



Federal Accounting Standards Advisory Board

February 7, 2020

Memorandum

MEMBER ACTIONS REQUESTED:

Please review the materials and answer the questions on page 4 by **February 21, 2020**

To: Members of the Board
From: Ross Simms, Assistant Director
Through: Monica R. Valentine, Executive Director
Subject: Reporting Model – Budgetary Information – **TAB B¹**

MEETING OBJECTIVE

The meeting objective is to review and approve plans for improving budgetary information reporting.

PHASE

The project is currently in the research phase.

BRIEFING MATERIALS

The briefing materials include this memorandum and the following attachment:

- Attachment I: Technical Plan for Improving Budgetary Information

You may electronically access the briefing material at <https://fasab.gov/board-activities/briefing-materials/>

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

BACKGROUND

During the December 17, 2019 meeting, the Board agreed to continue conducting the reporting model phase II (budgetary information), note disclosure, and MD&A projects concurrently. Members determined that more progress could be made using this approach.

PLAN FOR IMPROVING BUDGETARY INFORMATION REPORTING

Statement of Federal Financial Accounting Concepts (SFFAC) 8, *Federal Financial Reporting*, discusses the purpose of budgetary information in the consolidated financial report of the U.S. government (CFR) and component reporting entity annual financial reports (AFR). For the CFR, SFFAC 8 notes that financial statements and required supplementary information (RSI) assists users in understanding the government's budget surplus or deficit for the period, including how the surplus or deficit relates to the government's net financial results and change in monetary assets during the period.² While existing Standards require this information, CFR users may not be aware of the categories of federal spending and whether deficits result from annual appropriation acts or other laws that obligate the federal government to pay beneficiaries. In addition, CFR users may not be informed of the reliability of budget estimates and the policy changes during the period. Attachment I: Technical Plan for Improving Budgetary Information, therefore, provides a plan for considering improvements to the CFR budgetary information. The plan suggests evaluating the merits of alternative presentations and finalizing appropriate Standards by October 2022.

With respect to AFRs, SFFAC 8 notes that financial statements and RSI assist users in understanding the status of the entity's budgetary resources.³ The Statement also discusses the following with respect to component reporting entities that receive budget authority on an annual basis

For component reporting entities that receive budget authority on an annual basis, users need to know 1) the budgetary activity during the period, 2) the extent to which budget authority has been used and remains available, and 3) whether additional funding may be needed. Information is needed on the amount of the entity's appropriations that have not been expended at the end of the period, the amount the entity has accumulated from prior period funding, and the amount of liabilities for which the entity has incurred but not received budget authority.⁴

While existing Standards require this information, the presentations use terms and definitions that are unique to the federal government and users have difficulty

² SFFAC 8, paragraph 39.g.

³ SFFAC 8, paragraph 42.e.

⁴ SFFAC 8, paragraph 48.

understanding the information. The Board anticipated that the information would be challenging for users to understand and expected that note disclosures would help address the concern.⁵ However, the issue remains and Attachment I: Technical Plan for Improving Budgetary Information provides a plan for considering improvements to budgetary information presented in AFRs. The plan suggests evaluating the merits of alternative presentations and finalizing appropriate Standards by October 2022.

⁵ Implementation Guide to Statement of Federal Financial Accounting Standards 7, Accounting for Revenue and Other Financing Sources, paragraph 71.

QUESTIONS FOR THE BOARD

1. Does the Board agree with the proposed plan for improving budgetary information in
 - a. the CFR
 - b. AFRs
2. Are there additional topics or issues that should be addressed during the project?

NEXT STEPS

The next steps depend on Board member feedback and answers to the staff questions.

MEMBER FEEDBACK

If you have any questions or comments, please email Mr. Simms at simmsr@fasab.gov with a cc to Ms. Valentine at valentinem@fasab.gov, by February 21, 2020.

Budgetary Information Reporting

FY 2020 Technical Plan

Project Description: This project addresses certain issues related to accounting and financial reporting for government-wide and component reporting entity budgetary information. The project will consider improvements to the existing guidance in Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenues and Other Financing Sources*, and SFFAS 24, *Selected Standards for the Consolidated Financial Report of the United States Government*, related to: 1) the usefulness of the required U.S. budget surplus/deficit presentations, and 2) the understandability of the required presentation for component reporting entity budgetary resources.

Accounting and Financial Reporting Issues: The project is considering the following issues:

➤ Government-wide Reporting Entity – Consolidated Financial Report (CFR)

1. Current guidance for budget deficit/surplus reporting requires recognizing the government's budget surplus or deficit for the period and how the surplus or deficit relates to the government's net financial results and change in monetary assets during the period. The information helps users understand matters such as
 - a. differences between the net operating cost and the budget surplus or deficit
 - b. the amount of receipts and outlays that comprise the federal surplus or deficit
 - c. the amount of cash spent to pay interest on debt held by the public
 - d. the amount of cash the federal government borrowed from the public
 - e. the amount of cash the federal government used to make repayments of debt held by the public

Users of the CFR, however, may not be informed on the categories of federal spending, whether amounts result from annual appropriation acts or other laws, and the cause of changes in budget deficits. Budget authority provided in laws other than annual appropriation acts is generally considered mandatory spending and obligate the federal government to pay beneficiaries that meet specific requirements. Over the past 30 years, mandatory and net interest spending has grown from 60 to 70 percent of federal outlays and is expected to continue

growing.¹ Also, some mandatory spending programs are designed to grow without legislative action. To enhance the usefulness of CFR budgetary information, should:

- a. a presentation be developed to better inform users on discretionary versus mandatory spending,
- b. a presentation be developed to distinguish federal programs subject to grow without legislative action,
- c. a presentation be developed to present the source of changes in the budget deficit, or
- d. a link or other mechanism be included in reports to direct users to information on discretionary and mandatory programs and the source of changes?

If a presentation should be developed, where should the government-wide reporting entity present the information (basic financial statements, note disclosures, required supplementary information (RSI), or other information)?

2. The MD&A Improvements and Note Disclosures projects will also consider how financial reports should assist users in understanding the components, causes, and changes in federal budget deficits.
3. Because guidance is limited to the budget deficit/surplus and total receipts and outlays, users of the CFR may not be informed of the reliability of budget estimates and policy changes during a period. The Office of Management and Budget publicly presents a comparison of budget year estimates of receipts and outlays with the subsequent actual receipts and outlays for that year. To improve the usefulness of CFR budgetary information, should a budget to actual comparison be developed and, if so, where should the information be presented (basic financial statements, note disclosures, RSI)?

➤ Component Reporting Entity – Agency Financial Report (AFR)

4. Reporting on the status of component reporting entity budgetary resources is complex due to the various laws enacted and the nature of the federal budget system. For instance, laws could permit agencies to incur obligations for specific purposes, amounts, and time period and could require them to borrow funds. Also, laws could permit agencies to incur obligations in anticipation of the collection of receipts. In addition, component reporting entity budgetary presentations may confuse readers not familiar with the unique budgetary

¹ Office of Management and Budget, Historical Table 8.3 Percentage Distribution of Outlays by Budget Enforcement Act Category: 1962-2024.

accounting terms and definitions. Because FASAB does not prescribe guidance to account for budgetary resource activity, the project will focus on how should financial reporting address complexities related to the format and disclosure of component reporting entity budgetary resource, such as better:

- a. explaining the status of budgetary resources
 - b. explaining changes in budgetary resources
 - c. presenting or explaining the relationship among the entity’s fund balance with Treasury, budgetary resources, and outlays
 - d. presenting total budgetary resources, the status of budgetary resources, and net outlays
5. Complexities related to presenting the status of and changes in component reporting entity budgetary resources will also be considered in the MD&A Improvements and Note Disclosure projects.
 6. Given the complexities involved in accounting for budgetary resources, what would be the appropriate category (basic financial statement, note disclosure, RSI, or other information) for reporting the status of component reporting entity budgetary resources?
 7. If a component reporting entity budgetary resources presentation should be a basic financial statement, should it articulate with other basic financial statements and, if so, how?

Current Developments: During the June 2019 meeting the Board determined that improving budgetary information was a high priority area of the reporting model.

Work Plan:

Board Meetings	Topics to Be Considered
April 2020	Alternative presentations for budgetary resource reporting Federal budget and receipt and outlay trends
June 2020	Alternative presentations for budget deficit reporting
August 2020 – October 2020	Continue discussions on alternative presentations

Attachment I: Technical Plan for Improving Budgetary Information

December 2020 – April 2021	Discuss initial draft of an exposure draft
June 2021	Discuss pre-ballot draft of an exposure draft
August 2021	Discuss ballot draft of an exposure draft
October 2021	Discuss ballot draft of an exposure draft and consider approval
December 2021 – February 2022	Comment period
April 2022 – June 2022	Redeliberate issues based on feedback
August 2022	Discuss pre-ballot draft of a final Statement
October 2022	Discuss ballot draft of a final Statement and consider for approval