



Federal Accounting Standards Advisory Board

August 5, 2016

Memorandum

To: Members of the Board

From: *Ross Simms*
Ross Simms, Assistant Director

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

Subj: Financial Reporting Model – **Tab D**¹

MEMBER ACTION REQUESTED:

- Please alert staff to any edits or open concerns by August 17th.
- Prepare to answer questions beginning on page 3 and identify changes needed before a pre-ballot ED is presented on day two of the meeting.

OBJECTIVES

The objective is to discuss enhancements to the draft exposure draft (ED) concepts statement. All substantive changes should be discussed at the August 24th session so that a pre-ballot draft can be distributed and discussed on August 25th. Following members' editorial review of the pre-ballot, we will distribute a ballot ED during the week of September 12th.

BRIEFING MATERIALS

The briefing materials include this memo which provides background information and questions for the Board and the following attachment:

Attachment I: Draft ED with changes from the June 30th version marked

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.

BACKGROUND

During the June 30, 2016 meeting, the Board discussed enhancements to a draft ED concepts statement on financial statements RSI. The Board discussed whether the ED should define financial condition or include a reference to a discussion on financial condition presented in Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*. The Board determined the ED should 1) include language that distinguishes financial condition from financial position, 2) reference the discussion of financial condition in SFFAC 1, and 3) discuss that sustainability is one indicator of financial condition.

The Board also agreed that the ED would present aspirations for the types of information that government-wide and component reporting entities should present, including performance information. The Board discussed the performance results section of the ED and determined the focus should be on addressing the operating performance objective and its relationship to the stewardship objective, rather than focusing solely on the stewardship objective. Focusing solely on the stewardship objective may suggest the need for information on broad outcomes for the nation. The Board also reviewed other sections of the ED and planned to review a pre-ballot draft ED during the August 2016 meeting.

The questions beginning on page 3 of this memo address the most significant changes since the last review by members. All changes are marked in the draft ED.

NEXT STEPS

Staff will consider Board member comments and prepare a pre-ballot draft.

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 202-512-2512 or by e-mail at simmsr@fasab.gov with a cc to paynew@fasab.gov

Questions for the Board

1. Performance Results and the Performance Aspects of the Stewardship Objective

Staff revised the Performance Results section of the draft ED. During the December 2013 meeting, the Board acknowledged that the stewardship objective of federal financial reporting included aspects of performance. In particular, the stewardship objective states

Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period...²

Federal financial reporting should provide information that helps the reader to determine whether...government operations have contributed to the nation's current and future well-being.³

Members also appeared to affirm that stewardship includes performance aspects during the June 30, 2016 meeting. However, the Board determined the concepts regarding the government's performance should be broad and concepts specifying the need for information about the broad outcomes of the government's actions - national indicators – should be removed from the ED. This approach permits the Board to develop standards regarding both operating performance and the performance aspects of stewardship as the government's information systems evolve.

Given the Board's determination, staff reviewed the Performance Results section of the ED and deleted the text regarding the performance aspects of stewardship. In particular, staff deleted the following text

[Ideally, financial statements and RSI] for the government-wide reporting entity would collectively provide information to assist users in assessing the broad outcomes of the government's actions.

Users are concerned about the impact of the government on the national economy and society and the financial reporting objectives note the need to assist users in assessing the impact on the country of the government's operations and investments for the period. The objective focuses on broad outcomes rather than on specific services.

The purpose of the Performance Results section is to provide concepts regarding operating performance. Removing the performance aspects of stewardship text

² SFFAC 1, par. 15.

³ SFFAC 1, par. 16

would ensure that future Board deliberations concentrate on operating performance. In addition, paragraph 49 of the ED provides references to SFFAC 1 that include the performance aspects of the stewardship objective. There were no significant additions regarding this topic.

Question 1: Does the Board agree or disagree with the revisions to the Performance Results Section? If you disagree with the revisions, what alternative revision would you suggest?

2. List of Information for Component Reporting Entity Financial Statements and RSI

Paragraph 51 of the ED lists the types of information that ideally the component reporting entity financial statements and RSI would assist users in understanding. Staff revised paragraph 51.a. to reflect the need for information that helps users understand that the financial statements and RSI present information for a component of the federal government rather than an independent economic entity. The revisions are as follows

the entity's mission, structure, goals, and objectives, including the relationship between the component reporting entity and the government-wide reporting entity and risks provided by the component reporting entity interdependencies among the component reporting entity, other component reporting entities, and the government-wide reporting entity;

Question 2: Do members agree or disagree with the revision? If you disagree with the revision, what alternative revision would you suggest?

3. Presentations that the Board Might Require

During the June 30, 2016 meeting, the Board reviewed the Summary Level section of the ED and determined the concepts should be aspirational and not discuss what presentations the Board might require. Alternatively, the Board agreed that the concepts should discuss why summary level information may be important to users. Because paragraphs 68 and 69 of the ED discuss why summary level information may be important to users, staff removed the following text from the Summary Level section of the ED (see page 25 of the ED)

FASAB considers citizens' need for understandable information about a federal reporting entity and may require a presentation of summary level information. SFFAC 1 explains

For reports to be understandable to different audiences, different reports may be necessary to provide information relevant to the needs of the expected report users, with suitable amounts of detail, explanation, and related narrative

Question 3a: Do members agree or disagree with the revision? If you disagree with the revision, what alternative revision would you suggest?

4. Paragraph 70 of the ED

Paragraph 70 of the ED lists items that ideally would be presented in summary level information. During the June 30, 2016 Board meeting, Board members asked staff to review the “net cost” and “results of operations” items presented in the previous draft. Members noted that the distinction between the two might not be clear and information on the components of net cost—gross cost and exchange revenue—may be important to users.

Staff revised the listing of items in the Summary Level section to be consistent with the listing of items in the Government-wide Reporting Entity and Component Reporting Entity sections of the ED. The specific revisions

To help inform users of the reporting entity’s finances, ideally the summary level information would provide information to assist users in assessing

- a. the purpose or the intent of the summary level, informing users of what information they might expect to see and the relationship to the government-wide and/or component reporting entity, as appropriate,
- b. the scope of the summary level so that users understand what information the level includes,
- c. basic performance goals and measures,
- d. sources and uses of resources and net financial results ~~gross costs, exchange revenue, and net cost,~~
- e. assets, liabilities, and net financial position as of the reporting period ~~results of operations,~~
- f. the status of budgetary resources,
- g. challenges facing the entity,
- h. ~~the status of resources and obligations,~~
- i. sustainability information,
- j. ~~the status of budgetary resources,~~ and
- k. trends.

Using consistent terms in the listings would minimize confusion.

Question 4: Does the Board agree or disagree with the revision? If you disagree with the revision, what alternative revision would you suggest?

5. Additional Comments

Question 5: What additional comments do members have regarding the revised ED?



Federal Accounting Standards Advisory Board

**FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY
INFORMATION**

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 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 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 *Financial Statements and Required Supplementary Information*, 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 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
 Mail Stop 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 if your comments were received.

The Board's rules of procedure provide that 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 the FASAB's newsletter.

Deleted: 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.¶

Sincerely,

Chairman

STATEMENTS OF FEDERAL FINANCIAL ACCOUNTING CONCEPTS

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

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

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

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

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

This Statement proposes concepts discussing the role of financial statements¹ and required supplementary information (RSI) and their relationship to other information used in financial reporting. The concepts also discuss 1) the presentation of budgetary information in component reporting entity financial statements and RSI, 2) the content and presentation of financial statements and RSI for government-wide and component reporting entities, 3) the presentation of performance information in financial statements and RSI, and 4) summary level information relating to financial statements and RSI.

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

The federal financial reporting community is making a range of data and information available to users and considering various types of presentations to help achieve the financial reporting objectives. For instance, reporting entities are developing summary performance and financial information reports to communicate their results for the reporting period and making data available for users to perform their own analyses. Considering the vast body of information available, users expressed the need to better understand the relationship between information required by generally accepted accounting principles (GAAP) and other information being presented. They also needed information to better understand: the relationship among the types of information GAAP required, such as budget, cost, and performance information, and the relationship between GAAP-based information presented by the government-wide reporting entity and component reporting entities.

The proposed concepts will assist the Federal Accounting Standards Advisory Board² in developing reporting models for the government-wide and component reporting entities. The concepts focus on providing information to achieve the operating performance and stewardship objectives of financial reporting and to support achieving the budgetary integrity objective. The concepts will also assist preparers and users in understanding the purposes of information required by GAAP and how this information relates to other information used in financial reporting.

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¹ Disclosures are an integral part of financial statements.

² The American Institute of Certified Public Accountants (AICPA) designated [the Federal Accounting Standards Advisory Board](#) as the source of GAAP for federal reporting entities.

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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.

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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. This Statement provides a platform to address current and evolving reporting needs and capabilities. Since FASAB developed its earlier concepts, the range of data and information available to the public has grown. The proposed concepts enhances the Board's conceptual framework and addresses users' need for information to better understand the relationship between financial statements and RSI and other information that contributes to the broad financial reporting objectives. The proposed concepts also address users' need to better understand 1) the relationships among budget, cost, and performance information about federal programs and services, 2) the government's financial condition, 3) component budgetary information, and 4) the relationship between the government-wide and component reporting entities' financial statements and RSI. Refer to paragraphs 1 to 5.

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Do you agree or disagree with the reasons for issuing this concepts statement?

- Q2. The Statement illustrates the relationship between financial statements and RSI and the larger body of information available to users for assessing the government's accountability and for decision-making. The reporting objectives are intended to be broad to address the range of information that users need. FASAB focuses on the

operating performance and stewardship objectives and supports reporting budgetary information. The proposed concepts will assist the Board in determining the kinds of information that financial statements and RSI should present and will assist users in understanding the relationship between information presented in financial statements and RSI and other information. Refer to paragraphs 6 to 11 and Figure 1: Information for Assessing Accountability and for Decision-Making.

Do you believe that the illustration is helpful? If not, how would you modify it?

- Q3. The Financial Statements and RSI section of the Statement discusses the role of financial statements and RSI in achieving the financial reporting objectives. Refer to paragraphs 16 to 27.

Do you agree or disagree with the discussion on financial statements and RSI? Please provide the rationale for your answer.

- Q4. The Other Information and Its Relationship to Financial Statements and RSI section of the Statement discusses other information that contributes to achieving the financial reporting objectives and its relationship to financial statements and RSI. Refer to paragraphs 28 to 34.

Do you agree or disagree with the discussion on other Information and its relationship to financial statements and RSI? Please provide the rationale for your answer.

- Q5. The Concepts for Budgetary Information in Component Reporting Entity Financial Statements and RSI section of the Statement discusses component reporting entity budgetary concepts. Refer to paragraphs 35 to 42

Do you agree or disagree with the concepts for budgetary information in component reporting entity financial statements and RSI? Please provide the rationale for your answer.

- Q6. The Concepts for Government-wide and Component Reporting Entities section of the Statement discusses concepts for the government-wide and component reporting entities. The concepts include a discussion on the kinds of information that the government wide reporting entity financial statements and RSI should collectively provide and the kinds of information that component reporting entity financial statements and RSI should collectively provide. Refer to paragraphs 44 to 59.

- a. **Do you agree or disagree with the concepts pertaining to the government-wide reporting entity? Please provide the rationale for your answer.**
- b. **Do you agree or disagree with the concepts pertaining to component reporting entities? Please provide the rationale for your answer.**

- Q7. The Performance Results section of the Statement discusses the role of financial statements and RSI in providing information on the reporting entity's performance results. Refer to paragraphs 1 to 65.

**Do you agree or disagree with the concepts for performance results information?
Please provide the rationale for your answer.**

Q8. The Summary Level Information section of the Statement discusses summary level information with respect to financial statements and RSI. Refer to paragraphs 66 to 72.

**Do you agree or disagree with the concepts for summary level information?
Please provide the rationale for your answer.**



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INTRODUCTION

PURPOSE

1. This Statement provides a platform to address current and evolving reporting needs and capabilities and discusses concepts to assist the Federal Accounting Standards Advisory Board (FASAB) in developing reporting models for the government-wide and component reporting entities. The proposed concepts will also assist preparers and users in understanding the purposes of information required by generally accepted accounting principles (GAAP)³ and how this information relates to other information used in financial reporting. Hereafter, information required by GAAP will be referred to as financial statements⁴ and required supplementary information (RSI).⁵
2. The proposed concepts will enhance the Board's conceptual framework regarding
 - a. the relationship between financial statements and RSI and other information contributing to the financial reporting objectives,
 - b. the presentation of budgetary information in component reporting entity financial statements and RSI,
 - c. the content and presentation of financial statements and RSI for government-wide and component reporting entities,
 - d. the presentation of performance information in financial statements and RSI, and
 - e. summary level information relating to financial statements and RSI.
3. The enhancements to the conceptual framework address users' need for information to better understand the variety of information available and its relationship to financial statements and RSI. Since FASAB developed its earlier concepts statements, the range of data and information available to the public has evolved. This information includes reports that comprise financial statements and RSI, budgetary information, non-financial performance information, and information on systems and controls.
4. Moreover, the enhancements address users' needs for information to better understand:
 - 1) the relationships among budget, cost, and performance information about federal programs and services, 2) the government's financial condition, 3) component budgetary information, and 4) the relationship between the government-wide and component reporting entities' financial statements and RSI.
5. In developing the concepts proposed in this Statement, the Board fully considered the concepts that are most important to addressing users' needs and, as a result of

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³ The American Institute of Certified Public Accountants (AICPA) designated FASAB, as the source of GAAP for federal reporting entities.

⁴ Disclosures are an integral part of financial statements.

⁵ Management's Discussion and Analysis is a component of RSI.

revisiting the concepts, some existing FASAB concepts statements will need to be reemphasized, amended, or rescinded to clarify users' needs.

SCOPE

6. As intended, the overall financial reporting objectives discussed in Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, are broad. They reflect the needs of federal financial information users and are intended to improve the quality (for example, relevance and consistency) of data available for a wide variety of reports. However, the breadth of the reporting objectives combined with the growth in data sources raise questions regarding the role of FASAB, a GAAP standards-setting body; particularly with regard to setting standards needed to meet the budgetary integrity and systems and controls objectives. The budgetary integrity and systems and control objectives are viewed as unconventional objectives for a GAAP standards-setting body.
7. This Statement clarifies SFFAC 1 by emphasizing the objectives most relevant for financial statements and RSI and, therefore, most important for standards development.
8. This Statement focuses primarily on concepts to support achieving the operating performance and stewardship objectives. Also, this Statement provides concepts for reporting budgetary information. The concepts will guide the development of standards for the government-wide and component reporting entity financial statements and RSI.
9. With respect to the FASAB's focus, the Board develops GAAP for reporting on the financial results of operations, financial position, financial condition, and operating performance of the federal government and its component reporting entities, including the status of budgetary resources provided to component reporting entities. These basic items require a variety of financial measures and other information that complements the information available in the budget. Financial statements and RSI that includes information on budgetary activity and results will provide a more comprehensive and insightful understanding of the government's financial position, results of operations, financial condition, and operating performance than budgetary and financial information individually. While financial statements and RSI are a part of a larger body of information available to users, this concepts statement is limited to the mission of the FASAB and how financial statements and RSI relates to and supplements this larger body of information.
10. The Board is charged with giving consideration to "the budgetary information needs of executive agencies and the needs of users of federal financial information"⁶ and is committed to supporting efforts to ensure the accuracy and reliability of reporting on the budget. While budgetary and financial accounting information are presented on different bases of accounting, the information is, in effect, about different aspects of the same

⁶ FASAB Memorandum of Understanding, October 2009.

transactions. Thus, users should be provided information to assist their understanding of those aspects and their relationship.

11. Figure 1: Information for Assessing Accountability and for Decision-Making illustrates the relationship between financial statements and RSI and the larger body of information available to users for assessing the government's accountability and for decision-making.

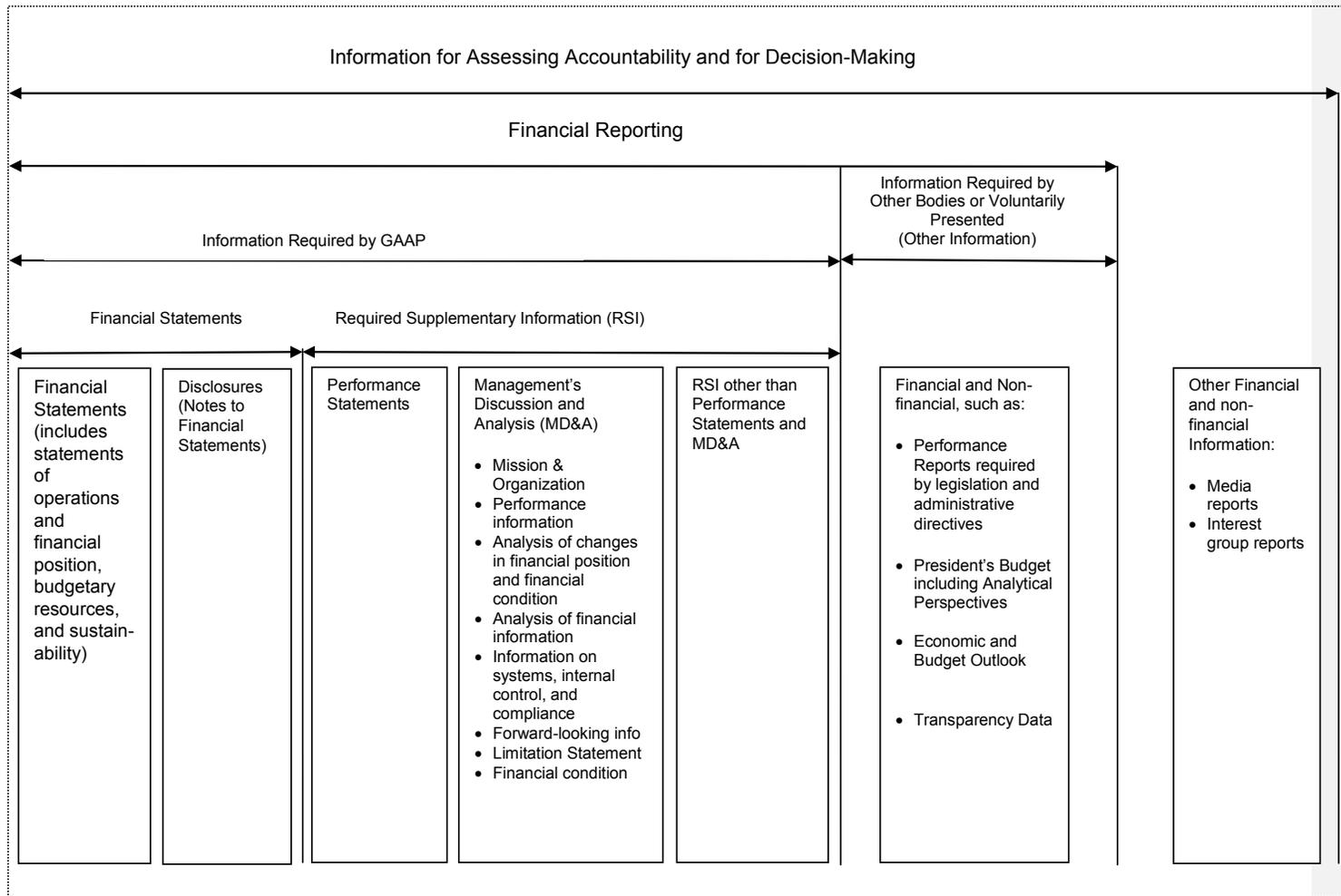


FIGURE 1: INFORMATION FOR ASSESSING ACCOUNTABILITY AND FOR DECISION-MAKING

PROPOSED CONCEPTS

FEDERAL FINANCIAL REPORTING OBJECTIVES

12. While users of federal financial information need similar information as private sector financial information users, they also need additional types of information. Private sector entities primarily earn their resources through voluntary transactions with individuals or other organizations. However, the federal government primarily obtains its resources from the involuntary payment of taxes and borrowing.
- a. Users of federal financial information are concerned about matters such as:
 - b. the sources of resources,
 - c. how the government used the resources it obtained,
 - d. what services the public received from the resources provided,
 - e. whether the resources provided were sufficient to cover the cost of services provided,
 - f. whether the government's financial ability to provide services improved or deteriorated, and
 - g. whether the services provided contributed to the accomplishment of the intended purpose.
13. Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting* (Objectives), discusses the types of users of federal financial information, their financial information needs, and the objectives of reporting financial information. The four overall reporting objectives comprising the foundation for all other concepts are:
- a. **Budgetary Integrity.** Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government's budget for a particular fiscal year and related laws and regulations.
 - b. **Operating Performance.** Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities.
 - c. **Stewardship.** Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the

period and how, as a result, the government's and the nation's financial condition has changed and may change in the future.

- d. Systems and Controls. Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that: transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with federal accounting standards; assets are properly safeguarded to deter fraud, waste, and abuse; and performance measurement information is adequately supported.
14. The Federal Accounting Standards Advisory Board (FASAB)'s report, *Clarifying FASAB's Near-Term Role in Achieving the Objectives of Federal Financial Reporting*, affirmed these objectives and clarified that the Board's primary focus should be on the Operating Performance and Stewardship objectives. With respect to the Stewardship objective, the Board's focus is on the government's financial condition.
 15. SFFAC 2, *Entity and Display*, identifies the financial information needed to meet the objectives. It also recognizes that some of the identified information should be presented in financial statements and RSI.

FINANCIAL STATEMENTS AND RSI

16. Financial statements and RSI are two categories of information intended to assist users of federal financial information in assessing the financial results of operations, financial position, financial condition, and operating performance of the federal government and its component reporting entities, including the status of budgetary resources provided to component reporting entities. The two categories are needed due to the nature of users' information needs.
17. Users of federal financial information need a variety of information to assess the government's finances. However, the degree to which individual items meet certain qualitative characteristics may vary. Thus, as discussed in SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*, different categories may be used to communicate this information and each is subjected to different procedures and reporting requirements under generally accepted government auditing standards (GAGAS). For example, if there is a lack of specific criteria for measuring an item, preparers may have great discretion in developing amounts reported and auditors may lack criteria necessary for the expression of an opinion. Thus, the item of information may be a candidate for RSI.⁷ SFFAC 6, paragraph 73E., provides additional examples.
18. GAAP provides criteria for categorizing, recognizing, measuring, and depicting the government's financial activities in financial statements. Also, GAAP:
 19. is based on a common understanding of terms and elements as well as the relationships among them:

⁷ SFFAC 6, par. 73E.e.

20. ensures that financial statements and RSI meet certain qualitative characteristics, such as understandability, reliability, and relevance; and
- a. guides the preparation and exchange of information.
 - b. Financial statements are prepared using:
 - c. the accrual basis of accounting to present information regarding financial results of operations and financial position,
 - d. primarily cash based budgetary accounting to present government-wide reporting entity budgetary information, and
 - e. primarily obligation based budgetary accounting to present component reporting entity budgetary information.
21. Financial statements are also prepared using projections.
22. The accrual basis of accounting recognizes revenue when earned and recognizes costs when resources are consumed. The costs reflect the resources consumed in the period that the government provided the services.
23. The government-wide reporting entity uses primarily cash based budgetary accounting to recognize budget receipts when cash is received and budget outlays when cash is disbursed.
24. Primarily obligation based budgetary accounting recognizes events when the component reporting entity enters into agreements which obligate the government to make payments in the future, such as when it awards a contract.
25. Projections may be useful for reporting information such as the sustainability of services. Projections could be used in calculating future receipts and spending based on current policy and to depict the results that may occur based on a set of assumptions.
26. Financial statements and RSI include explanations to assist users in understanding the differences among the bases of accounting, the information provided, and the use of projections.
27. Narrative and graphic depictions can be used to explain the relationships among items of information.

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OTHER INFORMATION AND ITS RELATIONSHIP TO FINANCIAL STATEMENTS AND RSI

28. The government-wide and component reporting entities may present information that is not required by FASAB. These entities may present this information voluntarily to help

achieve the reporting objectives, such as to assist users in assessing the financial condition of the reporting entity, or to comply with legislation and administrative directives. For example, to comply with directives regarding performance reporting, component reporting entities present information on how their work benefits public health, safety, and welfare, their progress on achieving strategic objectives, and their actions to improve performance. Consequently, the government-wide reporting entity and component reporting entities may report other information in addition to the information required by GAAP. Hereafter this information will be referred to as *other information*.

29. There may be limitations to other information, including the following:
- a. lack of exposure to the same level of internal controls as financial statements and RSI,
 - b. lack of consistency with GAAP standards for financial statements and RSI,
 - c. not meeting the qualitative characteristics of financial statements and RSI, and
 - d. not subjected to certain procedures required by GAGAS.
30. Multiple methods of presentation may help facilitate user research. For example, financial statements, RSI and other information may be presented in a hierarchical structure that permits users to review highly aggregated data and different levels of detail or disaggregated data. The different levels of data help provide various users with the information at levels of specificity relevant to their particular needs. For example, users may drill-down from the government-wide reporting entity's financial statements to other information in schedules provided by a component reporting entity.
31. Narrative descriptions or graphic depictions may enhance the user's understanding of the other information, financial statements, and RSI presented and direct them to where they might look for additional information.
32. Financial statements and RSI provide information to assist users in assessing topics, such as the entity's financial results of operations, financial position, financial condition, and operating performance. While financial statements and RSI focus on the widespread needs of different users, other information may be required by administrative directives or presented voluntarily to meet the specific needs of a user or user group. For example, a component reporting entity may present information to address a specific Congressional concern.
33. The Board may determine that it is appropriate to establish requirements that include other information in financial statements and RSI wherever the information
- a. helps to achieve the financial reporting objectives,
 - b. meets the qualitative characteristics of required information, and
 - c. meets cost-benefit considerations.

34. Other information can also contribute to achieving the objectives of federal financial reporting. For instance, information on the risks that stem from major natural disasters or implicit guarantees may assist users in assessing the government-wide reporting entity's financial condition.

CONCEPTS FOR BUDGETARY INFORMATION PRESENTED IN COMPONENT REPORTING ENTITY FINANCIAL STATEMENTS AND RSI

35. The budget process is the government's principal mechanism for the Congress and the President to reach agreement on goals, for allocating resources among competing needs, and for assessing the government's fiscal effects on economic stability and growth. While most attention is paid to the future-oriented roles of the budget process, budget execution is designed to monitor tax and other receipts and the use of tax receipts and other resources according to the purposes for which Congress approved budget authority.
36. In developing budget legislation, Congress decides on targets for spending and receipts, the deficit or surplus, and the limit on debt. Upon determining the targets, Congress provides component entities with budget authority and enacts changes in laws affecting receipts and spending.⁸
37. Budget authority provided by annual appropriation acts is considered discretionary spending. Appropriations provide components with the authority to incur obligations for specific purposes. An appropriation can be limited to a single year, multiple years, or be available indefinitely.
38. Budget authority provided by permanent laws, and therefore not subject to annual appropriation acts, is considered mandatory spending.
39. Budget authority comprises the following capacities:
- a. Appropriations - Provided in appropriations acts or authorizing laws, appropriations permit agencies to incur obligations and make payments.
 - b. Borrowing Authority - Usually provided in permanent laws, borrowing authority permits agencies to incur obligations but requires them to borrow funds, usually from the general fund of the Treasury.
 - c. Contract Authority - Usually provided in permanent law, contract authority permits agencies to incur obligations in advance of a separate appropriation of the cash for payment or in anticipation of the collection of receipts that can be used for payment.
 - d. Spending Authority from Offsetting Collections - Usually provided in permanent law, spending authority from offsetting collections permits agencies to offset collections against an expenditure account, incur obligations, and make payments using the

⁸ Analytical Perspectives, *Budget of the U.S. Government*, Fiscal Year 2016, p.92.

offsetting collections.⁹ Offsetting collections are deductions from spending to reflect the government's net transactions with the public. They may result from business-like transactions with the public, intragovernmental transactions, voluntary gifts and donations, and offsetting governmental transactions or collections from the public that are governmental in nature such as tax receipts.¹⁰

40. When components engage in transactions that require either an immediate or future outlay of cash, they use budget authority. While the use of budget authority does not affect the government-wide reporting of an entity's assets, the outlay of cash does. For example, when a component awards a contract, it uses budget authority. However, the government-wide reporting entity's cash is not affected until disbursed to the contractor.
41. Budget authority is not always used in a single year. For example, budget authority enacted for the construction of a capital asset may include the estimated total cost for the project at the time the project begins. However, the component may outlay cash for the project over several years. Thus, the outlay of cash may relate to budget authority provided in previous years as well as the current year.
42. Budgetary resources include new budget authority, unobligated balances, direct spending authority, and obligation limitations.¹¹

CONCEPTS FOR GOVERNMENT-WIDE AND COMPONENT REPORTING ENTITIES

43. The Concepts for Government-wide and Component Reporting Entities section of this Statement includes a discussion on 1) the types of information that the government wide reporting entity financial statements and RSI ideally would collectively provide, 2) the types of information that component reporting entity financial statements and RSI ideally would collectively provide, and 3) the relationship between the government-wide and component reporting entities.

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THE GOVERNMENT-WIDE REPORTING ENTITY

44. The federal government is responsible for the nation's defense and general welfare and is a single economic entity made up of components that provide services to individuals.
45. The federal government has unique capabilities to finance the services provided and accomplish its objectives. It has the power to levy taxes, charge fees, and borrow.
46. The federal government may accomplish its objectives through provisions in the tax law available to subsets of taxpayers who engage in certain kinds of activities, face special circumstances, or otherwise meet specified criteria. For example, to encourage home

⁹ Analytical Perspectives pp.101-102.

¹⁰ Analytical Perspectives pp. 99-100.

¹¹ GAO, *A Glossary of Terms Used in the Federal Budget Process* [GAO-05-734SP](#) (Washington, D.C.: Sept. 1, 2005)

ownership and stimulate residential construction, the federal government may approve tax provisions that reduce the tax liability for taxpayers who incur the costs associated with mortgage interest and local property taxes.

47. The federal government can borrow money to finance services when costs exceed the revenues during the period. There are no legal requirements that prevent expenses from exceeding revenues.
48. Given the operations of the government-wide reporting entity, ideally financial statements and RSI would collectively provide information to assist users in understanding
- a. the government's mission and organization and relationship to component entities;
 - b. the government's performance;
 - c. the government's sources and uses of resources and net financial results for the period;
 - d. the government's assets, liabilities, and net position as of the reporting date (financial position);
 - e. the long-term impact of the government's policies on debt held by the public
 - f. the government's budget surplus or deficit for the period, including how the surplus or deficit relates to the government's net financial results and change in monetary assets during the period;
 - g. the government's investments in productivity and economic growth during the period (stewardship investments);
 - h. the relationship among the information presented in each financial statement and RSI;
 - i. changes in amounts and types of elements presented in financial statements;
 - j. the future effects of existing, currently known demands, risks, uncertainties, events, conditions and trends; and
 - k. the possible future effects of anticipated future demands, events, conditions, trends, risks assumed, etc. that management believes would be important to users.
49. SFFAC 1 paragraphs 134 to 145 and paragraphs [180 to 182](#) discuss users' need for information regarding the government's financial position and financial condition and the relationship between the two concepts. Information on the government's financial position is the starting point for assessing the government's financial condition. SFFAC 1, paragraph 144 states

Financial condition is a broader and more forward-looking concept than that of financial position. Reporting on financial condition requires financial and

nonfinancial information about the national economy and society, as well as about the government itself.

Assisting users in understanding the government's financial condition requires multiple indicators¹² including information regarding the changes in the government's financial position, the long-term impact of the government's policies on debt held by the public, and the sustainability of public services as discussed in SFFAC 1, paragraphs 140 to 142. Information on the government's financial position and financial condition is needed to assist users in assessing matters such as whether financial burdens were passed on by current-year taxpayers to future-year taxpayers without related benefits and the long-term sustainability of government policies.

COMPONENT REPORTING ENTITIES

50. Component reporting entities receive budget authority through appropriations made in the legislative process. Their missions and reporting requirements are established in various laws enacted over time resulting in a complex network of operations and services. Components across the federal government are diverse and the scope and nature of each component's activities can be diverse and at times overlap.
51. In light of the reporting objectives of component reporting entities, ideally, financial statements and RSI would collectively provide information to assist users in understanding
- a. the entity's mission, structure, goals, and objectives, including the [interdependencies among the component reporting entity, other component reporting entities, and the government-wide reporting entity](#);
 - b. the entity's performance in achieving its goals and objectives;
 - c. the entity's sources and uses of resources and net financial results for the period;
 - d. the entity's assets, liabilities, and net position as of the reporting date (financial position);
 - e. the status of the entity's budgetary resources;
 - f. consistent with the mission of the component reporting entity, investments in productivity and economic growth during the period;
 - g. the relationship among the information presented in each financial statement and RSI;
 - h. changes in amounts and types of elements presented in financial statements;

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¹² SFFAC 1, footnote 14.

- i. the future effects of existing, currently known demands, risks, uncertainties, events, conditions and trends; and
 - j. the possible future effects of anticipated future demands, events, conditions, trends, etc. that management believes would be important to users.
52. Component reporting entity information should be aggregated and classified to assist users in evaluating the entity's operating performance. The operating performance objective of federal financial reporting states, in part, that users need information to help them evaluate the entity's costs and accomplishments and how those costs and accomplishments have been financed.¹³
53. Often, the accomplishment of component entity goals, programs, and objectives are dependent on the delivery of services granted or contracted to state and local governments and for profit and non-profit organizations. Users of those component entity financial statements would be interested in the percent of the component entity budget authority allocated to these entities and how the component entity measures the delivery of those services
54. Aggregating and categorizing information by strategic goal is one means of providing information on the entity's costs and accomplishments and their manner of financing. Presenting such information in this format assists users in understanding the entity's progress in achieving its strategic goals.
55. Component entity information should also be disaggregated to assist users in understanding the cost of the entity's services and the efficient and effective use of its assets and liabilities. The operating performance objective states that users need information about:
- a. The costs of providing specific programs and activities and the composition of and changes in these costs.¹⁴
 - b. The efforts and accomplishments associated with federal programs and the changes over time and in relation to costs.¹⁵
 - c. The efficiency and effectiveness of the government's management of its assets and liabilities.¹⁶
56. Financial position with respect to most component reporting entities is not as meaningful as for the federal government because most component reporting entities are not independent economic entities. The government-wide reporting entity can tax and borrow funds while budget authority specifies the amount, purpose, and duration of funding for most component reporting entities.

¹³ SFFAC 1, par. 122.

¹⁴ SFFAC 2, par. 126.

¹⁵ SFFAC 2, par. 128.

¹⁶ SFFAC 2, par. 130.

57. For component reporting entities that receive budget authority, users need to know 1) the budgetary activity during the period, 2) the extent to which budget authority has been used and remains available, and 3) whether additional funding may be needed. Information is needed on the amount of the entity's appropriations that have not been expended at the end of the period, the amount that the entity has accumulated from prior period funding, and the amount of obligations (liabilities) for which the entity has incurred but not received budget authority.

58. Users need information to assess the financial condition of component reporting entities that derive their funding primarily from sources other than through appropriations. Some component reporting entities may be delegated authority to carry on their activities similar to private sector businesses or maintain their operations and meet their liabilities from revenues received from sources outside of the government-wide reporting entity. Citizens rely on the services provided and are concerned about their sustainability.

59. Given the differences between government-wide and component reporting entities financing authority, financial statements and RSI should explain the relationship to assist users in understanding their interdependencies and the location of information they need.

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PERFORMANCE RESULTS

60. Ideally, financial statements and RSI would provide information to assist users in assessing the: 1) amount of financial and nonfinancial resources required to provide services (efforts), 2) accomplishments of services, 3) efficiency and effectiveness of providing services, and 4) changes in the performance of services over time.

61. Users are concerned about the government's progress in accomplishing its goals. The reporting objectives consider users' concerns and state that financial reporting should provide information that helps readers determine the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs.¹⁹

62. SFFAC 1, paragraphs 192 to 210, provides concepts for considering how financial statements and RSI might contribute to reporting on performance results. The concepts discuss the categories of performance measures that help address the financial reporting objectives – measures of efforts and accomplishments, and measures that relate efforts and accomplishments (efficiency and effectiveness measures).

63. SFFAC 1 also states that cost is a component of efforts, efficiency, and effectiveness measures and measuring cost is a function of accounting and the financial reporting system.²⁰

64. SFFAC 3, *Management's Discussion and Analysis*, notes that performance information is an integral part of financial reporting,²¹ and paragraphs 42-49 discuss concepts for presenting performance information in RSI. Statement of Federal Financial Reporting

Deleted: for the government-wide reporting entity would collectively provide information to assist users in assessing the broad outcomes of the government's actions.¶
Users are concerned about the impact of the government on the national economy and society and the financial reporting objectives note the need to assist users in assessing the impact on the country of the government's operations and investments for the period.

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Ideally, component reporting entity financial statements and RSI

¹⁹ SFFAC 1, par. 14.

²⁰ SFFAC 1, par. 193.

²¹ SFFAC 3, par. 13.

Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*, paragraphs 41 through 66, discusses the role of managerial cost accounting in financial reporting and notes

Measuring and reporting actual performance against established goals is essential to assess governmental accountability. Cost information is necessary in establishing strategic goals, measuring service efforts and accomplishments, and relating efforts to accomplishments.²²

65. Ideally, financial statements and RSI would also provide explanatory information to help users understand reported measures and the factors that may have affected the reported performance. SFFAC 1, paragraphs 211 and 212, discuss the limitations of performance measurement. For example, measures of efforts and accomplishments may not indicate why performance is at the reported level. Therefore, financial statements and RSI should also provide explanatory information to help users understand reported measures and the factors that may have affected the reported performance.

SUMMARY LEVEL INFORMATION

66. Information presented in financial statements and RSI may be condensed and provided in a presentation of summary level information.
67. Presenting layers of information may be useful for communicating needed information. Different levels help users locate the detail they may need for their specific analysis. The top level may provide highly aggregated information while lower levels provide increasingly more detailed information. However, all lower level information need not be presented in the report itself. Lower level information may be either electronically linked or provided in other reports, with information on how to obtain such reports provided.
68. The highly aggregated top level or summary level may be most useful to citizens and is likely the level where they will begin their review. Citizens need a succinct but comprehensive picture of the reporting entity's activities. They may not have extensive knowledge of accounting and budgeting concepts to fully understand disaggregated financial and nonfinancial information and the relationship among different items. Accordingly, understandability is an important characteristic of summary level information.
69. With respect to data, citizens may rely on pictorial rather than tabular presentations and extensive narratives. Using plain-language would also assist users in understanding the information presented.

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²² SFFAS 4, par. 58.

70. To help inform users of the reporting entity's finances, ideally the summary level information would provide information to assist users in assessing
- a. the purpose or the intent of the summary level, informing users of what information they might expect to see and the relationship to the government-wide and/or component reporting entity, as appropriate,
 - b. the scope of the summary level so that users understand what information the level includes,
 - c. basic performance goals and measures,
 - d. sources and uses of resources and net financial results,
 - e. assets, liabilities, and net financial position as of the reporting period,
 - f. the status of budgetary resources,
 - g. challenges facing the entity,
 - h. sustainability information, and
 - i. trends.

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 For reports to be understandable to different audiences, different reports may be necessary to provide information relevant to the needs of the expected report users, with suitable amounts of detail, explanation, and related narrative.²³

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 the status of resources and obligations,

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 the status of budgetary resources,

71. To assist users in understanding the summary level information presented, ideally financial information would be presented in relation to performance goals and measures.
72. A graphic presentation of other levels, including their relationships, or links may assist users in identifying and accessing sources for additional information.

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. This project is 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 and comprehensive framework of objectives and concepts. The conceptual framework project began in 2006. At that time, board members were concerned that the reporting objectives were broad and some members sought to better define the role of GAAP-based financial statements in achieving them. Also, some preparers were concerned about the need for certain financial statements such as the component reporting entity balance sheet. Accordingly, the Board began the conceptual framework initiative by revisiting the reporting objectives. The Board affirmed the original reporting objectives and subsequently completed concepts defining elements, identifying measurement attributes, and distinguishing between basic information and required supplemental information. The Board also began engaging the federal reporting community in discussions regarding the government-wide and component reporting entity reporting models.

User Needs and Reporting Community Outreach

A2. In 2006, 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 these objectives. Roundtable participants provided their views on whether the objectives continued to reflect the information needs of users and whether these objectives are being achieved. The participants believed the reporting objectives remained valid and they noted that the objectives could be accomplished by reports and similar materials other than financial statements. Consequently, in November 2006, the Board agreed to retain the broad objectives and issue its Strategic Directions report, which discusses the Board’s primary and secondary focuses relative to the reporting objectives.

A3. After completing SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*, 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. Members were also 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 the reporting models of other governments. As a result, staff (1) researched the diverse needs of users and how they access information; (2) surveyed other countries and their reporting models; and (3) conducted 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. Eventually the Board determined that the conceptual framework needed to better explain unique governmental 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 problematic and have short and long-term implications,
 - 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.
- A5. Accordingly, the Board decided to consider these and other reporting concepts in the reporting model project.
- A6. FASAB staff provided the Board with a series of reports and discussion papers. In summary, staff noted that users needed information regarding
- a. the cost of programs,
 - b. the performance of programs,
 - c. the sustainability of programs, and
 - d. how actual spending compared to the budget.
- A7. Also, users needed plain-language, understandable information, as well as the ability to access information and prepare their own reports.

Task Forces and Additional Research

- A8. The Board organized the Reporting Model Task Force to consider the user needs and reporting community survey 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 future. The team also focused on the *Financial Report of the U.S. Government*

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(FR) because the public would likely start with the FR to learn about the fiscal health of the federal government. Consequently, the task force recommended (1) the adoption of a centralized, web-based method of reporting financial and performance information, (2) changes to particular financial statements, and (3) additional disclosures. They believed that the success of these recommendations require raising public awareness of federal financial reporting.

- A9. In 2011, the Board discussed the task force recommendations. Members discussed systems constraints and challenges and noted that many of the recommendations could be adopted voluntarily by preparers. However, Board members did note that the conceptual framework that should guide accounting standards remained incomplete and out-of-date. The Board, at this time, also 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 FR, which implies that FASAB standards should focus on the FR and should primarily consider citizens' information needs. Additionally, the Board confirmed that component reporting entity reports should support the needs of the FR.
- A10. 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 reporting entities and conduct discussions with CFOs and various groups to help the Board determine the information of value to users.
- A11. Other countries were also reporting on service and financial performance. Given the range of issues, the Board decided that the project needed to be segmented into three separate projects – improving cost, improving performance, and improving budgetary reporting. Task forces would be organized for each project. This approach would allow members to better focus on issues that needed to be addressed.
- A12. In 2012, the three task forces proceeded to discuss these issues and subsequently recommended that the Board revisit Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*. The task forces believed that adequate cost guidance was necessary to support users of budget and performance information and provide cost information that met expectations. 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 Department of the Treasury and OMB. Also, members again raised concerns about systems constraints and challenges in presenting integrated cost, budget, and performance information.
- A13. Subsequently, the Board engaged with the National Academy of Public Administration (NAPA) to learn more about the needs of executives and managers. They also learned about preparers' needs for resources to guide financial information development. The research informed the Board on (1) the availability of financial and related information, (2) the effective use of financial data by senior managers, (3) the current and desired role of the CFO, and (4) for existence of gaps between the current and desired role of

the CFO, the options most likely helpful in closing those gaps. The NAPA team conducted interviews with federal executives and senior managers with operating responsibility for agencies, bureaus, offices, divisions, or comparable organizational units.

- A14. NAPA's report, *Financial and Related Information for Decision-Making: Enhancing Management Information to Support Operational Effectiveness and Priority Goals* discussed the following topics:
- a. Data generally are highly accurate and granular, but federal agencies face challenges in analyzing and transforming data into readily understood, actionable information for executive decision making—especially the linking of budget, costs, and performance.
 - b. The degree to which financial data are effectively used for decision making is heavily driven by each organization's revenue source (user fee-based versus appropriation-based) and operational approach.
 - c. CFO organizations will increasingly need to offer valuable decision-making support to executives and senior managers, including sophisticated cost and performance analysis.

Developing Ideal Reporting Models without Constraints

- A15. At this point, Board members noted that models of the ideal presentation are 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 ideal models would not be constrained by considering existing systems and what the Board could accomplish immediately. In addition, the models would 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 conceptual, ideal models that integrate budget, cost, and service performance information.

Flow Information: The Starting Point for Developing Ideal Models

- A16. During the April 2014 meeting, FASAB members developed and presented their views of ideal reporting models. The presentations addressed the Budgetary Integrity objective generally 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.
- A17. Based on feedback from the reporting community, users still need 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

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address how to reconcile cost and budget at a level that would be understandable to users.

- A18. However, members expressed concern about whether the concepts should include illustrations of financial statements and whether concepts should reflect an ‘aspirational’ reporting model or simply describe current practice. Consequently, the Board decided to develop an inventory of concepts and topics that might be included in the concepts statement. Upon completing the inventory, the Board deliberated which items should be retained in the concepts statement.

Inventory of Concepts and Framework for an Exposure Draft

- A19. In February 2015, the Board began developing an inventory of concepts that would help guide development of the reporting models and in December 2015 decided on a framework or outline to guide development of an exposure draft concepts statement. The Board agreed that the framework needed to be comprehensive and include new and existing concepts and topics that members had suggested during the project.
- A20. Subsequently, staff began using the framework to develop the exposure draft and the Board determined the guidance should focus on information required by GAAP - financial statements and RSI - rather than information presented in a general purpose federal financial report (GPFFR). GPFFRs are broader and refer to financial statements, RSI, and other information. The Board determined the concepts should discuss the purposes of financial statements and RSI and other information to assist users in understanding their relationship.
- A21. The Board also determined the concepts should discuss component budgetary information, performance results information, and summary level information. Throughout the project, the Board discussed the need to clarify the role of financial statements and RSI with respect to budgetary and performance information. The Board considered that both budgetary and performance information include data derived from financial systems and transactions affected by GAAP. Including concepts on budgetary and performance information would assist the Board in contributing to the reporting objectives and requiring information that helps users understand the relationship among budget, cost, and performance information.
- A22. Regarding summary level information, the Board considered citizens’ feedback and believed that citizens are more likely to understand a summary level presentation of financial and non-financial information than a detailed presentation. Concepts would assist the Board in determining the guidance that might be needed for summary level information.

APPENDIX B: ABBREVIATIONS

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|-----------------------|--|
| AICPA | American Institute of Certified Public Accountants |
| CFO | Chief Financial Officer |
| ED | Exposure draft |
| FR | Financial Report of the U.S. Government |
| GDP | Gross Domestic Product |
| FASAB | Federal Accounting Standards Advisory Board |
| FASB | Financial Accounting Standards Board |
| GAAP | Generally Accepted Accounting Principles |
| GAGAS | Generally Accepted Government Auditing Standards |
| GAO | Government Accountability Office |
| GASB | Governmental Accounting Standards Board |
| GPPFR | General Purpose Federal Financial Report |
| IPSASB | International Public Sector Accounting Standards Board |
| NAPA | National Academy of Public Administration |
| OMB | Office of Management and Budget |
| RSI | Required Supplementary Information |
| SFAS | Statement of Financial Accounting Standards (FASB) |
| SFFAC | Statement of Federal Financial Accounting Concepts |
| SFFAS | Statement of Federal Financial Accounting Standards |

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APPENDIX D: GLOSSARY¶

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