



Federal Accounting Standards Advisory Board

December 2, 2016

Memorandum

To: Members of the Board

From: Grace Wu, Project Manager

Through: *Wendy M. Payne /s/*
Wendy M. Payne, Executive Director

Subject: Budget and Accrual Reconciliation Exposure Draft– **Tab D**¹

MEMBER ACTIONS REQUESTED:

- Approve the Ballot Draft BAR Exposure Draft -- Attachment 2

MEMO OBJECTIVE

The objective of this memorandum is to update you regarding the edits received on the prior draft and to seek approval of the ballot draft budget and accrual reconciliation (BAR) exposure draft (ED).

BRIEFING MATERIAL

- Staff Memo
- Attachment I: BAR ED Draft with Tracking Changes
- Attachment II: BAR ED Draft Clean Version
- Attachment III: Ballot for BAR ED

BACKGROUND

During the October Board meeting, the Board provided some comments on the draft NBAR standards and approved the proposal. Staff has worked to revise the draft ED based on the

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.

Board's decisions and comments from members during and subsequent to the October meeting.

The Board materials include both a marked version and a clean version of the draft BAR ED. The following is a list of the most significant edits made based on feedback provided at the October meeting:

- Updated the questions to the public,
- Changed the effective date for periods beginning after September 30, 2017,
- Added wording for the non-cash outlays disclosure requirement, and
- Added a footnote to state that the terms "net cost" and "net cost of operation" are used interchangeably.

Members provided comments on a draft circulated on November 10th and requested other minor editorial changes. No further technical changes were identified. Because changes on the November 10th draft were minimal, staff is now requesting a vote.

NEXT STEPS

Please submit your ballots by December 20th. Time has been reserved on the December 19th agenda to discuss any member concerns. If members approve the ED before the meeting and no member notified staff of an alternative view, we will issue the ED and revise the meeting agenda accordingly.

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MEMBER FEEDBACK

Please contact me as soon as possible to convey your questions or suggestions. Communication before the meeting will help make the meeting more productive. You can contact me by telephone at 202-512-7377 or by e-mail at wug@fasab.gov with a cc to paynew@fasab.gov

Tab D - Budget and Accrual Reconciliation – Attachment 1



Federal Accounting Standards Advisory Board

**BUDGET AND ACCRUAL
RECONCILIATION**

AMENDING STATEMENT OF FEDERAL FINANCIAL ACCOUNTING STANDARDS
(SFFAS) 7, SFFAS 22, AND SFFAS 24

REVISED

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by March 31, 2017

January 13, 2017

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 of the United States established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

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

Additional background information is available from FASAB or its website:

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

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Federal Accounting Standards Advisory Board

January 13, 2017

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

Your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled *Budget and Accrual Reconciliation*, are requested. Specific questions for your consideration appear on page six, 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 March 31, 2017.

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

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

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
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 [whether](#) your comments were received.

The Board's rules of procedure provide one or more public hearings may be held on any exposure draft. No hearing has yet been scheduled for this exposure draft.

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

Sincerely,

D. Scott Showalter
Chairman

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

This Statement would amend requirements for a reconciliation between budgetary and financial accounting information established by Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, which was issued in May 1996. SFFAS 7 includes the concepts for reconciling budgetary and financial accounting and how reporting entities should perform the reconciliation. It introduces a Statement of Financing (SOF) note disclosure that provides information on how the budgetary (and some nonbudgetary) resources finance the cost of operations and affect the assets and liabilities of the reporting entity.

The current SOF note disclosure has been criticized as too complex, not easily understandable to the reader, and therefore not useful. To increase informational value and usefulness, and to support the governmentwide Government-wide accounting (GWA) reporting that reconciles net operating cost to the budget deficit, this Statement would provide for the new budget and accrual reconciliation (NBAR) to replace the SOF. The NBAR would explain the relationship between the entity's net outlays on a budgetary basis and the net cost of operations during the reporting period. The new format would align with some components of the GWA reconciliation of net operating cost and the unified budget deficit as described by SFFAS 24, *Selected Standards for the Consolidated Financial Report of the United States Government*. The new format would also highlight net outlays not included in net cost and expenses not included in net outlays. Budgetary receipts not available to the component reporting entity would be excluded from the reconciliation.

The Statement proposes a NBAR that would start with net cost of operations and be adjusted by

- components of net cost that are not part of net outlays,
- components of net outlays that are not part of net cost, and
- other temporary timing differences, which reflect some special adjustments.

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

~~It would~~The proposal provides the following advantages compared to the SOF:

By focusing the reconciliation on the net outlays instead of the obligations incurred, the NBAR (a) enhances the understandability of the relationship between budgetary resources and the costs of program operations, (b) reduces the complexity of the agency's budgetary and financial accounting reconciliation and (c) improves the financial reporting. The shift in focus of the new format from obligations incurred to net outlays would improve the readability of the statement by making it more closely align with information presented in agency component level financial statements.

- ~~• The proposed new format would provide a simpler and clearer format.~~

Comment [WP1]: Changes made to conform to the Chicago Style guide used by FASAB. The change was made throughout the ED and is not marked after this point.

- ~~The new format would retain audit scrutiny as the current SOF does.~~
- ~~The new reconciliation format would parallel the governmentwide statement titled Reconciliation of Net Operating Cost to Unified Budget Deficit.~~
- ~~Agency statements support preparation of the governmentwide statements. This process change would help resolve a material weakness in preparing the governmentwide financial statements.~~

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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 welcomes your comments on other aspects of the proposed Statement. Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views 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 Microsoft Word file for your use at <http://www.fasab.gov/documents-for-comment/>. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond by e-mail, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

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

All responses are requested by March 31, 2017.

- Q1. The Board proposes to replace the current Statement of Finance (SOF) requirement with the new budget and accrual reconciliation (NBAR). The NBAR reconciles the net outlays to net cost of operations. This presentation explains the difference between budgetary and financial accounting. The proposed Statement would apply to component reporting entities and describes the NBAR method and related disclosures. Refer to paragraphs six to nine.

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Do you agree or disagree with the proposal to replace the SOF with the NBAR? If you agree, ~~should~~do-you-think the NBAR-should be presented as a part of basic financial statements or as a footnote? Please provide the rationale for your answer.

- Q2. The Board proposes to require a narrative disclosure regarding the reconciliation and disclosure of the amount and nature of non-cash outlays. Refer to paragraphs six and 12.

Do you agree or disagree that a narrative disclosure should accompany the NBAR? Please provide the rationale for your answer.

Q3. The Board proposes that this Statement be effective for periods beginning after September 30, 2017 with early adoption permitted. Refer to paragraph 13.

Do you agree or disagree that the effective date and the early adoption are reasonable? Please provide the rationale for your answer.

INTRODUCTION

PURPOSE

1. This Statement amends Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, rescinds SFFAS 22, *Change in Certain Requirements for Reconciling Obligations and Net Cost of Operations, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*, and amends SFFAS 24, *Selected Standards for the Consolidated Financial Report of the United States Government*. The new reconciliation, referred to as the New Budget and Accrual Reconciliation (NBAR), requires a reconciliation of the entity's net outlays on a budgetary basis and the net cost of operations during the reporting period. The NBAR replaces the current Statement of Finance (SOF) note disclosure, which reconciles the budgetary resources obligated (and some nonbudgetary resources) and the net cost of operation.
2. By focusing the reconciliation on the net outlays instead of the obligations incurred, the NBAR (a) enhances the understandability of the relationship between budgetary resources and the costs of program operations, ~~and~~ (b) reduces the complexity of the agency's budgetary and financial accounting reconciliation [and \(c\) improves the financial reporting](#). To improve the usefulness of the information to financial report readers, this Statement requires a narrative disclosure explaining the nature of the reconciliation.
3. This revised format improves consistency between agency and government-wide accounting (GWA) financial reporting. It aligns the component agency's budgetary to financial accounting reconciliation (required by SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*) to the existing government-wide reporting's net operating cost and budget deficit reconciliation (required by SFFAS 24, *Selected Standards for the Consolidated Financial Report of the United States Government*). This alignment supports the auditability and credibility of government-wide statements by integrating agency and government-wide level reporting standards.

MATERIALITY

4. 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.

PROPOSED STANDARDS

SCOPE

5. This Statement applies when a component reporting entity is presenting general purpose financial reports in conformance with SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, including the Application of Standards Issued by the Financial Accounting Standards Board*. This information is not required in the consolidated financial report of the U.S. Government as a whole.

AMENDMENTS TO SFFAS 7, ACCOUNTING FOR REVENUE AND OTHER FINANCING SOURCES AND CONCEPTS FOR RECONCILING BUDGETARY AND FINANCIAL ACCOUNTING (SFFAS 7)

6. Paragraphs 80 to 82 of SFFAS 7 are replaced with the following paragraphs:

80. Budgetary and financial accounting information are complementary, but both the types of information and the timing of their recognition are different, causing differences in the bases of accounting. To better understand these differences, the reconciliation should explain the relationship between the net cost of operations¹ and net outlays by the entity during the reporting period. ~~The reconciliation~~ should reference the reported “net outlays”² and related adjustments as defined by Office of Management and Budget (OMB) Circular A-11: *Preparation, Submission, and Execution of the Budget*.

81. The net cost of operations should be adjusted by

- (a) components of net cost that are not part of net outlays (e.g., depreciation and amortization expenses of assets previously capitalized, change in asset/liabilities);
- (b) components of net outlays that are not part of net cost (e.g., acquisition of capital assets); and
- (c) other temporary timing differences (e.g., prior period adjustment due to correction of errors).

82. The adjustments should be presented and explained in appropriate detail and in a manner that best clarifies the relationship between net outlays and the accrual basis

¹ The terms “net cost of operations” and “net cost” are used interchangeably to refer to the total cost incurred by the reporting entity less exchange revenue earned during the period.

² OMB Circular A-11: *Preparation, Submission, and Execution of the Budget* states, “Outlay means a payment to liquidate an obligation (other than the repayment to the Treasury of debt principal). Outlays are a measure of Government spending. Subtract all offsetting collections (unexpired and expired) from gross outlays to yield net outlays so that the contribution of the budget account to the Federal Government’s bottom line (the surplus or deficit) can be determined.”

amounts used in financial accounting. A narrative explaining the purpose, the nature, and the line items of the reconciliation also should be presented with the reconciliation.

7. Paragraphs 91 to 93 of SFFAS 7 are replaced with the following paragraphs:

91. Subobjective 1C of the Budgetary Integrity objective states that information is needed to help the reader to determine “how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.” This objective arises because accrual-based expense measures used in financial statements differ from the obligation and outlay-based measures used in ~~the~~ budgetary reporting.

92. To satisfy this objective, information is needed about the differences between budgetary and financial (i.e., proprietary) accounting that arise as a result of the different measures. This could be accomplished through a **Budget and Accrual Reconciliation (BAR)** that reconciles the net budgetary outlays for a federal entity’s programs and operations to the net cost of operating that entity. The data presented could be for the reporting entity as a whole, for the major suborganization units, for major budget accounts, or for aggregations of budget accounts, rather than for each individual budget account of the entity.

93. The **Budget and Accrual Reconciliation** is added to SFFAC No. 2’s suggested list of items included in the section titled “Financial Reporting for an Organizational Entity.” In addition, a footnote (referencing the Reconciliation of Net Costs to Outlays) should be added stating the following:

OMB will provide guidance regarding details of the display for the Budget and Accrual Reconciliation, including whether it should be presented as a basic financial statement or as a schedule in the notes to the basic financial statements.

8. The header before paragraph 95 of SFFAS 7 titled “Statement of Financing” is replaced with “Budget and Accrual Reconciliation.”

9. Paragraphs 95 to 102 of SFFAS 7 are replaced with the following paragraphs:

95. The purpose of the Reconciliation of Net Costs to Outlays is to explain how budgetary resources outlaid during the period relate to the net cost of operations for ~~the~~ reporting entity. This information should be presented in a way that clarifies the relationship between the outlays reported through budgetary accounting and the accrual basis of financial (i.e., proprietary) accounting. By explaining this relationship, information necessary to understand how the budgetary outlays finance the net cost of operations and affect the assets and liabilities of the reporting entity is provided. The appropriate elements for the Budget and Accrual Reconciliation are ~~as~~ indicated in the following paragraphs. They provide logical groupings of reconciling items that help the reader move from outlays to net cost of operations.

96. **Net Cost of Operations** is from the Statement of Net Cost.

97. **Components of net cost that are not part of net outlays** are most commonly (a) the result of allocating assets to expenses over more than one reporting period (e.g., depreciation) and the write-down of assets (due to revaluations), (b) the temporary timing differences between outlays/receipts and the operating expense/revenue during the period, and (c) costs financed by other entities (imputed inter-entity costs).

98. **Components of net outlays that are not part of net cost** are primarily amounts provided in the current reporting period that fund costs incurred in prior years and amounts incurred for goods or services that have been capitalized on the balance sheet (e.g., plant, property and equipment acquisition and inventory acquisition).

99. **Other temporary timing differences** reflect ~~some~~ special adjustments (e.g., prior period adjustment due to correction of errors).

100. **Net Outlays** is the summation of the above amounts and equals the Statement of Budgetary Resources net outlays amount.

101. The preparer should present material amounts separately in the reconciliation and discuss these in the narrative. The use of "other" captions should be minimized and individually material amounts should not be netted to ~~report~~~~produce~~ an immaterial amount.

102. The following example financial statement format and its narrative will be added to the appendices of SFFAC No. 2.

Entity and Display, Appendix 1-G

EXAMPLE FINANCIAL STATEMENT FORMATS – BUDGET AND ACCURAL RECONCILIATION

NARRATIVE

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a more complete picture of the government's financial operations and financial position so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting formation. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

~~Note that the u~~Unrealized valuation loss on investment in the reconciliation is related to the write down of security investment due to recent market volatility which did not result in an outlay but did result in a cost. The large increase of accounts payable compared to last year is because this year's rent expense has not been paid but was included in the net cost this year and not included in the outlays. The large variance in the "transfers in/(out) without reimbursement" between fiscal year (FY) 201X and FY201X is primarily due to the transfer of program management responsibility from agency 1 to agency 2 as discussed in further detail in

Note X. In addition, the decrease in "Imputed financing source" is a result of the payment in FY201X for the ABC Settlement³.

³ [This is an illustration of what might be presented in the narrative paragraph. It is an example of how to explain the material line items in the reconciliation and describes why some material line items either increase or decrease net cost but do not have the same impact on net outlays.](#)

For the year ended September 30, 201X

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	Intra- governmental	With the public	Total FY 201X
	\$xxx	\$xxx	\$xxx
NET COST			
Components of Net Cost That Are Not Part of Net Outlays:			
Property, plant, and equipment depreciation	xxx	xxx	xxx
Property, plant, and equipment disposal & Revaluation	xxx	xxx	xxx
Year-end credit reform subsidy re-estimates	xxx	xxx	xxx
Unrealized valuation loss/(Gain) on investments	xxx	xxx	xxx
Increase/(decrease) in assets:			
Accounts receivable	xxx	xxx	xxx
Loans receivable	xxx	xxx	xxx
Investments	xxx	xxx	xxx
Other assets	xxx	xxx	xxx
(Increase)/decrease in liabilities:			
Accounts payable	xxx	xxx	xxx
Salaries and benefits	xxx	xxx	xxx
Insurance and guarantee program liabilities	xxx	xxx	xxx
Environmental and disposal liabilities	xxx	xxx	xxx
Other liabilities (Unfunded Leave, Unfunded —FECA, Actuarial FECA)	xxx	xxx	xxx
Other financing sources:			
Federal employee retirement benefit costs paid by OPM and imputed to the agency	xxx	xxx	xxx
Transfers out (in) without reimbursement	xxx	xxx	xxx
Other imputed financing	xxx	xxx	xxx
Total Components of Net Cost That Are Not Part of Net Outlays	xxx	xxx	xxx
Components of Net Outlays That Are Not Part of Net Cost:			
Effect of prior year agencies credit reform subsidy re-estimates	xxx	xxx	xxx
Acquisition of capital assets	xxx	xxx	xxx
Acquisition of inventory	xxx	xxx	xxx
Acquisition of other assets	xxx	xxx	xxx
Other	xxx	xxx	xxx
Total Components of Net Outlays That Are Not Part of Net Cost	xxx	xxx	xxx
Other Temporary Timing Differences	xxx	xxx	xxx
NET OUTLAYS	\$xxx	\$xxx	\$xxx

RELATED AMOUNTS ON THE STATEMENT OF BUDGETARY RESOURCES:

Outlays, gross	\$xxx	\$xxx	\$xxx
Actual Offsetting Collections	xxx	xxx	xxx
Distributed Offsetting Receipts	xxx	xxx	xxx
NET OUTLAYS	\$xxx	\$xxx	\$xxx

AMENDMENT RESCISSION TO SFFAS 22, CHANGE IN CERTAIN REQUIREMENTS FOR RECONCILING OBLIGATIONS AND NET COST OF OPERATIONS, AMENDMENT OF SFFAS 7, ACCOUNTING FOR REVENUE AND OTHER FINANCING

10. SFFAS 22 is rescinded in its entirety by this Statement.

AMENDMENT TO SFFAS 24, SELECTED STANDARDS FOR THE CONSOLIDATED FINANCIAL REPORT OF THE UNITED STATES GOVERNMENT

11. The following paragraph replaces SFFAS 24, paragraph 9:

9. Paragraphs 77-82 of SFFAS 7 are not applicable to the consolidated financial report of the U.S. Government as a whole.¹ [Text of footnote 1: Footnote rescinded by SFFAS X.]

DISCLOSURE REQUIREMENTS

12. A narrative explaining the nature of the reconciliation and significant reconciling items should be presented along with the reconciliation. The amount and nature of noncash outlays should be disclosed. For purposes of this ~~statement~~Statement, non-cash outlays are outlays ~~which that~~ are recognized without a concurrent cash disbursement, such as interest accrued by Treasury on debt held by the public and non-cash credit reform outlays/activity.

EFFECTIVE DATE

13. The requirements of this Statement are effective for reporting periods beginning after September 30, 2017. Early adoption is permitted.

The provisions of this Statement need not be applied to immaterial items.

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 Statement of Financing (SOF) note disclosure has been criticized as too complex and not useful. In July 2012, the Association of Government Accountants' research report (titled *Government-wide Financial Reporting*) suggested improvements in the processes, as well as related standards. The GWA financial report includes a basic financial statement reconciling the Unified Budget Deficit (deficit) and the Net Cost of Operations. The deficit is based on receipts and outlays rather than obligations. The current component ~~reporting entity-level's~~ obligation-based SOF reconciliation does not align with the GWA reconciliation.
- A2. In February 2016, the Board agreed to undertake a project and formed a Budget and Accrual Reconciliation (BAR) task force to address the BAR issue. Through this project, the Board planned to address concerns regarding the reconciliation and the need to support the GWA reconciliation by aligning the component ~~reporting entity-level~~ disclosures with the GWA requirements. In addition to agreeing with the concerns of the Board, the BAR task force identified the following additional topics to be addressed:
- a. The complexity and usefulness of the SOF note
 - b. Ways to more directly relate budgetary data and accrual data for a less complex presentation
 - c. Support for the GWA reconciliation statement (limited to component reporting entity requirements)
- A3. The BAR task force, which included industry representatives from several public accounting and consulting firms like Deloitte, Kearney & Company, and KPMG, as well as representatives with financial reporting preparation and policy background from the following federal agencies, developed this proposed Statement:
- a. Department of Energy (DOE)
 - b. Department of the Treasury (Treasury)
 - c. Department of Veterans Affairs (VA)
 - d. Small Business Administration (SBA)
 - e. U.S. Coast Guard (USCG)
 - f. Securities and Exchange Commission (SEC)
- A4. During the initial phase of the project, the BAR task force was divided into subgroups to perform research on (a) the usefulness of the current SOF, (b) a new component ~~level-reporting entity~~ reconciliation format, and (c) the potential impact to the standards due to the potential changes on the current SOF. The SOF sub-group reviewed 23 major

agencies' current SOF notes to understand the variety of the current SOF note preparation process and surveyed five task force members on the advantages and disadvantages of the current SOF note. Based on the research result, the task force came to the following conclusions:

- a. The current SOF note ~~resulted~~~~has in~~ ~~establishing~~~~ing~~ crosswalk/preparation processes by each agency, but it is time consuming to prepare.
- b. Due to the lack of ~~agency-wide~~ crosswalk instruction on the SOF note, the SOF note is not comparable between agencies.
- c. The SOF note is too complex and not useful to users.

A5. Subsequently, the BAR task force researched and developed a first draft of the New BAR (NBAR) format based on the objectives identified. In addition, the BAR subgroups (a) performed agency-level piloting of the NBAR, (b) conducted Governmentwide Treasury Account Symbol Adjusted Trial Balance System crosswalk accounts research to support the NBAR, (c) aligned the current format to GWA research, and (d) assessed how the new format change would impact the standards and conducted other literature research.

A6. In June 2016, the Board approved the BAR task force's recommendations based on its research results. These results included the following:

- a. The current SOF note should be replaced due to its complexity and limited usefulness to the user.
- b. There is a need to research an alternative presentation format that would better relate with budgetary and accrual data, as well as support the GWA reconciliation.

A7. By the end of July 2016, the task force proposed an updated NBAR, and six agencies who piloted the new format provided their feedback. In August 2016, the Board approved the new format and supported continued development requests, including involving more agencies to pilot the NBAR. By the end of this project phase, a total of 13 agencies—including 11 cabinet agencies—joined the pilot efforts.

THE NEW BUDGET AND ACCRUAL RECONCILIATION

A8. The NBAR reflects consideration of the information needed to meet the reporting objectives and is supportive of the GWA budget deficit and net operating cost reconciliation. It also makes the agency's budgetary and financial accounting reconciliation preparation easier while improving the usefulness of the information to the public readers/users.

A9. To provide detailed support to the GWA reconciliation, the ~~reconciliation items that are~~ intra-governmental ~~reconciliation items~~ will be presented separately. To strengthen the connection of this reconciliation to the other financial statements in the financial report, the starting point of the net cost is obtained directly from the Statement of Net Cost; the final calculated net outlays will equal ~~to~~ the net outlays on the Statement of Budgetary Resources. To reduce the preparation time ~~for~~ the agencies and ~~increase the simplicity of~~ ~~simplify~~ the reconciliation, the majority of the reconciliation items come directly from the

other financial statements' line items, line items' prior year and current year comparison, or financial statement note disclosures.

- A10. The new format mirrors SFFAS 24 to the extent practicable and highlights net outlays not included in net cost and expenses not included in net outlays. To simplify the presentation and reduce the preparation burden on the component ~~level-reporting entities~~agencies, the Board omitted receipts not retained by the component reporting entity from the NBAR. These receipts are generally not reported as components of net cost or net outlays at the component ~~level-agencies~~reporting entity level. Instead, these amounts are reported in the Statement of Custodial Activities. Thus, the amounts ~~supporting~~needed for the GWA reporting ~~can~~ould be supported by the component reporting entity's financial statements. A separate Treasury general fund project is underway, which would help address the receipt issue as well.
- A11. Reconciliation between "net cost and net outlays" would replace the current SOF reconciliation between "obligations incurred and net cost." Six task force member agencies—DOE, SBA, SEC, Treasury, USCG, and VA—piloted the NBAR and provided their feedback on the process and how it compares to the current SOF note. Based on the pilot results, the BAR task force identified many advantages and some disadvantages of replacing the SOF note with a reconciliation of net cost to net outlays. Subsequently, seven additional agencies piloted the format and provided feedback.
- A12. Based on feedback from the task force and ~~13~~ pilot agencies ~~who participated in two separate pilots of the format~~, the new budget and accrual reconciliation
- a. supports the GWA budget and accrual reconciliation,
 - b. is easier to prepare than the current SOF note, and
 - c. is easier for users not familiar with federal budgeting and accounting to understand due to its similarity to the commercial cash flow statement.
- A13. The task force performed a detailed account-level crosswalk from each line item of the NBAR to the GWA budget deficit and net cost reconciliation line items. The task force found that about 80 percent of the current GWA reconciliation will be supported by the new reconciliation. The remaining 20 percent primarily relates to the budget receipts, which were intentionally omitted in the new reconciliation for the reasons stated in paragraph A10.

A14. According to the task force respondents, the new reconciliation improves the readability of the statement by making it more closely align with information presented in component reporting entity financial statements. The proposed ~~new-format-~~ is also ~~provides a simpler, and easier to understand-format, while making it and~~ readily auditable. Further, the requirement to provide a narrative explanation of the reconciliation and significant reconciling items would also enhance its understandability. For most agencies, it does not require a change of the agencies' current reporting system.

A15. The taskforce prefers that Treasury provide a crosswalk to increase the consistency across the agencies and to effectively balance this new reconciliation for major funds. Treasury's Bureau of the Fiscal Service has been collaborating with the task force representatives ~~in developing~~ to develop a crosswalk that could be used to prepare the NBAR.

A16. The Board agreed on the importance of getting the NBAR crosswalk developed by the Treasury before the NBAR is implemented, as it will reduce agencies' implementation time and ~~will~~ facilitate audit efforts.

A17. In addition, the Board believes disclosing information about any noncash outlays ~~not apparent from the reconciliation~~ would aid in preparing the GWA reconciliation of the budget surplus (deficit) to the change in operating cash.

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APPENDIX B: ABBREVIATIONS

BAR	Budget and Accrual Reconciliation
DOE	Department of Energy
FASAB	Federal Accounting Standards Advisory Board
FECA	Federal Employees' Compensation Act
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GWA	Government-wide Accounting
NBAR	New Budget and Accrual Reconciliation
OMB	Office of Management and Budget
OPM	Office of Personnel Management
SBA	Small Business Administration
SEC	Securities and Exchange Commission
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
SOF	Statement of Financing
Treasury	Department of the Treasury
USCG	United States Coast Guard
VA	Department of Veterans Affairs

Budget and Accrual Reconciliation Task Force

Grace Wu, Federal Accounting Standards Advisory Board, Task Force Chairperson

Task Force Leaders

Chris Beck, Department of the Treasury, Subgroup Leader
Lori King, Department of Energy, Group Leader
Malik Powell-Hodge, Kearney & Company, Subgroup Leader
Steve Ramey, Small Business Administration, Group Leader
John Rueger, Deloitte, Subgroup Leader
Jaime Saling, Department of the Treasury, Group Leader
Rebecca Sheppard, Department of the Treasury, Group Leader
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Task Force Member Agencies

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Department of the Treasury (Treasury)
Department of Veterans Affairs (VA)
Securities and Exchange Commission (SEC)
Small Business Administration (SBA)
United States Coast Guard (USGS)

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Federal Accounting Standards Advisory Board

**BUDGET AND ACCRUAL
RECONCILIATION**

**AMENDING STATEMENT OF FEDERAL FINANCIAL ACCOUNTING STANDARDS
(SFFAS) 7, SFFAS 22, AND SFFAS 24**

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by March 31, 2017

January 13, 2017

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 of the United States established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

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

Additional background information is available from FASAB or its website:

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

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Federal Accounting Standards Advisory Board

January 13, 2017

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

Your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled *Budget and Accrual Reconciliation*, are requested. Specific questions for your consideration appear on page six, 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 March 31, 2017.

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

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

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
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 whether your comments were received.

The Board's rules of procedure provide one or more public hearings may be held on any exposure draft. No hearing has yet been scheduled for this exposure draft.

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

Sincerely,

D. Scott Showalter
Chairman

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

This Statement would amend requirements for a reconciliation between budgetary and financial accounting information established by Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, which was issued in May 1996. SFFAS 7 includes the concepts for reconciling budgetary and financial accounting and how reporting entities should perform the reconciliation. It introduced a Statement of Financing (SOF) note disclosure that provides information on how the budgetary (and some nonbudgetary) resources finance the cost of operations and affect the assets and liabilities of the reporting entity.

The current SOF note disclosure has been criticized as too complex, not easily understandable, and therefore not useful. To increase informational value and usefulness, and to support the government-wide accounting (GWA) reporting that reconciles net operating cost to the budget deficit, this Statement would provide for the new budget and accrual reconciliation (NBAR) to replace the SOF. The NBAR would explain the relationship between the entity's net outlays on a budgetary basis and the net cost of operations during the reporting period. The new format would align with some components of the GWA reconciliation of net operating cost and the unified budget deficit as described by SFFAS 24, *Selected Standards for the Consolidated Financial Report of the United States Government*. The new format would also highlight net outlays not included in net cost and expenses not included in net outlays. Budgetary receipts not available to the component reporting entity would be excluded from the reconciliation.

The Statement proposes a NBAR that would start with net cost of operations and be adjusted by

- components of net cost that are not part of net outlays,
- components of net outlays that are not part of net cost, and
- other temporary timing differences, which reflect some special adjustments.

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

By focusing the reconciliation on the net outlays instead of the obligations incurred, the NBAR (a) enhances the understandability of the relationship between budgetary resources and the costs of program operations, (b) reduces the complexity of the agency's budgetary and financial accounting reconciliation and (c) improves the financial reporting.

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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 welcomes your comments on other aspects of the proposed Statement. Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views 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 Microsoft Word file for your use at <http://www.fasab.gov/documents-for-comment/>. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond by e-mail, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

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

All responses are requested by March 31, 2017.

- Q1. The Board proposes to replace the current Statement of Finance (SOF) requirement with the new budget and accrual reconciliation (NBAR). The NBAR reconciles the net outlays to net cost of operations. This presentation explains the difference between budgetary and financial accounting. The proposed Statement would apply to component reporting entities and describes the NBAR method and related disclosures. Refer to paragraphs six to nine.

Do you agree or disagree with the proposal to replace the SOF with the NBAR? If you agree, should the NBAR be presented as a part of basic financial statements or as a footnote? Please provide the rationale for your answer.

- Q2. The Board proposes to require a narrative disclosure regarding the reconciliation and disclosure of the amount and nature of non-cash outlays. Refer to paragraphs six and 12.

Do you agree or disagree that a narrative disclosure should accompany the NBAR? Please provide the rationale for your answer.

Q3. The Board proposes that this Statement be effective for periods beginning after September 30, 2017 with early adoption permitted. Refer to paragraph 13.

Do you agree or disagree that the effective date and the early adoption are reasonable? Please provide the rationale for your answer.

INTRODUCTION

PURPOSE

1. This Statement amends Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, rescinds SFFAS 22, *Change in Certain Requirements for Reconciling Obligations and Net Cost of Operations, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*, and amends SFFAS 24, *Selected Standards for the Consolidated Financial Report of the United States Government*. The new reconciliation, referred to as the New Budget and Accrual Reconciliation (NBAR), requires a reconciliation of the entity's net outlays on a budgetary basis and the net cost of operations during the reporting period. The NBAR replaces the current Statement of Finance (SOF) note disclosure, which reconciles the budgetary resources obligated (and some nonbudgetary resources) and the net cost of operation.
2. By focusing the reconciliation on the net outlays instead of the obligations incurred, the NBAR (a) enhances the understandability of the relationship between budgetary resources and the costs of program operations, (b) reduces the complexity of the agency's budgetary and financial accounting reconciliation and (c) improves the financial reporting. To improve the usefulness of the information to financial report readers, this Statement requires a narrative disclosure explaining the nature of the reconciliation.
3. This revised format improves consistency between agency and government-wide accounting (GWA) financial reporting. It aligns the component agency's budgetary to financial accounting reconciliation (required by SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*) to the existing government-wide reporting's net operating cost and budget deficit reconciliation (required by SFFAS 24, *Selected Standards for the Consolidated Financial Report of the United States Government*). This alignment supports the auditability and credibility of government-wide statements by integrating agency and government-wide level reporting standards.

MATERIALITY

4. 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.

PROPOSED STANDARDS

SCOPE

5. This Statement applies when a component reporting entity is presenting general purpose financial reports in conformance with SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, including the Application of Standards Issued by the Financial Accounting Standards Board*. This information is not required in the consolidated financial report of the U.S. Government as a whole.

AMENDMENTS TO SFFAS 7, *ACCOUNTING FOR REVENUE AND OTHER FINANCING SOURCES AND CONCEPTS FOR RECONCILING BUDGETARY AND FINANCIAL ACCOUNTING (SFFAS 7)*

6. Paragraphs 80 to 82 of SFFAS 7 are replaced with the following paragraphs:

80. Budgetary and financial accounting information are complementary, but both the types of information and the timing of their recognition are different, causing differences in the bases of accounting. To better understand these differences, the reconciliation should explain the relationship between the net cost of operations¹ and net outlays by the entity during the reporting period. The reconciliation should reference the reported “net outlays”² and related adjustments as defined by Office of Management and Budget (OMB) Circular A-11: *Preparation, Submission, and Execution of the Budget*.

81. The net cost of operations should be adjusted by

- (a) components of net cost that are not part of net outlays (e.g., depreciation and amortization expenses of assets previously capitalized, change in asset/liabilities);
- (b) components of net outlays that are not part of net cost (e.g., acquisition of capital assets); and
- (c) other temporary timing differences (e.g., prior period adjustment due to correction of errors).

82. The adjustments should be presented and explained in appropriate detail and in a manner that best clarifies the relationship between net outlays and the accrual basis

¹ The terms “net cost of operations” and “net cost” are used interchangeably to refer to the total cost incurred by the reporting entity less exchange revenue earned during the period.

² OMB Circular A-11: *Preparation, Submission, and Execution of the Budget* states, “Outlay means a payment to liquidate an obligation (other than the repayment to the Treasury of debt principal). Outlays are a measure of Government spending. Subtract all offsetting collections (unexpired and expired) from gross outlays to yield net outlays so that the contribution of the budget account to the Federal Government’s bottom line (the surplus or deficit) can be determined.”

amounts used in financial accounting. A narrative explaining the purpose, the nature, and the line items of the reconciliation also should be presented with the reconciliation.

7. Paragraphs 91 to 93 of SFFAS 7 are replaced with the following paragraphs:

91. Subobjective 1C of the Budgetary Integrity objective states that information is needed to help the reader to determine “how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.” This objective arises because accrual-based expense measures used in financial statements differ from the obligation and outlay-based measures used in budgetary reporting.

92. To satisfy this objective, information is needed about the differences between budgetary and financial (i.e., proprietary) accounting that arise as a result of the different measures. This could be accomplished through a **Budget and Accrual Reconciliation (BAR)** that reconciles the net budgetary outlays for a federal entity’s programs and operations to the net cost of operating that entity. The data presented could be for the reporting entity as a whole, for the major suborganization units, for major budget accounts, or for aggregations of budget accounts, rather than for each individual budget account of the entity.

93. The **Budget and Accrual Reconciliation** is added to SFFAC No. 2’s suggested list of items included in the section titled “Financial Reporting for an Organizational Entity.” In addition, a footnote (referencing the Reconciliation of Net Costs to Outlays) should be added stating the following:

OMB will provide guidance regarding details of the display for the Budget and Accrual Reconciliation, including whether it should be presented as a basic financial statement or as a schedule in the notes to the basic financial statements.

8. The header before paragraph 95 of SFFAS 7 titled “Statement of Financing” is replaced with “Budget and Accrual Reconciliation.”

9. Paragraphs 95 to 102 of SFFAS 7 are replaced with the following paragraphs:

95. The purpose of the Reconciliation of Net Costs to Outlays is to explain how budgetary resources outlaid during the period relate to the net cost of operations for the reporting entity. This information should be presented in a way that clarifies the relationship between the outlays reported through budgetary accounting and the accrual basis of financial (i.e., proprietary) accounting. By explaining this relationship, information necessary to understand how the budgetary outlays finance the net cost of operations and affect the assets and liabilities of the reporting entity is provided. The appropriate elements for the Budget and Accrual Reconciliation are indicated in the following paragraphs. They provide logical groupings of reconciling items that help the reader move from outlays to net cost of operations.

96. **Net Cost of Operations** is from the Statement of Net Cost.

97. **Components of net cost that are not part of net outlays** are most commonly (a) the result of allocating assets to expenses over more than one reporting period (e.g., depreciation) and the write-down of assets (due to revaluations), (b) the temporary timing differences between outlays/receipts and the operating expense/revenue during the period, and (c) costs financed by other entities (imputed inter-entity costs).

98. **Components of net outlays that are not part of net cost** are primarily amounts provided in the current reporting period that fund costs incurred in prior years and amounts incurred for goods or services that have been capitalized on the balance sheet (e.g., plant, property and equipment acquisition and inventory acquisition).

99. **Other temporary timing differences** reflect special adjustments (e.g., prior period adjustment due to correction of errors).

100. **Net Outlays** is the summation of the above amounts and equals the Statement of Budgetary Resources net outlays amount.

101. The preparer should present material amounts separately in the reconciliation and discuss these in the narrative. The use of "other" captions should be minimized and individually material amounts should not be netted to report an immaterial amount.

102. The following example financial statement format and its narrative will be added to the appendices of SFFAC No. 2.

Entity and Display, Appendix 1-G

EXAMPLE FINANCIAL STATEMENT FORMATS – BUDGET AND ACCURAL RECONCILIATION

NARRATIVE

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a more complete picture of the government's financial operations and financial position so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting formation. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays. Unrealized valuation loss on investment in the reconciliation is related to the write down of security investment due to recent market volatility which did not result in an outlay but did result in a cost. The large increase of accounts payable compared to last year is because this year's rent expense has not been paid but was included in the net cost this year and not included in the outlays. The large variance in the "transfers in/(out) without reimbursement" between fiscal year (FY) 201X and FY201X is primarily due to the transfer of program management responsibility from agency 1 to agency 2 as discussed in further detail in Note X. In addition, the

decrease in "Imputed financing source" is a result of the payment in FY201X for the ABC Settlement³.

³ This is an illustration of what might be presented in the narrative paragraph. It is an example of how to explain the material line items in the reconciliation and describes why some material line items either increase or decrease net cost but do not have the same impact on net outlays.

For the year ended September 30, 201X

	Intra- governmental	With the public	Total FY 201X
	\$xxx	\$xxx	\$xxx
NET COST			
Components of Net Cost That Are Not Part of Net Outlays:			
Property, plant, and equipment depreciation	xxx	xxx	xxx
Property, plant, and equipment disposal & revaluation	xxx	xxx	xxx
Year-end credit reform subsidy re-estimates	xxx	xxx	xxx
Unrealized valuation loss/(gain) on investments	xxx	xxx	xxx
Increase/(decrease) in assets:			
Accounts receivable	xxx	xxx	xxx
Loans receivable	xxx	xxx	xxx
Investments	xxx	xxx	xxx
Other assets	xxx	xxx	xxx
(Increase)/decrease in liabilities:			
Accounts payable	xxx	xxx	xxx
Salaries and benefits	xxx	xxx	xxx
Insurance and guarantee program liabilities	xxx	xxx	xxx
Environmental and disposal liabilities	xxx	xxx	xxx
Other liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	xxx	xxx	xxx
Other financing sources:			
Federal employee retirement benefit costs paid by OPM and imputed to the agency	xxx	xxx	xxx
Transfers out (in) without reimbursement	xxx	xxx	xxx
Other imputed financing	xxx	xxx	xxx
Total Components of Net Cost That Are Not Part of Net Outlays	xxx	xxx	xxx
Components of Net Outlays That Are Not Part of Net Cost:			
Effect of prior year agencies credit reform subsidy re-estimates	xxx	xxx	xxx
Acquisition of capital assets	xxx	xxx	xxx
Acquisition of inventory	xxx	xxx	xxx
Acquisition of other assets	xxx	xxx	xxx
Other	xxx	xxx	xxx
Total Components of Net Outlays That Are Not Part of Net Cost	xxx	xxx	xxx
Other Temporary Timing Differences	xxx	xxx	xxx
NET OUTLAYS	\$xxx	\$xxx	\$xxx

RELATED AMOUNTS ON THE STATEMENT OF BUDGETARY RESOURCES:

Outlays, gross	\$xxx	\$xxx	\$xxx
Actual Offsetting Collections	xxx	xxx	xxx
Distributed Offsetting Receipts	xxx	xxx	xxx
NET OUTLAYS	\$xxx	\$xxx	\$xxx

RESCISSION TO SFFAS 22, CHANGE IN CERTAIN REQUIREMENTS FOR RECONCILING OBLIGATIONS AND NET COST OF OPERATIONS, AMENDMENT OF SFFAS 7, ACCOUNTING FOR REVENUE AND OTHER FINANCING

10. SFFAS 22 is rescinded in its entirety by this Statement.

AMENDMENT TO SFFAS 24, SELECTED STANDARDS FOR THE CONSOLIDATED FINANCIAL REPORT OF THE UNITED STATES GOVERNMENT

11. The following paragraph replaces SFFAS 24, paragraph 9:

9. Paragraphs 77-82 of SFFAS 7 are not applicable to the consolidated financial report of the U.S. Government as a whole.¹ [Text of footnote 1: Footnote rescinded by SFFAS X.]

DISCLOSURE REQUIREMENTS

12. A narrative explaining the nature of the reconciliation and significant reconciling items should be presented along with the reconciliation. The amount and nature of noncash outlays should be disclosed. For purposes of this Statement, non-cash outlays are outlays that are recognized without a concurrent cash disbursement, such as interest accrued by Treasury on debt held by the public and non-cash credit reform outlays/activity.

EFFECTIVE DATE

13. The requirements of this Statement are effective for reporting periods beginning after September 30, 2017. Early adoption is permitted.

The provisions of this Statement need not be applied to immaterial items.

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 Statement of Financing (SOF) note disclosure has been criticized as too complex and not useful. In July 2012, the Association of Government Accountants' research report (titled *Government-wide Financial Reporting*) suggested improvements in the processes, as well as related standards. The GWA financial report includes a basic financial statement reconciling the Unified Budget Deficit (deficit) and the Net Cost of Operations. The deficit is based on receipts and outlays rather than obligations. The current component reporting entity obligation-based SOF reconciliation does not align with the GWA reconciliation.
- A2. In February 2016, the Board agreed to undertake a project and formed a Budget and Accrual Reconciliation (BAR) task force to address the BAR issue. Through this project, the Board planned to address concerns regarding the reconciliation and the need to support the GWA reconciliation by aligning the component reporting entity disclosures with the GWA requirements. In addition to agreeing with the concerns of the Board, the BAR task force identified the following additional topics to be addressed:
- a. The complexity and usefulness of the SOF note
 - b. Ways to more directly relate budgetary data and accrual data for a less complex presentation
 - c. Support for the GWA reconciliation statement (limited to component reporting entity requirements)
- A3. The BAR task force, which included industry representatives from several public accounting and consulting firms like Deloitte, Kearney & Company, and KPMG, as well as representatives with financial reporting preparation and policy background from the following federal agencies, developed this proposed Statement:
- a. Department of Energy (DOE)
 - b. Department of the Treasury (Treasury)
 - c. Department of Veterans Affairs (VA)
 - d. Small Business Administration (SBA)
 - e. U.S. Coast Guard (USCG)
 - f. Securities and Exchange Commission (SEC)
- A4. During the initial phase of the project, the BAR task force was divided into subgroups to perform research on (a) the usefulness of the current SOF, (b) a new component reporting entity reconciliation format, and (c) the potential impact to the standards due to the potential changes on the current SOF. The SOF sub-group reviewed 23 major agencies'

current SOF notes to understand the variety of the current SOF note preparation process and surveyed five task force members on the advantages and disadvantages of the current SOF note. Based on the research result, the task force came to the following conclusions:

- a. The current SOF note resulted in establishing crosswalk/preparation processes by each agency, but it is time consuming to prepare.
 - b. Due to the lack of agency-wide crosswalk instruction on the SOF note, the SOF note is not comparable between agencies.
 - c. The SOF note is too complex and not useful to users.
- A5. Subsequently, the BAR task force researched and developed a first draft of the New BAR (NBAR) format based on the objectives identified. In addition, the BAR subgroups (a) performed agency-level piloting of the NBAR, (b) conducted Governmentwide Treasury Account Symbol Adjusted Trial Balance System crosswalk accounts research to support the NBAR, (c) aligned the current format to GWA research, and (d) assessed how the new format change would impact the standards and conducted other literature research.
- A6. In June 2016, the Board approved the BAR task force's recommendations based on its research results. These results included the following:
- a. The current SOF note should be replaced due to its complexity and limited usefulness to the user.
 - b. There is a need to research an alternative presentation format that would better relate with budgetary and accrual data, as well as support the GWA reconciliation.
- A7. By the end of July 2016, the task force proposed an updated NBAR, and six agencies who piloted the new format provided their feedback. In August 2016, the Board approved the new format and supported continued development requests, including involving more agencies to pilot the NBAR. By the end of this project phase, a total of 13 agencies—including 11 cabinet agencies—joined the pilot efforts.

THE NEW BUDGET AND ACCRUAL RECONCILIATION

- A8. The NBAR reflects consideration of the information needed to meet the reporting objectives and is supportive of the GWA budget deficit and net operating cost reconciliation. It also makes the agency's budgetary and financial accounting reconciliation preparation easier while improving the usefulness of the information to the public readers/users.
- A9. To provide detailed support to the GWA reconciliation, the intra-governmental reconciliation items will be presented separately. To strengthen the connection of this reconciliation to the other financial statements in the financial report, the starting point of the net cost is obtained directly from the Statement of Net Cost; the final calculated net outlays will equal the net outlays on the Statement of Budgetary Resources. To reduce the preparation time for agencies and simplify the reconciliation, the majority of the reconciliation items come directly from the other financial statements' line items, line items' prior year and current year comparison, or financial statement note disclosures.

- A10. The new format mirrors SFFAS 24 to the extent practicable and highlights net outlays not included in net cost and expenses not included in net outlays. To simplify the presentation and reduce the preparation burden on the component reporting entities, the Board omitted receipts not retained by the component reporting entity from the NBAR. These receipts are generally not reported as components of net cost or net outlays at the component reporting entity level. Instead, these amounts are reported in the Statement of Custodial Activities. Thus, the amounts supporting GWA reporting can be supported by the component reporting entity's financial statements. A separate Treasury general fund project is underway, which would help address the receipt issue as well.
- A11. Reconciliation between "net cost and net outlays" would replace the current SOF reconciliation between "obligations incurred and net cost." Six task force member agencies—DOE, SBA, SEC, Treasury, USCG, and VA—piloted the NBAR and provided their feedback on the process and how it compares to the current SOF note. Based on the pilot results, the BAR task force identified many advantages and some disadvantages of replacing the SOF note with a reconciliation of net cost to net outlays. Subsequently, seven additional agencies piloted the format and provided feedback.
- A12. Based on feedback from the task force and pilot agencies, the new budget and accrual reconciliation
- a. supports the GWA budget and accrual reconciliation,
 - b. is easier to prepare than the current SOF note, and
 - c. is easier for users not familiar with federal budgeting and accounting to understand due to its similarity to the commercial cash flow statement.
- A13. The task force performed a detailed account-level crosswalk from each line item of the NBAR to the GWA budget deficit and net cost reconciliation line items. The task force found that about 80 percent of the current GWA reconciliation will be supported by the new reconciliation. The remaining 20 percent primarily relates to the budget receipts, which were intentionally omitted in the new reconciliation for the reasons stated in paragraph A10.

- A14. According to the task force respondents, the new reconciliation improves the readability of the statement by making it more closely align with information presented in component reporting entity financial statements. The proposed format is also simpler, easier to understand, and readily auditable. Further, the requirement to provide a narrative explanation of the reconciliation and significant reconciling items would also enhance its understandability. For most agencies, it does not require a change of the agencies' current reporting system.
- A15. The taskforce prefers that Treasury provide a crosswalk to increase the consistency across the agencies and to effectively balance this new reconciliation for major funds. Treasury's Bureau of the Fiscal Service has been collaborating with the task force representatives in developing a crosswalk that could be used to prepare the NBAR.
- A16. The Board agreed on the importance of getting the NBAR crosswalk developed by the Treasury before the NBAR is implemented, as it will reduce agencies' implementation time and facilitate audit efforts.
- A17. In addition, the Board believes disclosing information about any noncash outlays would aid in preparing the GWA reconciliation of the budget surplus (deficit) to the change in cash.

APPENDIX B: ABBREVIATIONS

BAR	Budget and Accrual Reconciliation
DOE	Department of Energy
FASAB	Federal Accounting Standards Advisory Board
FECA	Federal Employees' Compensation Act
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GWA	Government-wide Accounting
NBAR	New Budget and Accrual Reconciliation
OMB	Office of Management and Budget
OPM	Office of Personnel Management
SBA	Small Business Administration
SEC	Securities and Exchange Commission
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
SOF	Statement of Financing
Treasury	Department of the Treasury
USCG	United States Coast Guard
VA	Department of Veterans Affairs

Budget and Accrual Reconciliation Task Force

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Task Force Leaders

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Lori King, Department of Energy, Group Leader
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Tab D – Budget and Accrual Reconciliation – Attachment 3



Federal Accounting Standards Advisory Board

Date: December 2, 2016

To: Members of the Board

From: Wendy M. Payne, Executive Director

Subject: **Ballot for Exposure Draft, *Budget and Accrual Reconciliation***

The following is a ballot for the exposure draft on the standard, *Budget and Accrual Reconciliation*. Please enter your name in the space provided below and indicate your approval or disapproval. Please return the ballot during the meeting on December 19th. Alternatively, you may fax the ballot to us at 202 512-7366. If you wish to submit your ballot via e-mail, please e-mail to me at paynew@fasab.gov.

Ballots are due by December 20, 2016. If you wish to express an alternative view, please notify staff immediately and provide your alternative view as soon as possible but no later than December 13, 2016. **When staff receives five affirmative votes, we will publish the exposure draft unless a member has notified us that he or she is preparing an alternative view.**

Board Member: _____ Date _____

_____ I approve the subject Exposure Draft

_____ I do not approve the subject Exposure Draft