be discussed, what other characteristics do you believe should be discussed?
5. Do you agree or disagree that the government-wide should help citizens and citizen intermediaries understand the major goods and services and other activities that the federal government provides and where they can obtain detailed information in components?
6. The working draft considers the notion that the difference in component and government-wide financing contributes to components focusing on different matters from the government-wide level. Components generally focus on budget authority while the government-wide focuses on economic and financial resources. Table1: Comparison of Different Focuses illustrates how some basic events affect component level budget authority and government-wide economic resources and financial resources.
 - a. Do you agree or disagree that there are differences in financing and focus?
 - b. Do you agree or disagree that it may be challenging for external users to understand the relationships and differences when presented in financial statements?

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Federal Accounting Standards Advisory Board

WORKING DRAFT

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

This Statement of Federal Financial Accounting Concepts (SFFAC) is the eighth in a series of concepts statements intended to set forth objectives and fundamentals on which financial accounting and reporting standards will be based. The objectives identify the goals and purposes of financial reporting. 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.

The Federal Accounting Standards Advisory Board's (FASAB or "the Board") conceptual framework enhances the consistency of standards and serves the public interest by providing structure and direction to federal financial accounting and reporting. The most direct beneficiaries of the FASAB's concepts statements are the Board itself and preparers and auditors of federal financial reports. The 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.

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. That knowledge should enhance the usefulness of, and confidence in, federal financial accounting and reporting.

Concepts statements enhance preparers' and auditors' understanding of the common foundation and reasoning employed in considering alternatives. The GAAP hierarchy provides that statements of federal financial accounting standards constitute level A (the highest level) guidance. Statements of federal financial accounting concepts are not GAAP. Instead, concepts statements constitute "other literature" and may only be relied upon by financial statement preparers and auditors to resolve specific accounting issues in the absence of GAAP literature. In developing and amending accounting standards, the Board looks to concepts statements for guiding principles and also considers relevant existing standards and guidance issued by the Board and other standard setting bodies. Until the Board amends existing standards, the Board expects practice to be governed by the accounting principles embodied in the four levels of the GAAP hierarchy. Thus, the Board distinguishes between material presented in concepts which are used to guide Board deliberations on future GAAP and accounting principles presented in standards which constitute current GAAP.

For federal entities, in the absence of specific authoritative literature applicable to a transaction or event, it should be possible to report the event or transaction by selecting an established accounting principle for an analogous transaction or event that appears appropriate when applied in a similar manner. In the unusual case where an analogy cannot be drawn to established authoritative literature, the American Institute of CPAs permits consideration of other literature including concepts statements. Consideration of individual concepts statements will be helpful but often may not provide sufficient guidance in resolving emerging issues.

Therefore, the Board encourages careful study of the conceptual framework and established practice in resolving such issues.

Statements in this series describe concepts and relations that will underlie future federal financial accounting standards and practices and in due course will serve as a basis for evaluating existing standards and practices. With issuance of this statement, the series of concepts statements comprises:

- SFFAC 1, *Objectives of Federal Financial Reporting* (includes the qualitative characteristics of information in financial reports)
- SFFAC 2, *Entity and Display*
- SFFAC 3, *Management's Discussion and Analysis*
- SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*
- SFFAC 5, *Elements of Accrual-Basis Financial Statements and Basic Recognition Criteria*
- SFFAC 6, *Communication Methods*
- SFFAC 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*
- SFFAC 8, TBD

Like other pronouncements of the FASAB, Statements of Federal Financial Accounting Concepts remain in effect until amended, superseded, or withdrawn by appropriate action under the Board's Rules of Procedure.

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

The Board is proposing basic criteria for classifying flows in financial statements of the CFR and its component entities. Also, the Board is proposing criteria for presenting flows between the CFR and components.

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

To understand, evaluate, and ultimately make decisions about federal programs, users expect budget, cost, and performance information. Users expressed the need for program budget, cost, and performance information during FASAB focus group discussions, surveys, and roundtables. Matters where conceptual guidance could help improve financial accounting and reporting and address user expectations:

- The definition of a program varies.
- Related program financing, costs, outputs, and outcomes may occur in different intervals of time. This information would help users evaluate the program's efficiency and effectiveness. However, planned outputs and outcomes may not be achieved in a single year or could occur several years after costs have been budgeted and incurred.
- Some cost items respond differently to different economic events.
- Understanding agency level budgetary flows reporting is challenging for external users.
- Different approaches used for government-wide and agency level budgetary reporting confuse external users.
- Users need trend information.

Conceptual guidance would help the Board develop accounting and financial reporting standards to address these matters and help users make informed decisions:

- The interrelationship among information presented in financial statements should be understandable.
- Financial reporting involves two basic levels of reporting, the government-wide and component reporting entities.
- Citizens and citizen intermediaries are the intended audiences of the government-wide CFR. As the fundamental starting point for user analyzes, the CFR should use a classification structure that helps citizens understand the major goods and services that the federal government provides and other activities that the government conducts.

Also, the structure should inform users on where they can obtain detailed information in components.

After the October 22, 2014 discussion with members of the CFO community, staff plans to suggest concepts to guide how flows should be aggregated on the face of financial statements.

- To help users understand that components are part of the government-wide reporting entity, contextual information should be provided, such as the relationship to government-wide goods and services and funding.
- External users may better understand different flows when presented separately rather than in a single construct. Accordingly, distinct financial statements or other methods should be considered when presenting flows that involve federal government specific terms and measurements.
- Identifying cash flows should help users relate information presented at the component level with information presented at the government-wide.
- Financial reporting should help users understand economic resource events and transactions.
- Explaining the approach to aggregating and classifying flows would help users understand the scope of individual categories and how they can be used in their analyses.
- To address various users' questions, financial statements should present flows measured using different bases and projected flows. The cash and accrual bases are complimentary and could be used for both levels. However, the obligation basis is useful for component level reporting.
- Projected flows should help users understand the long-term sustainability of a good or service being provided and inform decisions about future resource needs.
- Projected flows should complement point-in-time information such as net economic resources and are useful for the government-wide level.
- A summary rather than a reconciliation could be used to help users understand the different bases and projections and the information provided.
- Users expect multiple periods of information to help them identify trends. Therefore, flows should be reported for at least a five-year period.

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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. This Statement provides a framework for classifying flows in financial statements. The federal government uses hundreds of departments and agencies to provide numerous goods and services and other functions for its citizens. Each department and agency and each of its activities could have their own unique set of constituents and each group of constituents seeks information from different perspectives. Consequently, users may seek different types of flows categorized in various ways. Those possible schemes may focus on budget authority, organizational units, types of services provided or programs, and operating performance, such as strategic goals or themes.
2. However, users may not understand a presentation that presents all possible schemes. Some classifications are unique to federal government operations and may not be easily aligned with others. Users would need to learn the underlying basis for each approach and sort them to find the answers to basic questions. Accordingly, an array of unarticulated classifications would overwhelm the user.
3. The guidance includes two sections. The first section, Analysis, provides a discussion of the matters analyzed to help derive the basic concepts. The second section, Proposed Concepts, discuss the basic concepts to guide the classification of flows in financial statements. The concepts should help the Board develop accounting and financial reporting standards and those standards should help users better understand, evaluate, and make decisions about the major activities of the federal government.

ANALYSIS

ARTICULATION – CENTRAL TO USER UNDERSTANDING

4. The interrelationship among information presented in financial statements should be understandable. Financial statements are the basic means of communicating financial information and addressing users' questions may require multiple statements. For example, the federal government has different levels of reporting that require different financing approaches and users expect to know the answers to questions that do not consider these differences. They expect to know matters such as the cost of different programs and whether the government's financial condition improved or deteriorated.
5. Users expect to identify answers to questions timely. When faced with multiple financial presentations, they expect to readily understand the purpose of the presentations; learn how one presentation relates to another; and determine where they can locate the answers they need. A presentation of information that lacks congruence would burden the user. Accordingly, when multiple financial statements are needed to address fundamental questions, the statements should be interrelated and the interrelationships clearly communicated.

BASIC LEVELS OF REPORTING ENTITIES

6. Federal financial reporting involves two basic levels of reporting entities—component reporting entities and the government-wide reporting entity. Legislation enacted to improve financial management requires federal leaders to prepare financial statements for the government as a whole—the government-wide reporting entity—and its numerous departments and agencies—component reporting entities.
7. As expected, characteristics of the federal government are different from the characteristics of its components. For example, the federal government as a whole is the only independent economic entity and it has the power to tax, borrow, and use economic resources. While a component may collect taxes for the federal government, it often does not retain them. Instead, it submits the collections to another component. Also, some components provide services to support the mission of other components rather than providing services to the public. As a result, each level of reporting may emphasize different information.
8. Although each level may have different characteristics, financial reporting should align the levels to help users understand the relationship. Disparate perspectives would be challenging to understand and limit users' ability to locate information timely.

THE GOVERNMENT-WIDE REPORTING ENTITY LEVEL

9. The federal government as a whole provides goods and services, redistributes income and wealth, regulates activities, and performs other missions. Its primary sources of financing are nonexchange and exchange revenues and public borrowings. Consequently, the government-wide level obtains economic resources and incurs obligations, or liabilities,

against those resources. Information as of a point in time can inform users about the government's financial health and flows of economic resources can help users understand the cause of changes over periods of time and in the future. When related to non-financial information, flow information can help users understand the efficiency and effectiveness of government operations. Such information can help users assess whether the financial condition of the federal government improved or deteriorated and whether resources will be available to meet obligations in the future.

10. Also, the President and Congress establish tax and spending priorities for the federal government through laws providing appropriations and setting tax policy. The most commonly reported budget information primarily focuses on cash flows or financial resources. These resources involve the collection of taxes and the disbursement of funds (outlays) to acquire and provide various goods and services and conduct other activities. Users expect information about the financial resource flows presented in the budget to understand the government's priorities and the difference between the inflows and outflows. They refer to net inflows as a budget surplus and net outflows as a budget deficit. Assessing net inflows and outflows helps users monitor the need for public borrowing.
11. The primary audiences for the consolidated financial report of the U.S. government (CFR) are citizens and citizen intermediaries, such as the media, public interest groups, and analysts. Citizens expect a concise report of the government's activities and intermediaries may start their analyses with the CFR.
12. As the fundamental starting point for user analyses, the CFR should use a classification structure that helps citizens understand the major goods and services that the federal government provides and other activities that the government conducts. Also, the structure should inform users on where they can obtain detailed information regarding component reporting entities.

THE COMPONENT REPORTING ENTITY LEVEL

13. The federal government is composed of hundreds of component reporting entities and each entity can provide various goods and services to the public. However, unlike the federal government-wide level, the component level generally does not make direct decisions about taxing and borrowing from the public. Instead, components receive budget authority to acquire and provide goods and services and they record obligations to track use of the authority.
14. Congressional committees and federal executives and managers focus on monitoring budget authority. Budget authority includes appropriations, authority to borrow from the Department of the Treasury (a component), and contract authority. Legislation determines how it should be used or obligated; administrative directives guide how it should be classified and reported. Thus, component level financial management involves terms and measurements that are generally intended to monitor changes in and the status of budget authority. Such information relates to but does not encompass monitoring how events and transactions impact the economic resources and liabilities of the government as a whole.

15. Also, the component level budgeting structure is unique to the federal government. Internal users understand the terminology and measurements needed to manage budget authority; however, external users may have limited awareness and understanding.
16. Components are not independent economic entities. They engage in transactions on behalf of the federal government as they conduct their responsibilities. To monitor the federal government's economic resources and liabilities, components provide details on events and transactions and how they impact the financial position of the government-wide reporting entity. This information can also be used to monitor the full cost of the component reporting entity's programs.
17. To help users understand that components are part of the government-wide reporting entity, contextual information should be provided. For example, the relationship to government-wide goods and services as well as funding can help users understand the component's contribution to a good or service provided government-wide.

CHALLENGES TO GOVERNMENT-WIDE AND COMPONENT REPORTING ENTITY LEVEL ARTICULATION

18. Significant differences exist among the component level financing structure, the government-wide financing structure, and the resource focus of the government-wide budget used in communicating the government's priorities.
 - a. The component level financing structure primarily concerns receiving and using budget authority.
 - b. The government-wide level structure involves receiving and using economic resources and incurring liabilities.
 - c. The government-wide level budget focuses on the receipt and use of financial resources.
19. The table below illustrates how some basic events affect the available budget authority of components, the economic resources of the federal government as whole, and the financial resource focus of the government-wide budget.

TABLE 1: COMPARISON OF DIFFERENT FOCUSES

Event	Impact on Available Component Level Budget Authority	Impact on Economic Resources of the Government-wide	Impact on Financial Resources of the Government-wide Budget
Collect taxes	None	Increase	Increase
Appropriation for programs and services	Increase	None	None
Contract awarded for services	Decrease	None	None
Payment to contractor for services	None	Decrease	Decrease
Use of a fixed asset	None	Decrease	None
Incur an obligation to be paid in the future	None	Decrease	None

20. These differences mean it may be challenging to relate all three and link them to non-financial performance in an understandable manner. Different events affect each type of focus differently and unique terms and measures would require explanation. External users may better understand different flows when presented separately rather than in a single construct. Accordingly, distinct financial statements or other methods should be considered when presenting flows that involve unique terms and measurements but attention should be given to helping the user relate the distinct presentations.

21. Identifying cash flows should help users relate information presented at the component level with information presented at the government-wide level. For instance, an agency awards a contract to a firm and monitors its performance. Subsequently, the firm performs the services and requests payment. As a result, the agency asks the Department of the Treasury to pay the contractor and the funds are disbursed. The disbursement is a flow that decreases both government-wide economic resources (cash) and component level budgetary unexpended obligations. Further the agency has information on the contracted work that provides context needed to assess performance.

FLows TO INFORM OPERATING PERFORMANCE

22. Financial reporting should help users understand economic resource events and transactions. Users expect information on the operating performance of the government and its component reporting entities. They ask how much it costs to provide goods and services and they would like some assurance on whether goods and services and other activities are being provided efficiently and effectively. Accordingly, they are concerned about the events and transactions that impact the economic resources and liabilities of the

government-wide level; this is a broader perspective than component reporting of budget authority provides.

23. Goods and services can be provided by a component reporting entity or multiple entities can share responsibilities. Also, some entities may provide the same basic services. In addition, the definition of a good or service could evolve as circumstances develop. For instance, several federal agencies may help a locality recover from a hurricane and after the recovery efforts begin, national interest in the costs develops. Soon, users may view the recovery effort as a single service rather than various services that multiple components administer.
24. External users expect information on the major goods, services, and other activities that the federal government provides and they are less interested in the organizational unit that administers them. These users focus on the services that affect them such as the transition assistance program coordinated among the Departments of Labor, Defense, and Veterans Affairs.

Paragraphs 25 and 26 do not present staff suggestions at this time. The developed concepts should help guide deciding how flows might be presented on the face of the statement of net cost. Staff will develop suggested concepts after the October 22, 2014 discussion with members of the CFO community.

25. Factors should be considered in determining a classification scheme for government-wide reporting entity flows. The factors can be considered individually or collectively and are not presented in any order:
 - a. Citizen Centered – Does the approach help citizens and citizen intermediaries obtain the information they generally seek? Citizens and citizen intermediaries are the primary audience and the approach should help them access the information they seek from financial statements. The public may be interested in matters that do not relate to a particular mission, such as the interest on debt. Accordingly, the approach should not exclusively regard component or organizational distinctions.
 - b. Stable – Is the approach likely to avoid frequent changes? Consistency is needed to compare multiple periods and determine trends.
 - c. Budget Associated – How well does the scheme complement the classification approach used to monitor the budget deficit? An approach that complements the budgetary reporting structure would help inform budget analyses and decisions.
 - d. Purpose Driven – How well does the approach inform users about the various purposes that the government performs? The approach should help users understand the major goods and services and other activities that the government provides and the resources used.
 - e. Broad-Based – Is the approach comprehensive? The approach should cover the wide range of goods and services that the government provides.

26. Factors should be considered in determining a classification scheme for component reporting entity flows. The factors can be considered individually or collectively and are not presented in any order:
- a.
27. Explaining the approach to aggregating and classifying flows would help users understand the scope of individual categories and how they can be used in their analyses.

DIFFERENT ACCOUNTING BASES AND PROJECTED FLOWS

28. Financial statements should present flows measured using different bases and projected flows. Users perform various analyses and expect to know the value of transactions and events over periods of time.
- a. Users seek flow information on financial resources to assess near term cash needs and public borrowing, and the sustainability of providing goods and services over the long-term.
 - b. To evaluate performance, all users expect flow information on the changes in economic resources. They may seek information on the economic resources used to provide a service during a period.
 - c. To ensure compliance with budget laws, internal users need flow information on the use of budget authority. They may be interested in the rate that budget authority is being used over time.
 - d. Users seek projected flows to assess long-term sustainability. The federal government makes commitments to provide goods and services over long periods.
29. Flows measured using the cash basis would help inform users interested in matters such as the change in public debt. Under this basis, transactions involving the use of resources are recorded when paid and receipts are recorded when received.
30. Flows measured using the accrual basis would help provide insights on matters such as the cost of providing goods and services. The accrual basis helps measure economic events and involves recording the use of resources in the period that the services are provided rather than when paid. Also, revenues are recorded when earned rather than when received.
31. The cash and accrual bases are complimentary and could be useful for both levels. The bases provide information on past and future cash flows. Accrual basis information includes current period cash receipts and payments and transactions that should result in future cash receipts and payments. Component management affect economic resource use and the level of cash that the government-wide would need to obtain through taxes or borrowing.

Therefore, the information could inform future needs of specific components and government-wide resource needs.

32. The obligation basis is most useful for component level reporting. Flows measured using an obligation basis would help inform users interested in budgetary compliance. Budget authority is used when obligated; however, government-wide level economic or financial resources have not been impacted at this time. Rather, the flows help users determine future budget authority needs. Therefore, the obligation basis is useful for component level reporting.
33. Projected flows should help users understand the long-term sustainability of a good or service being provided and inform decisions about future resource needs. They should help answer what if questions such as what would be the impact on borrowing if the government continued existing policies for a long period without change. Also, they involve future cash flows but are not considered accrual or modified-cash basis accounting.
34. Projected flows should complement point-in-time information such as net economic resources. They assist users in understanding the current financial health of the economic entity and its likely direction absent a policy change. Therefore, projected flows are useful for the government-wide.
35. When different bases and projected flows are presented, users need to understand the differences in the presentations and how they should relate. Reconciliations can help users understand the different bases; however, it requires adding and subtracting amounts and it may not be clear why some amounts are added while others subtracted without additional research. Instead, a summary of the differences could reduce the level of user effort required.

SUPPORTING TREND INFORMATION

36. Analyzing the financial condition of the federal government requires multiple periods of information. The accomplishments of federal activities may not be known for several years and the federal government can provide services that obligate economic resources for several years. Consequently, flows should be reported for at least a five-year period.

PROPOSED CONCEPTS

- 37. The interrelationships among information presented in financial statements should be understandable.
- 38. Financial reporting involves two basic levels of reporting, the government-wide and component reporting entities. The government-wide reporting entity is the only independent economic entity and its primary sources of financing are nonexchange and exchange revenues and public borrowings. The component reporting entity is not an independent economic entity; it receives budget and other authorities from the government as a whole.
- 39. Citizens and citizen intermediaries are the intended audiences of the government-wide CFR. As the fundamental starting point for user analyzes, the CFR should use a classification structure that helps citizens understand the major goods and services that the federal government provides and other activities that the government conducts. Also, the structure should inform users on where they can obtain detailed information in components.

After the October 22, 2014 discussion with members of the CFO community, staff plans to suggest concepts to guide how flows should be aggregated on the face of financial statements.

- 40. To help users understand that components are part of the government-wide, contextual information should be provided.
- 41. External users may better understand different flows when presented separately rather than in a single construct. Accordingly, distinct financial statements or other methods should be considered when presenting flows that involve federal government specific terms and measurements. Attention should be given to helping users understand the relationships among distinct financial statements.
- 42. Identifying cash flows should help users relate information presented at the component reporting entity level with information presented at the government-wide.
- 43. Financial reporting should help users understand economic resource events and transactions.
- 44. Explaining the approach to aggregating and classifying flows would help users understand the scope of individual categories and how they can be used in their analyses.
- 45. To address various users' questions, financial statements should present flows measured using different bases and projected flows. The cash and accrual bases are complimentary and could be used for both levels. However, the obligation basis is useful for component level reporting.

- 46. Projected flows should help users understand the long-term sustainability of a good or service being provided and inform decisions about future resource needs. They should help answer what if questions such as what would be the impact on borrowing if the government continued existing policies for a long period without change. Also, they involve future cash flows but are not considered accrual or modified-cash basis accounting.
- 47. Projected flows should complement point-in-time information such as net economic resources. They assist users in understanding the current financial health of the economic entity and its likely direction absent a policy change. They are useful for the government-wide level.
- 48. A summary rather than a reconciliation could be used to help users understand the different bases and projections and the information provided.
- 49. Users expect multiple periods of information to help them identify trends. Therefore, flows should be reported for at least a five-year period.
- 50. Placeholder for additional discussion

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. FASAB's reporting model project is a part of the Board's conceptual framework initiative. After several years of progress in federal financial reporting, FASAB decided to revisit its conceptual framework with a focus on ensuring that accounting standards are based on a sound framework of objectives and concepts. At that time, Board members were concerned that the reporting objectives were broad and some members sought to better determine the role of GAAP-based financial statements in achieving them. Accordingly, the Board began the conceptual framework initiative by revisiting the reporting objectives and engaging the federal reporting community in the discussions.

User Needs and Reporting Community Outreach

A2. FASAB staff conducted a series of roundtable discussions to determine whether the objectives remained valid and appropriate and to help define the role of the Board in achieving them. Roundtable participants provided views on whether the objectives continued to reflect the information needs of users and whether they are being achieved. The participants believed the reporting objectives remained valid and they noted that the objectives could be accomplished by sources and systems other than financial statements. Consequently, in 2006, the Board agreed to retain the broad objectives and issue its Strategic Directions report that discusses the Board's primary and secondary focuses relative to the reporting objectives.

A3. Next, the Board began discussing the need for conceptual guidance that describes the reporting model and how it relates to the reporting objectives. The concepts would guide the Board in determining the financial statements necessary for achieving the reporting objectives and help focus on "what should be" versus "what is." The former would ensure that the objectives are adequately addressed and the statements are useful to readers. Also, members were concerned about whether a relationship should exist among financial statements, such as the balance sheet and a statement of net cost, and how the model compares with other reporting models. As a result, staff began researching the diverse needs of users and how they access information; surveying other countries and their reporting models; and conducting discussions with preparers, citizen intermediaries, congressional staff, program managers, executives, auditors, state and local government planners and analysts, and experts in federal financial reporting.

A4. Meanwhile, the Board continued its deliberations on social insurance and long term sustainability reporting, projects that would significantly impact the existing reporting model and raise conceptual questions that should be addressed in the conceptual framework initiative. Board members discussed conceptual issues such as the purpose of the balance sheet and its elements and eventually the Board determined that the conceptual framework needed to better explain unique accounting issues such as why:

- a. the power to tax is not an asset but nonetheless is relevant to assessing the sustainability or the financial condition of the federal government;
- b. current deficits are indeed bad but that the problem is actually long-range rather than short-range;
- c. the timing of a cash flow problem is important; and
- d. the point estimates on the balance sheet have limitations for assessing financial condition.

Accordingly, the Board decided to consider these and other reporting concepts in the reporting model project.

A5. FASAB staff completed the users' needs and reporting model research and provided the Board with a series of reports and discussion papers. In summary, staff noted that users expressed interest in the following types of information:

- a. The cost of programs.
- b. The performance of programs
- c. The sustainability of programs
- d. Budget versus actual comparison
- e. Where are funds going (geographically and to whom)

Also, users expect plain-English, understandable information, such as charts and graphs, the ability to access standardized information, and the ability to customize (perform drill-downs, slice and dice, etc.).

Task Forces and Additional Research

A6. The Board organized the Reporting Model Task Force to consider the user needs and reporting community results and provide suggestions for the reporting model. In 2010, the task force completed its work and presented recommendations to enhance the reporting model. In general, the task force focused on what could be accomplished in the near term and on the Financial Report of the U.S. Government (CFR) because the public would likely start with the CFR to learn about the fiscal health of the federal government. Consequently, they recommended the adoption of a centralized, web-based method of reporting financial and performance information, recommended changes to particular financial statements, and recommended additional disclosures. They believed that the success of these recommendations require raising public awareness of federal financial reporting.

A7. In 2011, the Board discussed the task force recommendations and members discussed systems constraints and challenges and noted that many of the recommendations could be adopted voluntarily by preparers. However, members did note that the conceptual framework that should guide accounting standards remained incomplete and not current.

Also, at that time, the Board discussed its priorities and plans and revisited its Strategic Directions report. The Board reaffirmed its conclusions in the Strategic Directions report and noted factors that would likely influence federal financial reporting. Those factors included the notion that citizens and citizen intermediaries are the primary audience for the CFR, which implies that FASAB standards should focus on the CFR and should primarily consider citizens' information needs. Additionally, the factor implies that component entity reports should support the needs identified for the CFR.

A8. Later in 2011, the Board discussed the report, The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General (CFO Act Report). The report recommended that Congress consider directing FASAB, the Office of Management and Budget (OMB), and the Government Accountability Office (GAO) to evolve the financial reporting model. Consequently, the Board decided to review the reporting model of component entities and conduct discussions with CFOs and various groups to help the Board determine the information of value to users.

A9. The CFOs and various groups provided a range of ideas such as:

- a. Restructure the financial statements and develop a statement of spending
- b. Require that less time be spent on asset valuation
- c. Develop a presentation that shows costs and value delivered
- d. Develop a presentation with drilldown capability and improve user interactivity
- e. Provide more useful information in the statement of net cost and provide additional cost accounting guidance
- f. Improve performance reporting

In addition, potential users sought cost, budget, and performance data and preferred flexible end-reporting. Also, other countries were reporting on service performance as well as financial performance. Given the range of issues, the Board decided that the project needed to be segmented into three separate projects – improving cost, performance, and budgetary reporting – and task forces would be organized for each project. This approach would allow members to better focus on issues that needed to be addressed.

A10. In 2012, the three task forces proceeded to discuss issues and subsequently recommended that the Board revisit SFFAS 4, Managerial Cost Accounting Standards and Concepts. The task forces believed that adequate cost guidance is needed to support users of budget and performance information and provide cost information that meets the expectations of financial information users. Upon reviewing the task force results, the Board determined that the recommended project would involve matters outside of the Board's domain and would require coordination with the OMB and the Department of the Treasury. Also, members again raised concerns about systems constraints and challenges in presenting integrated cost, budget, and performance information.

Developing the Ideal Reporting Model without Constraints

A11. At this point, members noted that a model of the ideal presentation is needed to serve as the end-goal for the project and help guide their direction. Also, given that raising concerns about existing systems and challenges directed the discussions away from "what should be," the Board determined that development of the ideal model would not be constrained by

considering existing systems and what the Board could accomplish immediately. In addition, the model will take a holistic view and consider the other conceptual issues discussed previously and include explanations on why the resulting construct should be considered ideal. Consequently, the Board decided to develop a conceptual, ideal model that integrates budget, cost, and service performance information.

Flow Information: The Starting Point for Developing the Ideal Model

- A12. During the April 2014 meeting, FASAB members developed and presented their view of an ideal reporting model. The presentations addressed the Budgetary Integrity objective, in general, and each of the sub-objectives of the Operating Performance objective. Also, with respect to the Stewardship objective, the Board decided to focus on the federal government as the entity rather than the nation's economy. In addition, in June, the Board decided not to revisit the reporting objectives or clarify the role of FASAB with respect to the objectives. Instead, the Board decided to begin developing the ideal reporting model by focusing on the flows and the flow statements that would help achieve the reporting objectives.
- A13. Users have consistently sought to better understand flow information, such as costs and budgetary information, and how they relate. The Board would consider how cost and budgetary information should be disaggregated and address how to reconcile cost and budget at a level that would be understandable to users.

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

Attachment II: Illustrated Budget to Accrual

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Budget Spending to Accrual Costs

