



Federal Accounting Standards Advisory Board

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March 7, 2007

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Comes, Executive Director

Subj: Conceptual Framework: Financial Reporting (TAB B)<sup>1</sup>

At the January 2007 Board meeting, the Board agreed to proceed with the financial reporting project by reviewing the existing general purpose federal financial report<sup>2</sup> (GPFFR). Staff has initiated this phase and prepared the attached paper focusing on the role of GPFFRs and their relationship to the federal financial reporting objectives. The purpose of the meeting will be to discuss the matters noted in the paper. In particular, the paper presents an emerging issue regarding the scope of federal financial reporting and GPFFRs, and it provides an overview of the current components of GPFFRs. Issues concerning the characteristics of each component, and where information should be located are not discussed. These issues will be presented in subsequent segments of the project.

The paper begins by discussing whether non-financial performance information is an integral part of financial reporting and GPFFRs. Recently, constituents have raised concerns regarding the size of the existing GPFFR, the Performance and Accountability Report (PAR). Among other concerns, they have noted that the performance information of the PAR contributes to a voluminous document and its understandability may be compromised. In addition, some standards-setters focus on financial performance information and do not necessarily consider non-financial performance as integral to financial reporting. Discussing

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<sup>1</sup> 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.

<sup>2</sup> The terms financial report and financial statement are sometimes used interchangeably. For the purposes of this project, the terms are distinct. Financial reports are intended to meet the common interests of users and, while financial statements may form the core of financial reports, it is one of several components. Other components include required supplementary information and other accompanying information.

this issue will help clarify the scope of federal financial reporting and of GPFFRs. Accordingly, the paper discusses recommendations that the Board:

1. agree that performance information is an integral part of financial reporting and of GPFFRs.
2. continue to monitor the progress in performance reporting rather than exploring the topic at this time.

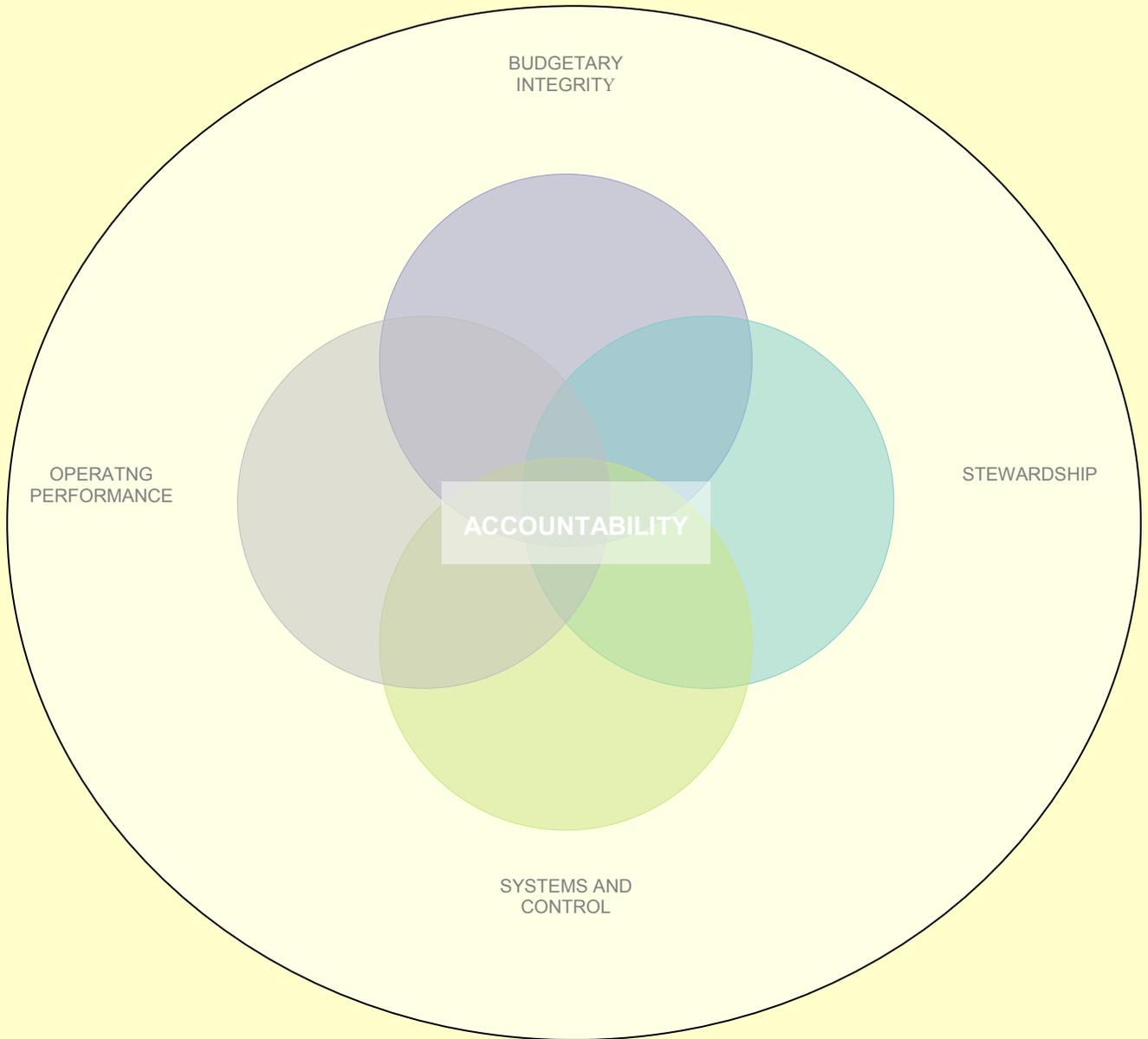
In addition, the paper reviews how components of the existing PARs relate to the financial reporting objectives. The broad nature of the objectives often call for information beyond traditional financial statements and, in some cases, non-financial information may provide the most comprehensive means of communication. Although various innovative forms of financial statements can be considered going forward, currently, a familiar reporting vehicle is being utilized – required supplementary information (RSI). RSI helps to “fill-in” some of the information needed to achieve the objectives, particularly sub-objectives regarding operating performance and stewardship. Considering that commonly known reporting components such as financial statements and RSI will likely help ensure that users understand the importance of the information included in GPFFRs, staff suggests that the Board:

3. limit the GPFFR components to those that are currently defined in professional literature and that are familiar to users, such as financial statements, disclosures, RSI (including MD&A), and other accompanying information.

To assist in considering these issues, the paper also includes Exhibits that illustrate the relationship of GPFFRs to other reports used in financial reporting and demonstrating accountability (Exhibit 1) and Exhibits demonstrating how GPFFR components help achieve the financial reporting objectives and sub-objectives (Exhibits 2 – 5). Other Exhibits are also noted throughout the paper.

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# DISCUSSION ON GENERAL PURPOSE FEDERAL FINANCIAL REPORTS



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## Introduction

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Financial reporting reflects the information needs of users. Business enterprises seek to earn profits and users of their reports need information for making investment and credit decisions.

“A system of financial reporting should be established within the agencies to assist in evaluating performance...The public and the Congress are entitled to know the real cost of each significant Government undertaking.”

*A Report on Budget and Accounting*, Commission on Organization of the Executive Branch of the Government, June 20, 1955

Accordingly, financial reporting for business enterprises focuses on providing users with information concerning earnings. However, the federal government environment and means of operation is different. The federal government is responsible for the general welfare of the nation in

perpetuity and normally provides services without charging fees. As a result, users of federal financial information require information to assess the government’s accountability for such matters as operating efficiently and effectively and for achieving intended purposes. In addition, those responsible for planning and conducting government operations need information to facilitate their decision-making responsibilities. [Exhibit 1](#) on page 18 shows the various reports and sources of information that provide users with information for assessing accountability and decision-making and will be discussed more in a subsequent section of this paper.

“The objectives reflect the federal environment. They also reflect many of the needs expressed by current and potential users of federal financial information. They provide a framework for assessing the existing financial reporting systems of the federal government and for considering how new accounting standards might help to enhance accountability and decision-making in a cost-effective manner.”

Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, par. 4.

While recognizing that financial reporting is not the only source of information to support accountability, the Board designed four financial reporting objectives to help ensure the accountability of the federal government. The four objectives, Budgetary Integrity, Operating Performance, Stewardship, and Systems and Control reflect the federal environment and meet the financial information needs of users.<sup>1</sup> In addition, the objectives were developed to

improve the relevance, consistency, and quality of accounting and other data used for a variety of applications.<sup>2</sup> This contributes to broader objectives than traditional financial reporting objectives. The Budgetary Integrity, Operating

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<sup>1</sup> Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, September 1993, par. 109.

<sup>2</sup> SFFAC 1, par. 107.

Performance, Stewardship, and Systems and Control objectives are described in the following Exhibits:

- [Exhibit 2](#): Budgetary Integrity, on pages 19 to 22;
- [Exhibit 3](#): Operating Performance, on pages 23 to 26;
- [Exhibit 4](#): Stewardship, on pages 27 to 29; and
- [Exhibit 5](#): Systems and Control, on pages 30 to 31.

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## Relationship of Non-Financial Reporting to Financial Reporting

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One area where standards-setters appear to have different views regarding financial reporting is how “non-financial performance” information relates to financial reporting.<sup>3</sup> Many entities report information to help users assess how well they have performed. However, the nature of the entity may require a focus on different types of measures of performance. Two types of measures that are commonly considered are non-financial and financial performance information. Non-financial performance primarily refers to information concerning service efforts and accomplishments. Because the role of government is to provide services for its citizens, “performance” is evaluated in terms of economy, efficiency, and effectiveness rather than earning profits. This requires non-financial information. Conversely, business enterprises focus on earning profits and accordingly concentrate on providing financial performance information.

Some standards-setters appear to view non-financial performance information as

“...performance information is an integral part of the general purpose federal financial report”

Statement of Federal Financial Accounting Concepts 3, *Management’s Discussion and Analysis*, par. 13.

“useful” for financial reporting or a means of reporting separate from financial reporting. However, others may view the information as “integral” to financial reporting. For example, similar to the FASAB, the International Public Sector Accounting Standards Board (IPSASB) discusses that financial reporting in the public sector should provide information useful for decision-making and

demonstrating accountability. In addition, the IPSASB notes that its standards center on general purpose financial statements which are reports that include information such as “...aggregate information **useful** in evaluating the entity’s performance in terms of service costs, efficiency and accomplishments (emphasis added).”<sup>4</sup> Accordingly, in addition to financial statements and notes,

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<sup>3</sup> Other relevant notions, such as sustainability and economic reporting, are being considered in a separate project.

<sup>4</sup> International Public Sector Accounting Standard (IPSAS) 1, *Presentation of Financial Statements*, January 2007, par 15(e).

the IPSASB “encourages” rather than requires entities to report information on service efforts and accomplishments.<sup>5</sup>

In addition, the Canadian Public Sector Accounting Board (CPSAB) appears to take another approach. In its document, *20 Questions about Government Financial Reporting*, the CPSAB distinguishes financial reporting from non-financial reporting and presents them as two means of government accountability reporting. The CPSAB notes that financial reporting involves reporting on financial condition and financial performance. Non-financial performance reporting involves reporting on the outcomes of government actions and programs.<sup>6</sup>

For businesses, the Financial Accounting Standards Board (FASB) notes that the primary focus of financial reporting is information concerning an enterprise’s earnings and its components.<sup>7</sup> This requires “financial performance” information that helps users assess the prospects for net cash inflows. Although the FASB focuses on financial performance requirements, business enterprises are voluntarily providing non-financial performance information.<sup>8</sup> Business enterprises voluntarily report non-financial performance along with their financial performance information. The non-financial performance information often involves metrics managers use in evaluating operations and achieving strategic goals. This may include information such as customer satisfaction data.

In contrast to the previously mentioned standards-setters, the Governmental Accounting Standards Board (GASB) believes that performance (non-financial) information about outputs, outcomes, and efficiency is an “integral” part of general purpose financial reporting. The GASB notes:

Therefore, for GPEFR [General Purpose External Financial Reporting] to provide information that will assist financial report users to assess performance for accountability and decision-making purposes, it is necessary to broaden its scope to keep pace with the evolving information needs of those users. Because those users now recognize that information about SEA [Service Efforts and Accomplishments] (in terms of outputs, outcomes, and efficiency) is an essential part of the measurement of performance, financial reporting needs to be expanded to include those measures. Having considered the information users need for assessing accountability and making decisions, and the

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<sup>5</sup> IPSAS 1, par. 25 states, Entities are encouraged to present additional information to assist users in assessing the performance of the entity, and its stewardship of assets, as well as making and evaluating decisions about the allocation of resources. This additional information may include details about the entity’s outputs and outcomes in the form of performance indicators, statements of service performance, program reviews and other reports by management about the entity’s achievements over the reporting period.

<sup>6</sup> *20 Questions about Government Financial Reporting*, Public Sector Accounting Board, 2003, p.

<sup>7</sup> Financial Accounting Standards Board (FASB) Concepts 1, *Objectives of Financial Reporting by Business Enterprises*, issued November 1978, par. 43.

<sup>8</sup> *Improving Business Reporting: Insights into Enhancing Voluntary Disclosures*, Steering Committee Report, Business Reporting Research Project, FASB, 2001, p. 6.

role of financial reporting in providing information to assess performance, the GASB believes that SEA information is an integral part of GPEFR.<sup>9</sup>

While standards-setters appear to differ on how non-financial performance information relates to financial reporting, the FASAB notes that to satisfy the needs of various users, combining financial and “non-financial” information is a necessary step.<sup>10</sup> The FASAB defines financial reporting as “the process of recording, reporting, and interpreting, **in terms of money**, an entity’s financial transactions and events with economic consequences for the entity (emphasis added).”<sup>11</sup> This definition appears to limit financial reporting to financial information. However, the Board further notes that, in the federal government, reporting involves non-financial information about the government’s service efforts and accomplishments.<sup>12</sup> Accordingly, financial reporting includes non-financial performance information such as efforts and outcomes. This information is simply known as “performance” information in the federal environment and this term will be used in reference to federal government reporting.

Since its early years of operation, the FASAB has indicated that performance information is integral to federal financial reporting. This is due to the unique role of the federal government which is to provide services. Prior to the implementation of the Government Performance and Results Act (GPRA), that requires agencies to prepare strategic plans, annual performance plans, and annual performance reports, the Board suggested a statement of program performance measures. The FASAB did not consider the statement to be a basic financial statement<sup>13</sup> and believed that its acceptance would increase in relation to users’ perceived relevance and reliability of the reported information.<sup>14</sup> The Board also noted that:

...In the final analysis, the objective of the Federal Government is to provide services, in contrast to the objective of private sector organizations, which is to earn profits and enhance the return on investment, both of which are monetary objectives. All of these factors suggest that the statement of program performance measures is not only an appropriate statement, but likely to be the most important statement for those persons interested in how a Federal entity is using its resources.<sup>15</sup>

About the time the GPRA became effective, the Board continued to note the integral nature of performance information and discussed that regardless of its location, performance information was an integral part of a general purpose federal financial report (GPFFR).

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<sup>9</sup> GASB Concepts Statement 2, *Service Efforts and Accomplishments Reporting*, April 1994, par. 49.

<sup>10</sup> SFFAC 1, par. 32.

<sup>11</sup> SFFAC 1, par. 22.

<sup>12</sup> Ibid.

<sup>13</sup> SFFAC 2, footnote 9.

<sup>14</sup> SFFAC 2, footnote 20.

<sup>15</sup> SFFAC 2, par. 66.

Reporting information that helps people assess the performance of the Government's programs and organizations is an important objective of Federal financial reporting. For governmental entities, in contrast to profit-seeking entities, the financial result of governmental-type activities is rarely an adequate indicator of performance. (For a few governmental entities, mainly those that conduct primarily business-type instead of governmental-type activities, the financial results of operations may be an important, albeit rarely sufficient, performance indicator.) To assess performance, people need additional information on the consequences of the Government's activities. For a competitive, profit-seeking entity, the value of its products or services is measured by the amount of money customers are willing voluntarily to pay for them. In such a situation, the traditional income statement reports on both the efforts (measured by expenses incurred) and the accomplishments (measured by revenue earned) of the entity. For government, expense reflects efforts, as it does in the private sector, but indicators other than revenue must be used to report on accomplishments. A discrete section of the GPFFR therefore presents indicators of accomplishments (such as indicators of outputs and outcomes) and other indicators of performance. Alternatively, the GPFFR incorporates performance indicators by reference to a separate report such as the Annual Performance Report required by the Results Act. Either way, **performance information is an integral part of the GPFFR** and should be discussed in MD&A. Management's discussion and analysis should therefore address the most important facets of performance as well as the financial statements and supplementary information. (SFFAC 3, *Management's Discussion and Analysis*, par. 13, emphasis added)

In addition, the Board noted:

The Board acknowledges that SFFAC 2 calls for and illustrates a Statement of Program Performance Measures. (Footnote 13 in SFFAC 2 explains that this statement is not "basic" information as that term is used in audit standards: "The Statement of program performance measures is not a basic financial statement. Nevertheless, it is an important component of the financial reports.") The Board continues to believe that **performance information is a vital, integral part of general purpose financial reporting**. It should be noted, however, that SFFAC 1 and SFFAC 2 were issued before the performance planning and reporting requirements of GPRA became effective. The Results Act creates an elaborate new planning and reporting environment that is still evolving. Some details of the reporting model that were envisioned conceptually in SFFAC 2 may accordingly need to be revised slightly. (SFFAC 3, par. 62, emphasis added)

In clarifying its role, the Board noted that it focuses on "...developing generally accepted accounting standards for reporting on the financial operations, financial position, and financial condition of the federal government and its component entities and other useful financial information."<sup>16</sup> This implies measures of cost, which is a key part of measuring performance. Measuring cost and reporting its results is a function of accounting and financial reporting. Financial reporting standards concern what information is reported and how it is reported.<sup>17</sup>

Although the Board did not issue standards regarding the statement of program performance measures, the Board did issue standards regarding Management's Discussion and Analysis (MD&A). Statement of Federal Financial Accounting

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<sup>16</sup> SFFAC 1, par. 191.

<sup>17</sup> SFFAC 1, par. 193

Standards (SFFAS) 15, *Management's Discussion and Analysis*, paragraph 2, notes that the MD&A should address the entity's performance goals, objectives, and results. Consequently, federal financial reporting includes performance (or non-financial performance as used by others) information and is an integral part of a general purpose federal financial report. [Exhibit 6](#) on page 32 provides an overview that shows the required components of different financial reporting models, including the federal government, state and local government, international public sector, Canadian public sector, and business enterprises.

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## General Purpose Federal Financial Reports

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The federal government uses general purpose federal financial reports (GPFFR) to help communicate information necessary for assessing accountability to a wide-range of users. These users include citizens, Congress, executives, and program managers, and, often, they may not be able to obtain or customize the specific information they need. As a result, the financial reporting objectives apply to GPFFRs to help ensure that users obtain information that contributes to holding the government accountable.<sup>18</sup> GPFFRs present comprehensive information to contribute to achieving the financial reporting objectives.

### Characteristics of the GPFFR

The FASAB basic definition of GPFFRs is as follows:

reports intended to meet the common needs of diverse users who typically do not have the ability to specify the basis, form, and content of the reports they receive.<sup>19</sup>

Because it does not specify the information that the reports should contain, this definition alone appears to permit a high level of flexibility in the reports' content and means of communicating information (financial statements, disclosures, supplementary information, etc.). In particular, the definition does not appear to limit GPFFRs to simply communicating financial information. However, other FASAB literature provides additional characteristics that help explain the purpose of GPFFRs, how information should be presented and the primary means of communication.

"...information has no impact on individual decisionmakers, such as program managers, unless it is conveyed in a way that facilitates, or even requires, suitable attention to it."

Statement of Federal Financial Accounting Standard 5, Accounting for Liabilities of the Federal Government, par. 139.

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<sup>18</sup> SFFAC 1, par. 107

<sup>19</sup> Volume I, Original Pronouncements, Appendix E Consolidated Glossary, Version 5, 06/2006, p. 1395

For example, SFFAC 3 notes that the GPFFR is a highly summarized profile of a complex entity that should be understandable and useful to a wide-audience. It is structured around financial statements prepared according to generally accepted accounting principles and provides information that contributes to decision-making (assist users in evaluating past decisions and information for future decision-making), and assessing accountability (provides information on the government's actions and the effects of those actions). These characteristics are explained in the following paragraphs of SFFAC 3:

2. A typical GPFFR is a highly summarized profile of a complex entity. It is based on conditions that exist at the reporting date and events that occurred in the preceding period. It shows what has happened, but it does not explain why it happened or what may reasonably be expected to happen in the future.

3. Financial reports have two key roles. One is a feedback role to provide information used for evaluating past decisions, expectations, and trends. Another is a predictive role to provide information used for formulating expectations and making decisions about the future. Both roles can be enhanced by insights and interpretations from an entity's management.

5. A Federal reporting entity's GPFFR should be understandable and useful to a wide audience, not just members of the entity's management and specialized analysts working for special interest groups, corporations, and other entities affected by the Government's actions. Therefore, the report should be accompanied by a concise narrative discussion and analysis. Even insiders and specialized analysts often need such a discussion and analysis to understand the report. Communication with a wide audience may require effective use of colors, graphs, photographs, and charts. Reporting understandable, accessible information on the Government's actions and the effects of its actions helps assure accountability and provides a more "level playing field" on which the public interest can best be served.

In addition, SFFAC 3, footnote 1, indicates that the GPFFR is structured around financial statements prepared according to GAAP. It states the following:

The term general purpose financial report, abbreviated "GPFFR," is used as a generic term to refer to the report that contains the entity's financial statements that are prepared pursuant to federal accounting principles.

The FASAB standards describe similar and some additional attributes of GPFFRs. In SFFAS 5, *Accounting for Liabilities of the Federal Government*. This standard notes that presenting information in GPFFRs can be valuable because

- GPFFRs present comprehensive information.
- GPFFRs convey information in a way that facilitates or requires attention to the information, such as associating expenses with outputs.
- Assembling and reporting the necessary data helps management. Managers tend to manage what they measure.

- Financial reports are expected to possess credibility and command a certain amount of attention from various audiences.<sup>20</sup>

[Exhibit 7](#), on pages 33 and 34, provides an excerpt from SFFAS 5 that elaborates on these attributes.

Other FASAB standards reiterate the themes noted previously. They include the following:

SFFAS 17, *Accounting for Social Insurance*, notes information for decision-making on important issues

...Federal accounting and financial reporting attempt to address the needs of users and to inform them for their decisions, including decisions on these highly important and topical issues. par.97

SFFAS 19, *Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees in Statement of Federal Financial Accounting Standards 2*, considers length and complexity (understandability)

...In addition, although the incremental cost of producing the program-based reconciliation would be quite small for most agencies, the Board believes that requiring the display of program-based reconciliation would add length and complexity to the financial reports that are already detailed and complex. As a result of these benefit and cost considerations, the Board concluded that requiring the display of a program-by-program reconciliation was not justified. Par. 12

Although the type of information (financial or non-financial) is not specifically noted in the descriptions, it appears that GPFFRs are structured around financial statements and should include information that contributes to decision-making and demonstrating accountability. The financial reporting objectives were developed to help ensure that users obtain information for decision-making and assessing accountability. Accordingly, a GPFFR may need to include information to meet the reporting objectives. That would require financial and non-financial types of information.

#### Other Standards-Setters' Views

Another standards-setter, the GASB, takes the approach that more than one type of general purpose financial report (report) is needed. The GASB notes that the nature of the information needed to meet financial reporting objectives is diverse and only one type of report may not meet all the objectives. As a result, GASB distinguishes between reports that contain financial statements and those that

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<sup>20</sup> SFFAS 5, par. 137 – 141.

contain other means of communicating information. This discussion is as follows:

General purpose external financial reporting (GPEFR) is a means of communicating financial information to meet the common information needs of the primary users of a government's financial report. [footnote omitted] Because of the diverse nature of the information that needs to be communicated to users to meet the various objectives of financial reporting, [footnote omitted] no single general purpose external financial report may be sufficient to adequately meet all the objectives. Information that is relevant for meeting certain financial reporting objectives may be better provided by basic financial statements, notes to basic financial statements, and supporting information presented with basic financial statements, but other information may be better provided by using other methods of communication. Therefore, some general purpose external financial reports will contain basic financial statements, notes to basic financial statements, and supporting information (the methods of communication that are the subject of this Concepts Statement), whereas other general purpose external financial reports that may be developed in the future may use other methods of communication.<sup>21</sup>

Other standards-setters such as the IPSASB focus on general purpose financial statements rather than general purpose financial reports. Consequently, their descriptions tend to discuss financial statements. However, the FASB Statement of Financial Accounting Concepts (SFAC) 4, *Objectives of Financial Reporting by Nonbusiness Organizations*, does offer the following description of general purpose financial reports for nonbusiness organizations:

...general purpose external financial reporting focuses on providing information to meet the common interests of external users who generally cannot prescribe the information they want from an organization. Those users must use the information that is communicated to them by the organization. The most obvious and important users fitting that description in the nonbusiness environment are resource providers, such as members, taxpayers, contributors, and creditors (paragraph 36).

Although the description indicates the use of one type of financial report, it reiterates the theme of addressing “common” interests. Therefore, the FASB notes that the report is not intended to meet all information needs.

### Components of Existing GPFFRs

Exhibit 1 on page 18 illustrates some of the information sources used in assessing accountability and for decision-making. As indicated, accountability and decision-making is a broader area than financial reporting and shows that other information along with financial reporting helps users in assessing accountability. Financial reporting includes the existing GPFFR used by federal agencies and other vehicles. The GPFFR used by agencies is commonly known as the Performance and Accountability Report (PAR). Along with the PAR other

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<sup>21</sup> GASB Concepts Statement 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*, par. 9.

vehicles such as the President's Budget contribute to financial reporting. The President's Budget is considered the government's principal financial report.<sup>22</sup>

Exhibit 1 also shows the components of the PAR, which includes an area of information directly affected by FASAB standards - financial statements, notes to financial statements, MD&A, required supplementary information (RSI) other than MD&A, and other accompanying information. The PAR also includes a performance section for reporting performance information. The components of the PAR will be discussed further in subsequent staff papers.

The PAR appears broader than traditional general purpose financial reports because it combines financial and performance information, and information on systems and internal control. The Chief Financial Officers (CFO) Act of 1990, the Government Performance and Results Act of 1993 (GPRA), the Government Management Reform Act of 1994 (GMRA), and the Reports Consolidation Act of 2000 contributed to the report's development. The CFO Act created 24 chief financial officers for the major executive departments and agencies. In addition to requiring those agencies to prepare and submit audited financial statements for each revolving and trust fund and for accounts that performed substantial commercial functions, the CFO Act required some agencies to have agency-wide financial statements. The GPRA requires agencies to prepare strategic plans, annual performance plans, and annual performance reports. The GMRA substantially expanded the requirements in the CFO Act by requiring audited financial statements covering all accounts in the 24 CFO agencies and authorized a pilot program that allowed an agency to combine its audited financial statement, as required by GMRA, and its performance report as required by GPRA. The Reports Consolidation Act builds on the GMRA pilot program and requires that a consolidated report:

- Shall be referred to as a *Performance and Accountability Report* if it incorporates the agency's GPRA program performance report;
- Contain a summary of the most significant portions of the agency's program performance report, including the agency's success in achieving key performance goals, if the GPRA program performance report is not incorporated;
- Include a statement by the agency's inspector general that summarizes the agency's most serious management and performance challenges; and
- Include a transmittal letter from the agency head containing an assessment of the completeness and reliability of the performance and financial data used in the report.

In addition to FASAB standards for some key PAR components, the Office of Management and Budget (OMB) provides form and content guidance for the

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<sup>22</sup> SFFAC 1, par. 113.

PAR. OMB Circular A-136, *Financial Reporting Requirements*, provides this guidance for all agencies and entities required to submit the report.

## Relationship to Financial Reporting Objectives

The financial reporting objectives apply to GPFFRs to help ensure users are provided with the comprehensive information they need. Exhibits 2-5 provide matrices that show each of the four financial reporting objectives and sub-objectives and the components of existing GPFFRs that contribute to the objective and sub-objectives. As noted earlier, staff plans to review and discuss each of the components in subsequent segments of the financial reporting project. However, the following provides some initial observations for each of the objectives.

- Budgetary Integrity

The Budgetary Integrity objective is primarily reflective. It focuses on recording actual data from budget execution against appropriations by Congress. Exhibit 2, on pages 19 to 22, shows the overall objective which is as follows:

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.

In addition, Exhibit 2 presents each of the three Budgetary Integrity sub-objectives that include the theme of the need for assurance that funds were actually spent for their intended purpose and how information on the use of budgetary resources relates to information on the costs of programs operations.

The existing GPFFR or PAR appears to include information needed to help achieve the objective. That information is communicated using various components prepared by management such as MD&A, financial statements, and disclosures and a component prepared by auditors, the audit report.

The MD&A, a type of RSI, includes information on the adequacy of internal control to ensure that transactions are executed in accordance with laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with federal disclosures. Financial statements and related disclosures are used to communicate the sources and status of budgetary resources and information on how the use of budgetary resources relates to information on cost of programs. The auditor reports on instances of non-compliance and material weaknesses noted in internal control.

- Operating Performance

The Operating Performance objective concerns the government's responsibility for managing resources and providing resources in an efficient and effective manner. Exhibit 3, on pages 23 to 26, presents the overall objective and three sub-objectives. The overall objective is as follows:

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.

To help achieve this objective, financial and non-financial information is needed. Information on the cost of programs and indicators of program efficiency are key contributors. The existing GPFFRs include components that provide this information. For instance, a type of RSI, the performance section, provides information such as:

- comparisons of actual performance with the projected levels
- explanations where performance goals were not achieved
- description of plans to meet unmet goals in the future.

Also, various financial statements and related disclosures provide information on the cost of providing services and the amount and nature of the government's assets and liabilities. In addition, other RSI discusses backlogs of maintenance on assets.

In addition, another form of RSI, the MD&A integrates the above information. The MD&A provides users with an overview of the entity's performance. It discusses performance goals and results and actions taken or planned to improve performance. Some agencies present all their performance information in the MD&A and some use the MD&A as the basis for a summary or highlight report.

Although all the above components appear to provide the information necessary for achieving this objective, some have noted the performance information makes the existing GPFFRs too voluminous. As a result, the understandability of the report may be compromised. Also, some in the financial reporting community believe that agencies are having difficulty developing cost information and, as a result, they may not be reporting the information necessary for achieving this objective.

- Stewardship

This objective is somewhat unique because it concerns the broad outcomes of the government's actions rather than specific services. Exhibit 4, on pages 27 to 29, presents the overall objective and three sub-objectives. The overall objective is as follows:

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.

The objective and three sub-objectives require information such as the amount of the government's assets and liabilities, financial risks, and information about the national economy and society. Although individual agencies provide stewardship information, the Consolidated Financial Report (CFR) provides the GPFFR that contributes to this objective at the broader, government-wide level. The MD&A addresses the possible future effects on the entity of existing, currently-known demands, risks, uncertainties, events, conditions and trends. The MD&A also includes information on the economy, such as gross domestic product trends, the federal budget, and federal debt. The basic financial statements provide information on revenue, costs, assets, liabilities, and net position, and the stewardship section provides information on construction and major renovation of bridges and roads, heritage assets, and investments in education and research and development. Other required supplementary information includes additional information such as a discussion on the backlog of delayed maintenance on government assets.

However, sub-objectives 3B and 3C appear to require information beyond traditional financial statements, and the FASAB has noted that in some cases non-financial information may provide a more complete presentation of entity performance.<sup>23</sup> For example, sub-objective 3B seeks forward-looking information on the long-term financial implications of the budgetary process (sustainability) and sub-objective 3C seeks information on financial condition, which is broader than financial position. The FASAB staff has organized a task force that is considering reporting issues related to sustainability and the MD&A and stewardship information section are currently components of the CFR contributing to objective 3C.

- Systems and Control

Exhibit 5, on pages 30 to 31, presents the overall objective and three sub-objectives for Systems and Control. The systems and control objective concerns

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<sup>23</sup> SFFAS 8, Supplementary Stewardship Reporting, par. 10.

assisting financial report users in determining whether the entity has established reasonable, cost-effective programs to safeguard assets, prevent and detect waste and abuse, and reduce error rates. Information in the MD&A and auditor reports contributes to the objective and three sub-objectives. Primarily, the MD&A includes management's assessment regarding the effectiveness of internal control, compliance with laws and regulations, and whether financial management systems conform to financial systems requirements. MD&A also includes management's assessment of the effectiveness of internal control over financial reporting. Auditors report on internal control (including controls related to performance measures) and discuss material weaknesses and instances of nonconformance.

Overall, existing GPFFRs communicate information to help achieve each of the financial reporting objectives. Financial statements, disclosures, and RSI (MD&A, performance information, and other RSI) are key components that provide information for achieving the objectives, and are established in professional literature. The Board has acknowledged that there are boundaries to the types of categories or components for communicating information. The Board noted that using reporting categories that are not well-defined in existing professional literature or are not familiar to users may lead to confusion about the Board's intent for the information presented.<sup>24</sup> Although the financial statements help present needed financial information, the broad nature of the reporting objectives and sub-objectives require non-financial information or information that goes beyond traditional financial statements. Within the bounds of well-known reporting components, RSI plays a key role to currently help "fill-in" needed information.

One form of RSI, the MD&A, currently integrates financial and non-financial information and helps to provide information for those areas that appear to go beyond traditional financial statements, such as forward-looking information and performance information. In addition, the components of the CFR contribute to the stewardship objective which focuses on the government as a whole. The MD&A for the CFR includes some economic information regarding the nation. This provides another example of how this component is being used to provide information beyond traditional financial statements. Moreover, the MD&A presents the information for achieving the systems and control objective and, because it summarizes important information, some agencies use the MD&A as a basis for their highlight report.

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<sup>24</sup> SFFAS 29, Heritage Assets and Stewardship Land, par. 3.

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## Conclusions and Recommendations

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There are many users of federal financial information and often their particular area of interest varies. Also, this wide-range of users may not be able to prescribe the particular information they want to help them in their assessments. The GPFFR provides a means of communicating comprehensive information to this wide audience. GPFFRs help direct attention to certain issues in government and possess a level of credibility. The four financial reporting objectives apply to GPFFRs to help ensure that these users obtain the information they need. These reporting objectives are broad and the notion of accountability pervades each of them. Because of their broad nature, financial and non-financial information is needed to help achieve the objectives. For example, the objectives call for information on whether: funds are being spent as intended; services are being provided in an efficient and effective manner; services are sustainable over the long-term; and internal control is adequate to safeguard assets and properly record transactions.

GPFFRs primarily use the established reporting components such as financial statements, disclosures (notes), RSI (including MD&A and performance information), and other accompanying information. Although financial statements appear to be the core of existing GPFFRs, the reports include a substantial amount of RSI to provide the information necessary to help achieve each objective and to provide a comprehensive message. RSI integrates financial and non-financial information and presents information currently not included in traditional financial statements. The Board has noted that means other than financial statements may be necessary for achieving the objectives.<sup>25</sup> However, the Board has noted that there are parameters for the types of reporting components that should be used in achieving the objectives. RSI is a well-known component and is within the parameter for reporting information, including non-financial performance information.

Non-financial performance appears to be an integral part of financial reporting and of GPFFRs. However, this area of financial reporting is still evolving. In addition to the performance information presented in the PAR, many recent initiatives contribute to the operating performance objective. For instance, the President's Management Agenda (PMA)--Improved Financial Performance Initiative represents an ongoing effort in the executive branch for improving management and performance in the federal government. One area for improving financial management performance is integrated financial and performance management systems that support day to day operations. Another initiative under the PMA is Budget and Performance Integration. The Budget and Performance Integration initiative seeks to formally integrate performance review with Budget decisions. Also, the OMB's Program Assessment Rating Tool (PART) Analysis program was designed to improve program performance in the

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<sup>25</sup> SFFAC 1, par. 5.

federal government and is a key tool in the budget and performance integration initiative.

Given that the programs only began recently, more time may be needed to allow the programs to accomplish their intended goals and evaluate whether other opportunities for improvement develop. Accordingly, staff recommends that the Board:

1. agree that performance information is an integral part of financial reporting and of GPFFRs.
2. continue to monitor the progress in performance reporting rather than exploring the topic at this time.

Implementing the suggestions would help establish the scope of financial reporting and the financial reporting project. Currently, constituents are discussing approaches for reducing the size of the PAR and improving its understandability. Confirming that performance information is integral to GPFFRs will help ensure that important information is presented, but will not discourage experimentation regarding optimal presentation of integrated financial and non-financial performance measures. Also, implementing the suggestions would permit staff to continue developing the overall project, while staying abreast of progress in the financial reporting community.

In addition, it appears that certain sub-objectives such as those concerning operating performance and stewardship require communication vehicles or GPFFR components beyond traditional financial statements. RSI is being used to help communicate that information and appears to indicate that established, well-known reporting components can be used to help achieve the financial reporting objectives. Accordingly, staff suggests that the Board:

3. limit the GPFFR components to those that are currently defined in professional literature and that are familiar to users, such as financial statements, disclosures, RSI (including MD&A), and other accompanying information.

Utilizing the well understood reporting components in GPFFRs will likely:

- enhance the usefulness of the report to a wide-range of users;
- help ensure that users understand the Board's intent regarding the importance of reported information;
- permit the Board to continue exploring which vehicle is better suited for communicating important information such as sustainability; and
- help define the scope for the financial reporting project.

Should the Board agree with the staff recommendations, staff plans to proceed with the project by evaluating characteristics of existing GPFFR components, beginning with financial statements overall.

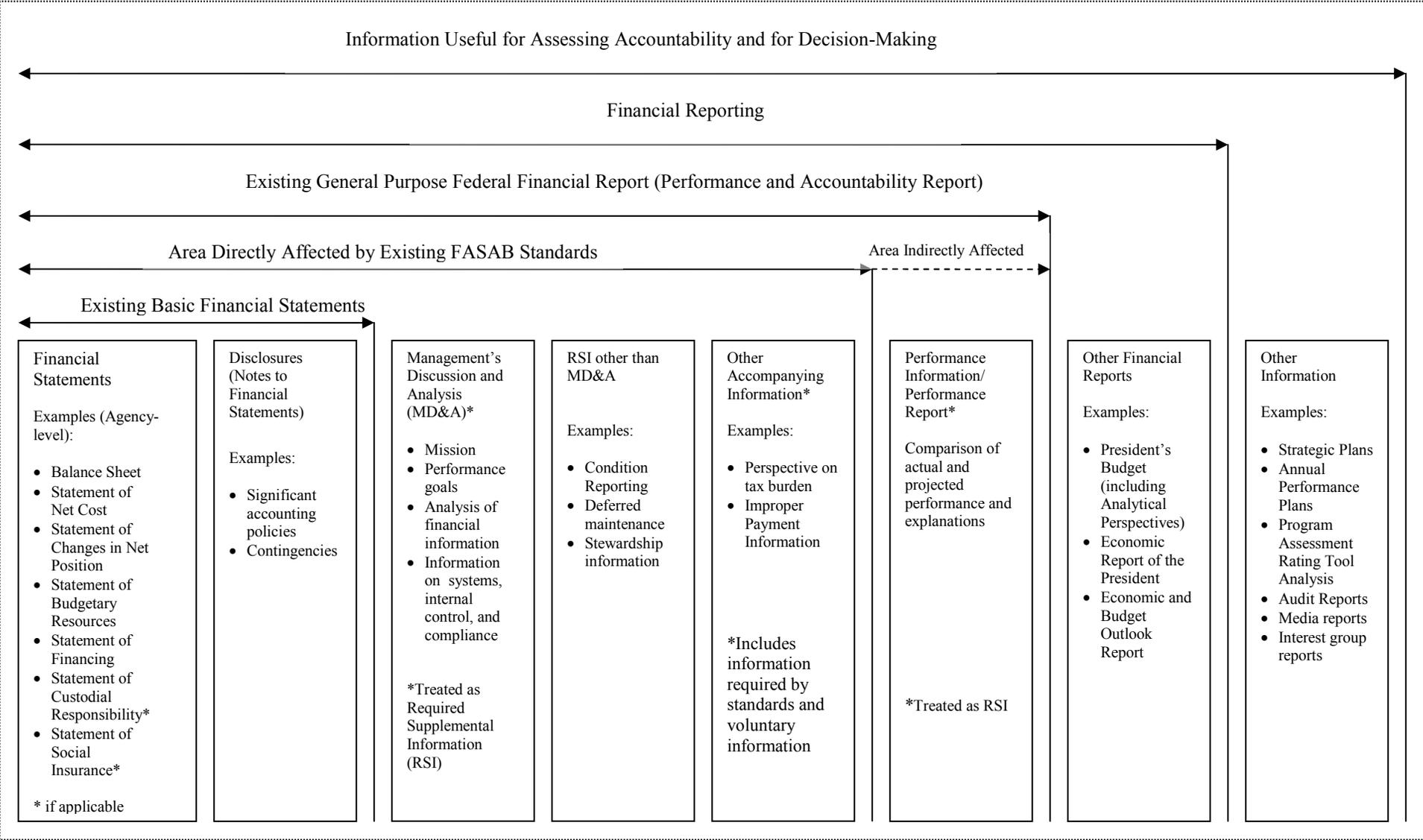


EXHIBIT 2: COMPONENTS CONTRIBUTING TO BUDGETARY INTEGRITY OBJECTIVE	
Budgetary Integrity Objective	Contributing Component of General Purpose Federal Financial Report
<p><u>Overall</u></p> <p>Federal financial reporting should assist in fulfilling the government’s duty to be publicly accountable for monies 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.</p> <p>114. The focus of this objective is retrospective. That is, the focus is on recording actual data from budget execution against appropriations made by Congress using existing budgetary standards. Thus, it would validate the “actual” column shown in the Budget of the United States Government. It would also provide data that could be shown in other reports as a statement of budget execution or a statement of the status of budgetary resources. The data also could be displayed in analytical tables showing, for example, the historical pattern of receipts and outlays.</p>	<p><u>Management’s Discussion and Analysis</u> that addresses</p> <ul style="list-style-type: none"> <li>• Whether internal 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 (SFFAC 3, par. 15) and</li> <li>• An estimate of the amount of underpayments and overpayments (Improper Payments Act)</li> </ul> <p><u>Basic financial statements</u> that provide audited information on revenues, custodial collections, and the availability and status of budgetary resources.</p> <p><u>Other Accompanying Information</u> provides details on improper payments.</p> <p><u>An auditor’s report</u> that notes instances of noncompliance with laws and regulations as well as material internal control weaknesses.</p>
<p><u>Sub-objective 1A</u></p> <p>Federal financial reporting should provide information that helps the reader to determine how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization.</p> <p>117. Considering this objective in conjunction with the</p>	<p>The <b>Statement of Budgetary Resources</b> (SBR) and related disclosures provide information about how budgetary resources were made available as well as the status of those resources at the end of the period. This statement results in budget execution information being subject to audit.</p> <p><b>MD&amp;A</b> includes management assurance on the effectiveness of internal control over compliance with laws and regulations and federal accounting standards.</p>

EXHIBIT 2: COMPONENTS CONTRIBUTING TO BUDGETARY INTEGRITY OBJECTIVE	
Budgetary Integrity Objective	Contributing Component of General Purpose Federal Financial Report
<p>specific information needs identified by the Board suggests some examples of information that might help meet this objective:</p> <ul style="list-style-type: none"> <li>• government receipts and offsetting collections reported in total and by composition;</li> <li>• obligations according to the nature of services or items procured;</li> <li>• information about the extent of compliance with the budget and laws, and whether money was expended as intended by the federal government and its grantees; and</li> <li>• valid data on budget authority, obligations, and outlays by program and for all appropriation and fund accounts (summarized appropriately to fit the intended audience).</li> </ul>	<p><b>Auditor’s report</b> that notes instances of noncompliance with laws and regulations as well as material internal control weaknesses.</p>

EXHIBIT 2: COMPONENTS CONTRIBUTING TO BUDGETARY INTEGRITY OBJECTIVE	
Budgetary Integrity Objective	Contributing Component of General Purpose Federal Financial Report
<p><u>Sub-objective 1B</u></p> <p>Federal financial reporting should provide information that helps the reader to determine the status of budgetary resources.</p> <p>118. 1B. The status of budgetary resources.</p> <p>Examples of information that could help meet this objective include:</p> <ul style="list-style-type: none"> <li>• information about the sufficiency of budget authority for covering commitments and the status of obligated and unobligated balances of budgetary resources and</li> <li>• assurances that funds authorized for a given purpose were actually spent for that purpose.</li> </ul>	<p>The <b>SBR</b> addresses the status of budgetary resources broadly by displaying:</p> <ul style="list-style-type: none"> <li>▪ Obligations incurred</li> <li>▪ Unobligated balances that are apportioned, exempt from apportionment, or otherwise available</li> <li>▪ Unobligated balances available</li> </ul> <p><b>Disclosures</b> required:</p> <ul style="list-style-type: none"> <li>▪ The amount of budgetary resources obligated for undelivered orders at the end of the period;</li> <li>▪ Available borrowing and contract authority at the end of the period;</li> <li>▪ repayment requirements, financing sources for repayment, and other terms of borrowing authority used;</li> <li>▪ adjustments during the reporting period to budgetary resources available at the beginning of the year and an explanation thereof;</li> <li>▪ existence, purpose, and availability of permanent indefinite appropriations;</li> <li>▪ information about legal arrangements affecting the use of unobligated balances of budget authority such as time limits, purpose, and obligation limitations;</li> <li>▪ explanations of any material differences between the information required by paragraph 77 and the amounts described as “actual” in the <u>Budget of the United States Government</u>;</li> <li>▪ the amount, and an explanation that includes identification of balance sheet components, when recognized unfunded liabilities do not equal the total financing sources yet to be provided; and</li> <li>▪ the amount of any capital infusion received during the reporting period. (See SFFAC 7, par. 79)</li> </ul> <p><b>MD&amp;A</b> includes management assurance on the effectiveness of internal control over compliance with laws and regulations.</p> <p><b>Auditor’s report</b> that notes instances of noncompliance with laws and regulations as well as material internal control weaknesses.</p>

EXHIBIT 2: COMPONENTS CONTRIBUTING TO BUDGETARY INTEGRITY OBJECTIVE	
Budgetary Integrity Objective	Contributing Component of General Purpose Federal Financial Report
<p><u>Sub-objective 1C</u></p> <p>Federal financial reporting should provide information that helps the reader to determine how information on the use of budgetary resources relates to information on the costs of programs operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.</p> <p>120. This sub-objective arises from the fact that accrual-basis measures of the cost of government programs, functions, and activities may differ from the amounts used in the budget for a variety of valid reasons.</p> <p>121. Reports primarily intended to address objective 1 and its first two sub-objectives would use budgetary measurement. Sub-objective 1C would use both budgetary and accrual measures because reconciliation of the two is implied. The basic accounting unit for this objective would be the budget account, although accounts are often aggregated for some reporting purposes.</p>	<p><b>Statement of Financing</b> presents the reconciliation of proprietary and budgetary activity and balances.</p>

<b>EXHIBIT 3: COMPONENTS CONTRIBUTING TO OPERATING PERFORMANCE OBJECTIVE</b>	
<b>Operating Performance Objective</b>	<b>Contributing Component of General Purpose Federal Financial Report</b>
<p><u>Overall</u></p> <p>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.</p> <p>123. This objective arises from a democratic government’s duty to be accountable to its citizens for managing resources and providing services economically and efficiently and for effectiveness in attaining planned goals. Also, the government should be accountable for raising resources efficiently.</p> <p>124. Because government services are not usually provided in exchange for voluntary payments or fees, expenses cannot be matched against revenue to measure “earnings” or “net income” as would be done in business accounting. Moreover, directly measuring the value added to society’s welfare by government actions is difficult. Nonetheless, expenses can be matched against the provision of services year by year. The resulting cost can then be analyzed in relationship to a variety of measures of the achievement of results.</p>	<p><u>Management’s Discussion and Analysis</u> that addresses</p> <ul style="list-style-type: none"> <li>• the entity’s structure, mission, goals, and objectives, with indicators of its performance;</li> <li>• actions taken or planned to improve performance, when appropriate. SFFAC 3, par.9</li> </ul> <p><u>Basic financial statements</u> that provide audited information on costs, assets, and liabilities and, in particular, the <u>Statement of Changes in Financial Position</u> shows the manner in which net costs were financed.</p> <p><u>An auditor’s report</u> that discusses internal control weaknesses.</p>

EXHIBIT 3: COMPONENTS CONTRIBUTING TO OPERATING PERFORMANCE OBJECTIVE	
Operating Performance Objective	Contributing Component of General Purpose Federal Financial Report
<p><u>Sub-objective 2A</u></p> <p>Federal financial reporting should provide information that helps the reader to determine the costs of providing specific programs and activities and the composition of, and changes in, these costs.</p> <p>127. Examples of financial information that can help to address this objective include:</p> <ul style="list-style-type: none"> <li>• information on the costs of programs and activities;</li> <li>• cost comparisons with estimates, with similar functions, with targets, [footnote omitted] and over time; and</li> <li>• relevant analyses of the composition and behavior of costs, such as full and incremental costs, fixed and variable costs, direct and indirect costs, and reimbursable and other costs, where appropriate.</li> </ul>	<p><b>Statement of Net Costs</b> shows the annual net cost of the entity’s operations as a whole and its major programs. Presents the gross cost of major programs by strategic goal and matches exchange revenue with the cost of earning it.</p> <p><b>Disclosures</b> provide information on the composition of the costs to provide services, such as personnel, contractual services, maintenance and repair, depreciation, loss on asset disposition.</p> <p><b>Other accompanying information</b> may provide workload information.</p>
<p><u>Sub-objective 2B</u></p> <p>Federal financial reporting should provide information that helps the reader to determine the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs.</p> <p>129. Examples of information that can help to address this objective include:</p> <ul style="list-style-type: none"> <li>• financial and nonfinancial indicators of service inputs, outputs, and outcomes, including comparisons with goals;</li> <li>• indicators of program efficiency and effectiveness;</li> </ul>	<p><b>Statement of Net Costs</b> shows the annual net cost of the entity’s operations as a whole and its major programs.</p> <p>Two Types of RSI contribute to the sub-objective -</p> <p><u>FASAB</u></p> <p><b>MD&amp;A</b> presents a discussion on performance goals and results.</p>

EXHIBIT 3: COMPONENTS CONTRIBUTING TO OPERATING PERFORMANCE OBJECTIVE	
Operating Performance Objective	Contributing Component of General Purpose Federal Financial Report
<ul style="list-style-type: none"> <li>• work load measures and unit costs; and</li> <li>• total and marginal costs and benefits, the relationship of these to budget requests, and when the benefits will be realized.</li> </ul>	<p><u>OMB</u></p> <p><b>Performance Information/Performance Section</b> presents information such as:</p> <ul style="list-style-type: none"> <li>• comparisons of actual performance with the projected levels</li> <li>• explanations where performance goals were not achieved</li> <li>• description of plans to meet unmet goals in the future</li> <li>• evaluation of the performance budget for the current fiscal year</li> <li>• actual performance for at least four fiscal years</li> <li>• an assessment of the reliability and completeness of the performance data</li> </ul>
<p><u>Sub-objective 2C</u></p> <p>Federal financial reporting should provide information that helps the reader to determine the efficiency and effectiveness of the government’s management of its assets and liabilities.</p> <p>131. This subobjective implies concern with the management of all federal assets and liabilities used by or under the control of agencies. Users of financial reports focus on the use of these resources in program operations, not solely on their financial value. Reports intended to address this objective would provide information to help users assess the efficiency and effectiveness with which:</p>	<p><b>MD&amp;A</b> provides management’s view on changes in assets and liabilities and on internal control over resources.</p> <p><b>Balance Sheet</b> provides information on the amounts and composition of assets and liabilities as of a point in time.</p> <p><b>Statement of Net Costs</b> includes the cost of using property, plant, and equipment.</p> <p><b>Disclosures</b> provide additional information such as:</p> <ul style="list-style-type: none"> <li>• depreciation information</li> </ul>

EXHIBIT 3: COMPONENTS CONTRIBUTING TO OPERATING PERFORMANCE OBJECTIVE	
Operating Performance Objective	Contributing Component of General Purpose Federal Financial Report
<ul style="list-style-type: none"> <li>• cash is used;</li> <li>• loan, loan guarantee, and other receivables programs are conducted;</li> <li>• inventories of supplies, materials, and similar items are maintained; and</li> <li>• forfeited and other tangible assets are handled.</li> </ul> <p>132. Other examples of information relevant to this objective might include</p> <ul style="list-style-type: none"> <li>• the service life and replacement cost of major systems and equipment;</li> <li>• backlogs (and budgetary impact) of delayed maintenance, rehabilitation cost or replacement value of assets;</li> <li>• the market value of forfeited and other assets, particularly those held for sale;</li> <li>• the extent of unpaid expenses; and</li> <li>• estimates (and ranges of estimates) of other known liabilities (such as leases or deposit and other insurance liabilities) and other exposures to loss.</li> </ul>	<ul style="list-style-type: none"> <li>• cost of maintenance and repairs</li> <li>• composition of certain types of assets such as inventory</li> <li>• restrictions on assets</li> <li>• For assets such as inventory - balances for amounts held for current sale, held in reserve for future sale, excess, obsolete and unserviceable amounts, and amounts held for repair unless otherwise presented on the financial statements</li> <li>• Average holding period of foreclosed property and number of properties for which foreclosure proceedings were in process at the end of the period</li> <li>• Contingent liabilities</li> </ul> <p><b>RSI</b> provides additional information on assets such as deferred maintenance levels.</p> <p><b>Auditor reports on internal control</b> note weaknesses in safeguards over assets.</p>

EXHIBIT 4: COMPONENTS CONTRIBUTING TO THE STEWARDSHIP OBJECTIVE	
Stewardship Objective	Contributing Component of General Purpose Federal Financial Report
<p><u>Overall</u></p> <p>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.</p> <p>135. This objective is based on the federal government’s responsibility for the general welfare of the nation in perpetuity. It focuses not on the provision of specific services but on the requirement that the government report the broad outcomes of its actions. Certain subobjectives arise from the basic objective of stewardship, as discussed below.</p>	<p>Objective calls for the Consolidated Financial Report (CFR) of the U.S. government.</p> <p>According to SFFAC 1, par. 181, <u>Management’s Discussion and Analysis</u> is one of the most important sources for conveying information on financial condition. MD&amp;A at the government-wide level addresses the possible future effects on the entity of existing, currently-known demands, risks, uncertainties, events, conditions and trends. Also discusses the economy, federal budget, and federal debt.</p> <p><u>Government-wide basic financial statements</u> that provide audited information on revenue, costs, assets, liabilities, and net position.</p> <p><u>CFR Stewardship section provides information on heritage assets and investments in education and research and development.</u></p> <p><u>An auditor’s report</u> that discusses internal control weaknesses.</p>
<p><u>Sub-objective 3A</u></p> <p>Federal financial reporting should provide information that helps the reader to determine whether the government’s financial position improved or deteriorated over the period.</p>	<p><b>Statement of Operations and Changes in Net Position</b> shows the financial results of the federal government’s annual operations and the effect these results have on the federal government’s net position (the difference between its assets and liabilities).</p>

EXHIBIT 4: COMPONENTS CONTRIBUTING TO THE STEWARDSHIP OBJECTIVE	
Stewardship Objective	Contributing Component of General Purpose Federal Financial Report
<p>Examples of information relevant to this objective include:</p> <ul style="list-style-type: none"> <li>• the amount of assets, liabilities, and net assets (or net position);</li> <li>• an analysis of government debt, its growth, and debt service requirements;</li> <li>• changes in the amount and service potential of capital assets; and</li> <li>• the amount of contingent liabilities and unrecognized obligations (such as the probable cost of deposit insurance).</li> </ul>	<p>The <b>Balance Sheet</b> provides information on the federal government’s overall financial position - its assets (what it owns), its liabilities (what it owes), and the difference between the two (its net position) as of year-end.</p>
<p><u>Sub-objective 3B</u></p> <p>Federal financial reporting should provide information that helps the reader to determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due</p> <p>141. Information relevant to this objective may include disclosures of financial risks that are likely or reasonably possible from sources such as government-sponsored enterprises, deposit insurance, and disaster relief programs. It could also include information such as</p> <ul style="list-style-type: none"> <li>• the long-term financial implications of the budgetary process,</li> <li>• the status of trust funds, and</li> <li>• backlogs of deferred maintenance.</li> </ul> <p>142. Providing information of this kind may require the use of reporting mechanisms other than traditional financial statements. For example, special reports may have to be developed to demonstrate whether the level of a particular year’s maintenance and rehabilitation expenditures resulted in an improvement or a deterioration of capital assets and infrastructure.</p>	<p><b>MD&amp;A</b> addresses the future effects of current demands, risks, uncertainties, events, conditions and trends. The discussion of current factors should go beyond a mere description of existing conditions, such as demographic characteristics, claims, deferred maintenance, commitments undertaken, and major unfunded liabilities, to include a discussion of the possible future effect of those factors. (SFFAC 3, par. 32)</p> <p>The <b>Balance Sheet</b> provides information on the federal government’s overall financial position - its assets (what it owns), its liabilities (what it owes), and the difference between the two (its net position) as of year-end.</p> <p>The <b>Statement of Social Insurance</b>, where applicable, provides information on how much more money would be needed, in today’s dollars, for the federal government’s social insurance programs to continue to operate over the long term as they are currently structured.</p>

EXHIBIT 4: COMPONENTS CONTRIBUTING TO THE STEWARDSHIP OBJECTIVE	
Stewardship Objective	Contributing Component of General Purpose Federal Financial Report
	<b>Supplemental Information</b> provides additional information about the government’s finances that may affect future operations, such as the estimated costs of deferred maintenance and the amount of funds authorized by Congress that have not been spent or committed for the year (unexpended budget authority).
<p><u>Sub-objective 3C</u></p> <p>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.</p> <p>144. Objective 3, in general, and subobjective 3C, in particular, imply a concern with “financial condition,” as well as “financial position.” 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. For example, reports intended to help meet this objective might address users’ needs for information about</p> <ul style="list-style-type: none"> <li>• investments in (or expenditures for) research and development, military readiness, and education;</li> <li>• changes in the service potential of infrastructure assets;</li> <li>• spending for consumption relative to investments;</li> <li>• opportunities for growth-stimulating activities; and</li> <li>• the likelihood of future inflation.</li> </ul>	<p>MD&amp;A discusses the economic trends of the nation, federal budget, and federal debt.</p> <p><b>Stewardship section</b> provides information on heritage assets in terms of physical quantities, such as millions of acres of land; miles of rivers, and number of buildings. Also, discusses how much the government spent for programs that provide long-term benefits, such as grants for construction and major renovation of state and local government property (bridges and roads), and grants for education and training. In addition, the section discusses items the government considers investments in the future of the nation such as expenses incurred in education and research and development programs.</p>

<b>EXHIBIT 5: COMPONENTS CONTRIBUTING TO THE SYSTEMS AND CONTROL OBJECTIVE</b>	
<b>Systems and Control Objective</b>	<b>Contributing Component of General Purpose Federal Financial Report</b>
<p><u>Overall</u></p> <p>Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that</p> <p>150. Information relevant to this objective helps financial report users to determine whether the entity has established reasonable, cost-effective programs to safeguard assets, prevent and detect waste and abuse, and reduce error rates. An example of information that would address this objective is management’s assertion about the effectiveness of the internal accounting and operational control system.</p>	<p><u>Management’s Discussion and Analysis (MD&amp;A) and auditor reports</u> provide information as discussed in the following sections.</p>

EXHIBIT 5: COMPONENTS CONTRIBUTING TO THE SYSTEMS AND CONTROL OBJECTIVE	
Systems and Control Objective	Contributing Component of General Purpose Federal Financial Report
<p><u>Sub-objective 4A</u></p> <p>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;</p>	<p><b>MD&amp;A</b> that addresses whether internal 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.</p>
<p><u>Sub-objective 4B</u></p> <p>assets are properly safeguarded to deter fraud, waste, and abuse;</p>	<p><b>MD&amp;A</b> includes management’s assessment regarding the effectiveness of internal control, compliance with laws and regulations, and whether financial management systems conform to financial systems requirements. Also, <b>MD&amp;A</b> includes management’s assessment of the effectiveness of internal control over financial reporting.</p> <p>For material weaknesses and nonconformances, management discusses corrective actions to resolve the weaknesses and instances of nonconformance.</p> <p><b>Auditor reports</b> on internal control discuss material weaknesses and instances of nonconformance.</p>
<p><u>Sub-objective 4C</u></p> <p>performance measurement information is adequately supported.</p>	<p><b>MD&amp;A</b> includes a summary of procedures management designed to provide reasonable assurance that reported performance information is reliable and relevant.</p> <p><b>Auditor reports</b> on internal control related to performance measures.</p>

## EXHIBIT 6: REQUIRED COMPONENTS OF FINANCIAL REPORTING MODELS

COMPONENTS	REQUIRED COMPONENTS OF FINANCIAL REPORTING MODELS				
	FEDERAL GOVERNMENT	STATE AND LOCAL GOVERNMENT	INTERNATIONAL PUBLIC SECTOR	CANADIAN PUBLIC SECTOR	BUSINESS ENTERPRISE
Financial Statements	X	X	X	X	X
Disclosures/Notes to Financial Statements	X	X	X	X	X
Management's Discussion and Analysis (MD&A)	X	X			X
Required Supplementary Information (RSI) other than MD&A	X	X			X
Performance Information (Non-financial performance)	X	*			
Other Accompanying Information (supplementary information or voluntarily presented information)	X*	X			
Comments	*Some Other Accompanying Information is required by standards.	*GASB believes that performance information is an integral part of financial reporting (GASB Concepts 2, <i>Service Efforts and Accomplishments Reporting</i> , par. 49) and has developed a set of suggested criteria for use in external performance reporting.	IPSASB encourages supplemental information on operating performance. See IPSAS 1, <i>Presentation of Financial Statements</i> , par. 25.	The CPSAB has developed "non-GAAP" guidance on performance reporting.	

**EXHIBIT 7: EXCERPT FROM SFFAS 5, ACCOUNTING FOR LIABILITIES OF THE FEDERAL GOVERNMENT**

137. FASAB recognizes that extensive information about probable and possible future federal outlays is available now in many special purpose reports on various federal programs. In that sense, the financial reports prepared pursuant to this Statement are not likely to reveal information that is new in an absolute sense. Analysts working for the various executive agencies, congressional committees, private interest groups, “think tanks” and universities are, collectively, aware of this information and much more. Nevertheless, the Board believes that presenting liabilities and stewardship responsibilities in the general purpose federal financial reports can be valuable in several ways. There are at least four reasons for this belief.

138. First, analysts typically know a lot about certain programs, but only those programs. Currently it is difficult, if not impossible, to assemble comprehensive information prepared on a comparable basis for the federal government as a whole. In many cases, this is also true for significant component units. General purpose federal financial reports attempt to provide a way of presenting comprehensive information.

139. Second, much of this information has no impact on individual decisionmakers, such as program managers, unless it is conveyed in a way that facilitates, or even requires, suitable attention to it. For example, information about federal pension plans and retirement benefits conveyed in an actuarial report or in the narrative section of the Budget of the United States Government may have an impact on certain congressional decisions, but is unlikely to influence managers’ decisions about whether to use federal employees, invest in laborsaving equipment, or contract out to accomplish a given task. If the information is to have such an impact, it must be reported in a way more directly associated with the activities the manager is responsible for. Associating the expenses and liabilities reported in the general purpose federal financial report with the outputs of responsibility centers is able to accomplish this direct association.

140. Third, the mere requirement to assemble and report these data will, in some cases, affect federal managers, who, like everyone, tend to manage what they measure. Some observers believe, for example, that the prospect of having to comply with FASB’s Statement 106, Employers’ Accounting for Postretirement Benefits Other Than Pensions, caused corporate managers and others to focus increased attention on the need to manage the cost of promises they had made to provide health care to retirees, even before the statement became effective.

141. Fourth, financial reports prepared and audited pursuant to federal accounting standards may reasonably be expected to possess a certain credibility and to command a certain amount of attention from various users, sufficient to affect decisions about federal government public policy. They will provide a source of information that should complement what is provided by the Budget of the United States Government. An important collateral benefit arises from the processes of preparing, auditing, and publishing annual financial statements. Experience demonstrates that these processes improve the reliability of information and of control systems, thereby enhancing both decisionmaking and accountability in general.