



**October 5, 2020**

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Monica R. Valentine, Executive Director

Subj: Reporting Model: Note Disclosures—**Tab F<sup>1</sup>**

MEMBER ACTIONS REQUESTED:

- Respond to staff questions on page 12 by **October 16, 2020**

## OBJECTIVES

The Board is considering note disclosure concepts to include in a note disclosure concepts statement exposure draft (ED). The objective of this session is to determine concepts that the Board may discuss in the ED, including the types of information note disclosures may present.

## PHASE

This project is in the development phase.

## MATERIALS

You may electronically access all of the briefing materials at <http://www.fasab.gov/board-activities/meeting/briefing-materials/>. The briefing materials include the following:

**Attachment 1:** Staff Analysis (attached to the memorandum)

**Attachment 2:** Factors to Consider in Distinguishing Basic Information from Required Supplementary Information (RSI) presents factors Board members may

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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.

consider when deciding whether an item of information should be basic information or RSI.

**Attachment 3:** Example Budgetary Resources Discussion shows how one reporting entity presents note disclosures to assist users in understanding the entity's financing sources and the status of those sources.

## **BACKGROUND**

During the August 2020 meeting, staff proposed the following types of information note disclosures might present:

- Relevant information integral to understanding financial statement line items
- Context or background information regarding the reporting entity and its activities
- Past events, current conditions, and circumstances not previously recognized but may affect an entity's financial position, financial condition, or budgetary resources
- Other information users may need to assess the government's accountability.

The Board generally agreed with the four proposed types of information note disclosures may present and suggested edits to enhance the description of each type. In addition, members noted that the category descriptions should help distinguish note disclosures from required supplementary information. A member also suggested comparing the categories to existing note disclosure requirements to ensure the categories cover the information users would need.

## **NEXT STEPS**

Staff will incorporate the Board's conclusions in a revised list of the types of information note disclosures may present; compare the revised list to a listing of existing note disclosure requirements; and begin preparing an outline of a note disclosure concepts ED.

## **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](mailto:simmsr@fasab.gov) with a cc to [valentinem@fasab.gov](mailto:valentinem@fasab.gov).

## ATTACHMENT 1- STAFF ANALYSIS

The Board plans to develop a note disclosure concepts ED. Staff accordingly prepared an analysis to obtain the Board's feedback on topics needed to prepare the ED. Staff divided the analysis into the following two sections:

Section I: Laying the Groundwork. This section discusses topics that would establish the introduction for the note disclosure concepts ED, preparing the reader for the concepts that distinguish note disclosures from financial statements and RSI. The topics include the purpose of note disclosures, distinguishing note disclosures and RSI, and the scope of the ED's note disclosure concepts.

Section II: Types of Information. This section revisits the types of information note disclosures may present, using the current budgetary resources note disclosure requirements as a guide for the discussion.

### Section I: Laying the Groundwork

#### Note Disclosure Purpose

Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, paragraph 68 discusses the purpose of note disclosures as follows

Financial information is also conveyed with **accompanying footnotes**, which are an integral part of the financial statements. Footnotes typically provide additional disclosures that are necessary to make the financial statements more informative and not misleading.

Using the term "footnotes," SFFAC 2, paragraph 68, describes the format of note disclosures as if the financial report is a printed document. Currently, however, a financial report can be multi-dimensional and users can mouse over or click on a specific item to view an explanation, a description, or additional information regarding that item.

In addition, SFFAC 2 paragraph 68 describes note disclosures in relation to the unified presentation of the face or body of the financial statements and note disclosures. The concept indicates that while preparers may format note disclosures differently from the body of the financial statements, items presented in both the body and note disclosures may have similar qualities. For instance, both may present relevant and timely information that help meet the reporting objectives. To help a reader distinguish and better understand note disclosures, the description of note disclosures could discuss how note disclosures achieve the reporting objectives or make financial statements more informative.

Also, the first sentence of SFFAC 2 paragraph 68 (above) appears to limit note disclosures to “financial” information. In practice, however, note disclosures may present nonfinancial information such as physical units of stewardship property, plant, and equipment.

### Staff Recommendation

Staff suggests that the Board (a) revise the description of note disclosures in SFFAC 2, paragraph 68, and (b) refer to the revision in the note disclosure concepts ED. The Board could describe note disclosures without a reference to its format, inform the reader on how note disclosures might make financial statements more informative, and broaden the purpose to include information in general rather than simply financial information. For instance, the revised version could state the following

Information is also conveyed in note disclosures, which are integral to financial statements. Note disclosures may explain, describe, or supplement information presented in words and numbers on the face of and included in totals of financial statements.<sup>2</sup> Note disclosures also inform decisions influenced by information about the federal government, and assist users in assessing the federal government’s accountability.<sup>3</sup>

### **Questions for the Board**

- 1. Does the Board agree or disagree that the purpose of note disclosures discussed in SFFAC 2, paragraph 68 should be enhanced?**
  
- 2. Does the Board agree or disagree that the note disclosures concepts ED should reference an enhanced version of SFFAC 2, paragraph 68 to inform readers on the purpose of note disclosures and provide context for the ED?**

### Distinguishing Note Disclosures from RSI

When distinguishing among financial statements, note disclosures, and RSI, the Board’s approach has been to weigh different factors rather than applying “bright-line” rules. The Board determined that items of information in financial statements, note disclosures, and RSI may have similar characteristics and conceptual guidance should permit

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<sup>2</sup> The notes disclosure concepts ED could refer to this information as line items.

<sup>3</sup> For comparison, the GASB proposed purpose of note disclosures states,

The purpose of notes to financial statements is to provide information that (a) explains, describes, or supplements the financial statements and (b) is essential to users in making economic, social, or political decisions or assessing accountability. Notes to financial statements are integral to basic financial statements; they are necessary to make the basic financial statements complete.

flexibility in developing standards. This approach allows the Board to address issues as federal financial reporting evolves.

For instance, the Board determined that items of information presented in financial statements, note disclosures, and RSI should help meet the reporting objectives, possess the qualitative characteristics needed for effective financial reporting, and meet cost-benefit considerations. In this respect, items presented in financial statements, note disclosures, and RSI may have similar characteristics. Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, paragraphs 73A through 73C indicates this notion and discusses a hierarchy as follows

Selecting a category for communicating information may involve a process that begins with determining what information should be required. Required information is information that consists of basic information and RSI. An item of information is a candidate for required information if it is consistent with the objectives of federal financial reporting and meets certain qualitative characteristics and cost-benefit considerations. The Board developed these factors earlier in the conceptual framework. SFFAC 1 identifies the reporting objectives (paragraphs 112 to 150) and the qualitative characteristics (paragraphs 157 to 164). It also discusses cost versus benefit considerations (paragraphs 151 to 155).<sup>4</sup>

Information that meets the criteria for required information is a candidate for basic information or RSI. Basic information is information which is essential for the financial statements and notes to be presented in conformity with GAAP. The FASAB standards are the core [footnote omitted] of GAAP and auditors may be engaged to express an opinion as to whether basic financial statements and notes are presented in conformity with those criteria.<sup>5</sup>

RSI is information that a body that establishes GAAP requires to accompany basic information. It may be experimental in nature to permit the communication of information that is relevant and important to the reporting objectives while more experience is gained through resolution of accounting issues. Also, the information may be expressed in other than financial measures or may not be subject to reliable estimation. As issues are resolved, the information may be considered basic at some point in the future.<sup>6</sup>

In addition to the hierarchy, the Board developed a framework of factors members may weigh when deciding whether an item should be basic information or RSI. Attachment 2: Factors to Consider in Distinguishing Basic Information from RSI presents each of the factors. The framework does not list the factors in any order; instead, it indicates that

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<sup>4</sup> SFFAC 2, par. 73A.

<sup>5</sup> Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, par. 73B.

<sup>6</sup> SFFAC 2, par. 73C.

items of basic information and RSI may not always be perceptibly different from each other.

In SFFAC 2, paragraph 73D, the Board stated

The Board specifies what information should be presented as basic information and what information should be presented as RSI. Assessing whether required information is a candidate for basic information or RSI may involve the Board's consideration of a range of factors which are listed in Table 1: Factors to Consider in Distinguishing Basic Information from RSI on page 107. The factors are not listed in a particular order and some may convey similar ideas. In addition, different Board members may assign different weight to each factor. Thus, the factors provide a general framework for each Board member's judgment and are not considered to present a decision tree, hierarchy, or precise algorithm for classifying items.<sup>7</sup>

The Board also stated the following as the rationale for the approach

...A general framework permits future Boards some level of flexibility in developing standards and the framework would not necessarily need to be revised as changes in the environment occurred.<sup>8</sup>

### Staff Recommendation

Staff proposes to refer to SFFAC 2, paragraphs 73A through 73D in the note disclosures concepts ED. These concepts discussed in SFFAC 2 would provide context for the note disclosure concepts, help readers understand the similarities among financial statements, including note disclosures, and RSI, and how the Board might choose among these categories for presenting information.

### **Question for the Board**

- 3. Does the Board agree or disagree that the note disclosure concepts ED should reference SFFAC 2, paragraphs 73A through 73D?**

### Scope of the Note Disclosures Conceptual Guidance

The Board has indicated the need for concepts to help evaluate note disclosure standards and develop future standards. However, to present fairly their financial position, status of budgetary resources and other information, reporting entities may need to disclose information that FASAB standards do not explicitly address. For

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<sup>7</sup> SFFAC 6, paragraph 73D

<sup>8</sup> SFFAC 6, paragraph A8.

example, component reporting entities are not independent, economic entities and they do not have the authority to tax. Congress instead passes laws to provide component reporting entities with budget authority. Component reporting entity management accordingly presents information in note disclosures to explain budgetary concepts and terms relevant to understanding their financial statements. See Attachment 3: Example Budgetary Resources Discussion for an example of the note disclosure.

### Staff Recommendation

Staff proposes that the note disclosure concepts ED include language to inform the reader that the ED proposes basic note disclosure information. Reporting entities may present additional information in note disclosures to present fairly the information in financial statements. Specifying the limitations of the proposed guidance would not be a new approach for the Board. For instance, in SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, paragraph 8, the Board stated

This Statement establishes the basic recognition criteria for elements but does not address these additional considerations for recognition decisions.

### **Question for the Board**

- 4. Does the Board agree or disagree with including language in the note disclosure concepts ED explaining that the ED discusses basic note disclosure concepts? Preparers may include additional items of information in note disclosures to present fairly information.**

## **Section II: Types of Information**

### Budgetary Information

To help improve the note disclosure categories discussed during the August 2020 meeting, staff considered the note disclosure standards and practices intended to address the budgetary integrity objective. This objective specifies that financial reporting should provide users with information to help them determine:

- how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization,
- the status of budgetary resources, and
- how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary

resources is consistent with other accounting information on assets and liabilities.<sup>9</sup>

The Board determined that information about budget execution is essential to this objective and, although FASAB cannot set or propose budget concepts, standards, and principles,<sup>10</sup> the Board decided to help provide relevant and reliable financial information to support the budgetary process.<sup>11</sup> Consequently, generally accepted accounting principles (GAAP) have a unique role with respect to the budgetary integrity objective. Rather than establishing recognition and measurement concepts and standards, GAAP may require presentations that subject budgetary information to audit procedures.

For instance, in addition to requiring a presentation that shows the budgetary resources made available, the status of budgetary resources, and outlays, SFFAS 7, *Accounting for Revenue and Other Financing Sources*, paragraph 79 requires reporting entities to present the following items in note disclosures:

- a) the amount of budgetary resources obligated for undelivered orders at the end of the period;
- b) available borrowing and contract authority at the end of the period;
- c) repayment requirements, financing sources for repayment, and other terms of borrowing authority used;
- d) material adjustments during the reporting period to budgetary resources available at the beginning of the year and an explanation thereof;
- e) existence, purpose, and availability of permanent indefinite appropriations;
- f) information about legal arrangements affecting the use of unobligated balances of budget authority such as time limits, purpose, and obligation limitations;
- g) explanations of any material differences between the information required by paragraph 77<sup>12</sup> and the amounts described as “actual” in the Budget of the United States Government;
- h) 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
- i) the amount of any capital infusion received during the reporting period.

The above items are subject to audit procedures to help provide assurance regarding the reliability of budget execution information. Item “g” in particular demonstrates the objective of helping to present reliable budget execution information. To provide assurance on the reliability of budget execution information, the Board concluded that

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<sup>9</sup> SFFAC 1, *Objectives of Federal Financial Reporting*, paragraph 13.

<sup>10</sup> 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, October 2009.

<sup>11</sup> SFFAC 1, paragraph 46.

<sup>12</sup> SFFAC 7, paragraph 77 requires reporting entities to present total budgetary resources available to the reporting entity during the period, the status of those resources (including “obligations incurred”), and outlays.

items of budgetary execution information should be subject to audit.<sup>13</sup> The Board also noted that budgetary information items would help users understand 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.<sup>14</sup>

However, a concern is that users need educational information to understand budgetary accounting concepts and terms. As a field of knowledge that may not be known to a general user of financial statements, the Board observed that budgetary terms in financial statements may confuse some users.<sup>15</sup> See Attachment 3: Example Budgetary Resources Discussion for an example of the explanatory language intended to assist a financial statement user in understanding budgetary accounting and the budgetary financial statement.

### Questions for the Board

5. **Does the Board agree or disagree that a category for budgetary integrity information should be added to the types of information note disclosures may present? The category would highlight the unique role of GAAP with respect to the budgetary integrity objective.**
6. **Does the Board agree or disagree that note disclosures should provide educational information to assist users in understanding reporting entity financial statements?**

### Types of Information Note Disclosures May Present

Because items of information in note disclosures may have similar characteristics as information in financial statements and RSI, the Board is developing criteria to help distinguish note disclosures. During the August 2020 meeting, the Board discussed an initial draft of the types of information note disclosures may present and staff prepared a revised listing. The revised listing is based on staff's proposed revision to the purpose of note disclosures and staff's proposal to include introductory references to SFFAC 2 in the ED. Staff also presented budgetary information disclosures to demonstrate simply the comprehensiveness of the listing.

- a. **Relevant information integral to understanding line items of accrual basis financial statements and projections** - Note disclosures may provide information to explain, describe, or supplement specific line items of accrual basis financial statements and projections. A line item may not always provide

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<sup>13</sup> SFFAC 2, paragraph 64.

<sup>14</sup> SFFAC 8, Federal Financial Reporting, paragraph 48.

<sup>15</sup> *Implementation Guide to Statement of Federal Financial Accounting Standards 7, Accounting for revenue and Other Financing Sources*, paragraph 71.

enough information to assist users in assessing the reporting entity's operating performance or stewardship. Users may need information such as the nature, or terms regarding the item, and/or methods and assumptions used in estimating the item.

- b. **Information to support budgetary integrity [New Type Added Subsequent to the August 2020 meeting]** – Note disclosures may supplement financial statements and present information to assist users in assessing reporting entity budgetary integrity. Users need information regarding the budgetary resources provided, the budgetary resources used during the period, and the budgetary resources remaining at the end of the period and may obtain the information from sources other than financial statement line items and note disclosures. Information presented in financial statement line items and note disclosures may be subject to audit procedures and support reliable information regarding the component reporting entity's budgetary resources. Financial statement line items, however, may not provide the details needed to access budgetary resources and its status.

#### Staff Comments

Current disclosure requirements regarding this type of information may include the following:

- a) the amount of budgetary resources obligated for undelivered orders at the end of the period;
  - b) available borrowing and contract authority at the end of the period;
  - c) repayment requirements, financing sources for repayment, and other terms of borrowing authority used;
  - d) material adjustments during the reporting period to budgetary resources available at the beginning of the year and an explanation thereof;
  - e) existence, purpose, and availability of permanent indefinite appropriations;
  - f) information about legal arrangements affecting the use of unobligated balances of budget authority such as time limits, purpose, and obligation limitations;
  - g) explanations of any material differences between the information required by paragraph 77 and the amounts described as "actual" in the Budget of the United States Government;
  - h) 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
  - i) the amount of any capital infusion received during the reporting period.
  - j) budget and accrual reconciliation
- c. **Context or background information regarding the reporting entity and its activities** - Note disclosures may supplement financial statements to provide information regarding the entity's nature, services, and any special restrictions or

privileges that apply to the entity. Financial statements may not always provide information that explains the entity's financing and the types of activities that may affect its financial position, net costs, changes in financial position, the need for future budgetary resources, or custodial activity. A reporting entity may receive budget authority through appropriations to administer numerous programs; may share program responsibilities with other entities; and may receive support from other reporting entities to help them provide services. In addition, the reporting entity may be required to engage in custodial activities that do not affect its net position, such as collecting taxes for other reporting entities. Users may need this information to assess the reporting entity's operating performance and stewardship.

- d. **Past events, current conditions, and circumstances not previously recognized but may affect an entity's operating performance and stewardship** – Note disclosures may present information about past events, current conditions, and circumstances that have not been recognized in financial statements but may affect the entity's future resources for providing services. Users may need this information to assess the government's ability to continue operating at its current levels. For example, existing or potential litigation, contingencies, or dependency on another entity for continuing operation may assist users in assessing the reporting entity's operating performance and stewardship. Financial statements may not present this information because the item may not meet basic recognition criteria.
- e. **Other information users may need to assess the government's accountability.** Note disclosures may provide other information users may need to assess the government's accountability. Note disclosures may communicate that an item of information is highly important to a user's assessment; however, the item would not create a resource or changes in existing resources of the reporting entity or an obligation or changes in its existing obligations. The item may not affect the entity's financial position, net costs, changes in financial position, the need for future budgetary resources, or custodial activity. For instance, laws, regulations, or other arrangements may require a reporting entity to collect and manage an asset in which a non-federal entity owns. In this example, users may need information on the nature of this relationship, a schedule of the net assets, and a schedule of the activity.

### Question for the Board

- 7. **Do members have suggestions for enhancing this version of the types of information note disclosures may present?**

## QUESTIONS FOR THE BOARD

1. Does the Board agree or disagree that the purpose of note disclosures discussed in SFFAC 2, paragraph 68 should be enhanced?
2. Does the Board agree or disagree that the note disclosures concepts ED should reference an enhanced version of SFFAC 2, paragraph 68 to inform readers on the purpose of note disclosures and provide context for the ED?
3. Does the Board agree or disagree that the note disclosure concepts ED should reference SFFAC 2, paragraphs 73A through 73D?
4. Does the Board agree or disagree with including language in the note disclosure concepts ED explaining that the ED discusses basic note disclosure concepts? Preparers may include additional items of information in note disclosures to present fairly information.
5. Does the Board agree or disagree that a category for budgetary integrity information should be added to the types of information note disclosures may present? The category would highlight the unique role of GAAP with respect to the budgetary integrity objective.
6. Does the Board agree or disagree that note disclosures should provide educational information to assist users in understanding reporting entity financial statements?
7. Do members have suggestions for enhancing this version of the types of information note disclosures may present?

## Attachment 2: Factors to Consider in Distinguishing Basic Information from RSI

FACTORS TO CONSIDER IN DISTINGUISHING BASIC INFORMATION FROM RSI		
Low (implies RSI)	Factor	High (implies Basic)
	<Relevance to fair presentation>	
	<Connection with elements of financial reporting>	
	<Use of various types of financial data or financial transaction data>	
	<Level of importance the Board wishes to be communicated in the financial report>	
	<Significance, relevance, or importance of the item in light of <i>Objectives</i> >	
	< Level of importance the Board wishes to be communicated in the auditor's report>	
	<Relevance to measuring financial condition or changes in financial condition>	
	<Extent to which the information interests a wide audience (rather than specialists)>	
	<Extent to which there are not alternative sources of reliable information>	
	<Agreement on criteria that permit comparable and consistent reporting>	
	<Experience among users, preparers, and auditors with the information>	
	<Benefit/cost ratio of using resources to compile the information as well as ensure accuracy>	
	<Connection with basic financial statements>	
	<Reliability and/or precision possible>	
	<Reliability and/or precision needed>	

## Attachment 3: Example Budgetary Resources Discussion

### NOTES TO THE FINANCIAL STATEMENTS

**Disclosure Entities:** The Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*, is intended to guide federal agencies in recognizing complex, diverse organizations possessing varying legal designations (e.g., government agencies, not-for-profit organizations, and corporations) that are involved in addressing public policy challenges. It provides guidance for determining what organizations should be included in a federal agency's financial statements (consolidation entities) and footnote disclosures (disclosure entities; and related parties) for financial accountability purposes, and is not intended to establish whether an organization is or should be considered a federal agency for legal or political purposes.

The standard sets forth guidance to include, as a consolidation entity or disclosure entity, in the appropriate federal agency's financial reporting, (a) an organization with an account or accounts listed in the Budget of the U.S. Government, unless it is a non-federal organization receiving federal financial assistance; (b) an organization for which the federal government holds a majority interest; and (c) an organization that is controlled by the federal government with risk of loss or expectation of benefit—the power to impose will on and/or govern, whether or not that ability is actively exercised, the financial and/or operating policies of another organization with the potential to be obligated to provide financial support or assume financial obligations or obtain financial resources or nonfinancial benefits. SFFAS 47 additionally establishes that an organization should be included as a consolidation entity or disclosure entity if it would be misleading to exclude it even though it does not meet one of the three inclusion principles.

The standard further provides guidance for determining if an organization should be reported as a consolidation entity or disclosure entity, including guidance for the performance of an assessment, as a whole, of the degree to which the following characteristics are met: (a) the organization is financed through taxes and other non-exchange revenues; (b) the organization is governed by Congress and/or the President; (c) the organization imposes or may impose risks and rewards to the federal government; and (d) the organization provides goods and services on a non-market basis. Some organizations are to a large degree insulated from political influence and are not intended to be funded primarily by taxes and other non-exchange revenue. Information about these types of discrete organizations should generally be disclosed in the footnotes as disclosure entities.

SFFAS 47 lastly sets forth guidance on footnote disclosure requirements for significant relationships with other parties. It requires footnote disclosures "if one party to an established relationship has the ability to exercise significant influence over the other party in making policy decisions, and the relationship is of such significance that it would be misleading to exclude information about it."

Effective with the Department's FY 2018 financial reporting, the Department performs evaluations at least annually to determine if there are any organizations that should be included in the Department's financial reporting as consolidation entities, disclosure entities, and/or related parties.

Based on the Department's evaluation for FY 2019 and FY 2018, the Department did not identify any consolidation entities or related parties for inclusion in the Department's financial reporting. See Note 25, *Disclosure Entity*, for information for the organization identified as a disclosure entity for the Department's financial reporting.

SBR discussion begins here

#### **B** Basis of Accounting and Presentation

These financial statements reflect transactions and balances under both (a) the proprietary basis of accounting (accrual accounting), as reported throughout the financial statements and notes to the financial statements, except for the *Combined Statements of Budgetary Resources (SBR)* and the related note; and (b) the budgetary basis of accounting, as reflected in the *SBR* and related Note 19.

Under the proprietary basis of accounting (accrual accounting), appropriations are recognized as used and exchange revenue is recognized as earned as costs are incurred (e.g., goods have been received or services have been rendered), without regard to the receipt or payment of cash. See Note 1R, *Revenues and Other Financing Sources*, for more information on accounting policies for revenue and financing sources/uses). Departmental costs include both Gross Costs reported in the *Consolidated Statements of Net Cost* that relate to the fiscal year being reported on, and capitalized costs that are included in the *Consolidated Balance Sheets* and that are subsequently expensed in the appropriate manner over future fiscal year(s).

The budgetary basis of accounting is based on concepts set forth by the Office of Management and Budget (OMB) in Circular A-11, *Preparation, Submission, and Execution of the Budget*, which provides guidance on preparing the annual Budget of the U.S. Government and provides instructions on budget execution. Appendix F, *Format of SF 132, SF 133, Schedule P and SBR*, provides detailed guidance and instructions for each line item of the SF 133, *Report on Budget Execution and Budgetary Resources*, for which the SBR format and line items is based on. The SF 133 is used to monitor the execution of OMB apportionments per the SF 132, *Apportionment and Reapportionment Schedule*. The SBR includes a separate column for non-budgetary credit reform financing accounts, which comprises NOAA's fund groups that record cash flows resulting from post-FY 1991 direct loans and loan guarantees.

The SBR presents (a) budgetary resources for the fiscal year; (b) status of those budgetary resources (includes obligated<sup>3</sup> amounts and unobligated amounts); (c) *Outlays, Net* for the fiscal year, which is comprised of Outlays, Gross less Actual Offsetting Collections (cash transactions); and (d) Agency Outlays, Net for the fiscal year, which is comprised of Outlays, Gross<sup>4</sup> per above less *Distributed Offsetting (Receipts)/Outlays, Net*, which represent collections, net of disbursements, that are credited to specified general fund, special fund, or trust fund receipt accounts. The receipts recorded to this line typically offset the outlays of the agency that conducts the activity generating the receipts.

Budgetary accounting is designed to recognize appropriations, spending authority from offsetting collections, borrowing authority, and contract authority for an agency, and the obligation and outlay or otherwise disbursement or disposition of funds according to legal requirements, which in many cases is made prior to the occurrence of an accrual-based transaction. Budgetary accounting is essential for compliance with legal constraints and controls over the use of federal funds.

Proprietary and budgetary accounting are complementary; however, both the types of information presented and the timing of their recognition are sometimes different. Information is therefore needed about the differences between proprietary and budgetary accounting, which is accomplished in part by presenting a *Reconciliation of Net Cost of Operations to Outlays, Net* (effective FY 2019), which replaces the *Reconciliation of Net Cost of Operations to Budget* (FY 2018) in the *Notes to the Financial Statements* (Note 23). The *Reconciliation of Net Cost of Operations to Outlays, Net* helps explain and clarify how proprietary basis of accounting *Net Cost of Operations* (cash and non-cash transactions) relates to budgetary basis of accounting *Outlays, Net* (cash transactions) and the reconciling items between the two.

These financial statements have been prepared from the accounting records of the Department in conformance with U.S. generally accepted accounting principles (GAAP) and the form and content for entity financial statements specified in OMB Circular A-136, *Financial Reporting Requirements*. GAAP for federal entities are the standards prescribed by FASAB, which is the official body for setting the accounting standards of the U.S. government.

Throughout these financial statements, intragovernmental assets, liabilities, gross costs, earned revenue, transfers, and other activity represent activity or balances with other federal entities.

<sup>3</sup> In 1 Per OMB Circular A-11, "Obligation means a legally binding agreement that will result in outlays, immediately or in the future."

<sup>4</sup> Per OMB Circular A-11, "Outlay means a payment to liquidate an obligation (other than the repayment to the Treasury of debt principal). Outlays are a measure of Government spending."

The Department has allocation transfer transactions with other federal agencies as both a transferring (parent) entity and as a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Department of the Treasury (Treasury) as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. For the Department, all financial activity and balances as parent related to these allocation transfers (e.g., budgetary resources, obligations incurred, gross costs, and outlays, gross) is required to and is reported in the Department's financial statements (from which the underlying legislative authority, appropriations, and OMB apportionments are derived). For the Department, all child account activity and balances is required to be and is excluded from the Department's financial statements. EDA allocates funds, as the parent, to the U.S. Department of Agriculture's Rural Development Administration; all financial activity related to these EDA funds is reported in the Department's financial statements. EDA has received allocation transfers, as the child, from the Appalachian Regional Commission. Census Bureau has received allocation transfers, as the child, from the U.S. Department of Health and Human Services.

### **C Funds from Dedicated Collections**

Funds from Dedicated Collections are financed by specifically identified revenues, often supplemented by other financing sources that are originally provided to the federal government by a non-federal source, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the federal government's general revenues.

Funds from Dedicated Collections include general funds, revolving funds (not including credit reform financing funds), special funds, and trust funds. (See Note 22, *Funds from Dedicated Collections*.)

### **D Elimination of Intra-entity and Intra-Departmental Transactions and Balances**

Transactions and balances within a reporting entity (intra-entity), and transactions and balances among the Department's entities (intra-Departmental), have been eliminated from the *Consolidated Balance Sheets* and *Consolidated Statements of Net Cost*, and are excluded from the consolidated total column of the *Consolidated Statements of Changes in Net Position*. The *Statements of Budgetary Resources* are presented on a combined basis; therefore, intra-Departmental and intra-entity transactions and balances have not been eliminated from these statements.

### **E Assets**

An asset is a resource that embodies economic benefits or services that the federal government can obtain or control. **Entity Assets**, included in the Department's *Consolidated Balance Sheets*, are assets that the Department has authority to use in its operations. **Non-entity assets**, also included in the Department's *Consolidated Balance Sheets*, are assets held by the Department that are not available for use in its operations, and for which a liability has been recorded. Non-entity Fund Balance with Treasury includes customer deposits held by the Department until customer orders are received, and monies payable to the General Fund of the U.S. Government for custodial activity and loan programs.

### **F Assignment of Assets to Bureaus/Reporting Entities**

A Departmental asset is normally assigned by default to the bureau/reporting entity that authorized its acquisition and controls the asset. In situations where an asset is not directly obtained by a bureau/reporting entity or for any other situation where the assignment of the asset to a bureau(s)/reporting entity(ies) is an issue, the Department's Office of Financial Management (OFM) will gather relevant information from all appropriate sources to perform an evaluation of the appropriate assignment of the asset to bureau(s)/reporting entity(ies). OFM's evaluation will include collaboration within the Department and with others as appropriate.