



Federal Accounting Standards Advisory Board

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**June 12, 2020**

Memorandum

**MEMBER ACTIONS REQUESTED:**

Please review the materials and answer the questions on page 11 by **Jun 22, 2020**

To: Members of the Board  
From: Ross Simms, Assistant Director  
Through: Monica R. Valentine, Executive Director  
Subject: Reporting Model – Budgetary Information – **TAB G<sup>1</sup>**

**MEETING OBJECTIVE**

The meeting objective is to discuss the project's progress.

**PHASE**

The project is currently in the research phase.

**BRIEFING MATERIALS**

The briefing materials include this memorandum.

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

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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.

## BACKGROUND

During the February 2020 meeting, the Board generally agreed to proceed with plans to improve budgetary information reporting.

## THE BUDGETARY INTEGRITY OBJECTIVE OF FEDERAL FINANCIAL REPORTING

All users, such as citizens, Congress, managers, and executives need budgetary information. For instance, budget execution data informs citizens on whether government officials spent funds in accordance with laws. In addition, information about the obligations incurred, the amount of budgetary resources used, and the amount of budgetary resources remaining help managers comply with laws and reduce the risk of Anti-Deficiency and Impoundment Control Act violations. In addition, information on budget authority, receipts, and outlays help congressional committees determine fiscal policies and government financing requirements.

FASAB concepts incorporate users' needs and provide guidance to help in assessing the usefulness of budgetary displays. Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, discusses the budgetary integrity objective of federal financial reporting. Paragraph 13 states

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. *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.
- the status of budgetary resources.
- 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.

## REQUIREMENTS TO REPORT BUDGETARY INFORMATION

Government accounting standard-setters note that users need budgetary information and require a presentation. For instance, the International Public Sector Accounting Standards Board requires a comparison of budget and actual amounts to help users identify whether governments obtained and used resources in accordance with the

approved budget.<sup>2</sup> In addition, the Governmental Accounting Standards Board requires budgetary comparisons for the general fund and for each major special revenue fund that has a legally adopted annual budget. The standards encourage governments to present such budgetary comparison information in schedules as a part of required supplementary information (RSI).<sup>3</sup>

FASAB also requires budgetary presentations to support the budgetary integrity objectives of federal financial reporting. During the February 2020 meeting, the Board acknowledged that the *Budget of the U.S. Government* provides the data to achieve the budgetary integrity objective. However, the Board has also noted that financial reports should support efforts to ensure the reliability of budget information. The Board noted that processes of preparing, auditing, and publishing information in annual financial statements would improve the reliability of information used for decision-making.<sup>4</sup> Accordingly, the Board developed and required a basic financial statement, the statement of budgetary resources (SBR) to enhance the reliability of budget execution data and demonstrate accountability.

## THE SBR

The Board developed the SBR to display the flow of budgetary resources. It is prepared using a basis of accounting that ensures compliance with budget laws and “tracks” budget execution information, such as resources made available to the reporting entity (budgetary resources), obligation of the entity’s budgetary resources (obligations), and liquidation of the entity’s obligations (outlays). Thus, the SBR uses budgetary terminology and definitions. Below is an example of an SBR.

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<sup>2</sup> International Public Sector Accounting Standards (IPSAS) 24, *Presentation of Budget Information*, paragraph 15.

<sup>3</sup> GASB Cod.sec.2400.102.

<sup>4</sup> Statement of Federal Financial Accounting Standards 5, *Accounting for Liabilities of The Federal Government*, paragraph 141.

<b>Budgetary Resources</b>	2019	2018
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory)	\$ 13,250,474	\$ 13,028,302
Appropriations (discretionary and mandatory)	38,005,066	37,640,790
Spending Authority from Offsetting Collections (discretionary and mandatory)	<u>5,072,468</u>	<u>5,543,646</u>
<b>Total Budgetary Resources</b>	<b><u>\$ 56,328,008</u></b>	<b><u>\$ 56,212,738</u></b>
<b>Status of Budgetary Resources</b>		
New Obligations and Upward Adjustments (Total)	\$ 45,704,768	\$ 44,172,778
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	7,524,859	10,243,853
Exempt from Apportionment, Unexpired Accounts	259,969	226,832
Unapportioned, Unexpired Accounts	<u>1,913,400</u>	<u>680,004</u>
Unexpired Unobligated Balance, End of Year	9,698,228	11,150,689
Expired Unobligated Balance, End of Year	<u>925,012</u>	<u>889,271</u>
Unobligated Balance - End of Year (Total)	<u>10,623,240</u>	<u>12,039,960</u>
<b>Total Status of Budgetary Resources</b>	<b><u>\$ 56,328,008</u></b>	<b><u>\$ 56,212,738</u></b>
<b>Outlays, Net</b>		
Outlays, Net (Total) (discretionary and mandatory)	\$ 38,436,298	\$ 35,374,822
Less: Distributed Offsetting Receipts	949,222	795,707
Agency Outlays, Net (discretionary and mandatory)	<u>\$ 37,487,076</u>	<u>\$ 34,579,115</u>

## WHAT WE HAVE LEARNED FROM USERS

Literature indicates that budget processes and information can generally be challenging for citizens to understand.<sup>5</sup> Similarly, while preparing and presenting the SBR helps enhance reporting entity internal control activities, users have difficulty understanding the intent of the presentation. In addition, internal users need more disaggregated information, such as account level data, for decision-making. The concerns regarding the display generally involve the use of budget terminology and the format for presenting them.

Terms such as budgetary resources have a specific meaning; for example, budgetary resources mean amounts available to incur obligations in a given year. Those resources include new budget authority and unobligated balances of budget authority provided in previous years. Budget authority means the authority to incur financial obligations that

<sup>5</sup> Jordan, Meagan, Juita-Elena (Wie) Yusuf, Martin Mayer & Kaitrin Mahar. 2016. What Citizens Want to Know about their Government's Finances: Closing the Information Gap. *The Social Science Journal*. Published online ahead of print May 17, 2016. <http://dx.doi.org/10.1016/j.soscij.2016.04.007>

will result in outlays and includes the following forms: appropriations, borrowing authority, contract authority, and spending authority from offsetting collections.<sup>6</sup>

With respect to format, the SBR shows values as of a point in time (stocks) with values of transactions during the reporting period (flows) without explaining their relationship. The statement presents budgetary resources, the status of budgetary resources, and outlays.

## **TASK FORCE RESEARCH**

In May 2020, we engaged a task force to help develop ideas for improving the reporting of budget execution information. The group includes preparers, auditors, and analysts and Attachment I: Task Force lists each member. During May 2020, task force members suggested and compiled the following list of ideas:

- a. Revisit Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.
- b. Develop educational guidance. Prepare a video and/or printed educational guidance to help users navigate budget documents and financial statements. Place the presentation on a central website and allow agencies to link to the presentation
  1. Explain the purpose for each financial statement
  2. Explain how the statements should be used
  3. Highlight key items of information users can learn
  4. Explain key terms
- c. Identify and publish best practices for presenting budgetary information and linking budget to performance information.
- d. In management's discussion and analysis (MD&A) or other presentation, discuss changes in budgetary resources and link performance (outputs, results, etc.) information.
- e. Present gross outlays and offsetting receipts on the SBR rather than net outlays. The statement of net cost shows gross costs and earned revenue.
- f. In note disclosures, explain concepts unique to the federal financial statements of a component reporting entity such as fund balance with Treasury and funds from dedicated collections, and budgetary terms.

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<sup>6</sup> Office of Management and Budget Circular A-11, *Preparation, Submission, and Execution of the Budget*.

- g. Remove the SBR from the agency reporting model.
- h. Discuss elements of the SBR in MD&A or required supplementary information (RSI) rather than a basic statement. The SBR is not intuitive and members of the public have trouble understanding it.
- i. Replace the SBR, as a basic financial statement, with the budget and accrual reconciliation (BAR) and present the SBR in the note disclosures. The BAR is intuitive and reflects differences between amounts disbursed and costs incurred. However, the BAR presents information already presented in other statements and, for some reporting entities, may require substantial disclosures. The SBR reflects budgetary accounting that primarily tracks compliance with budget laws rather than economic events. See Table 2: Budget and Accrual Reconciliation

### Budget and Accrual Reconciliation

(Dollars in thousands)

For the Year Ended September 30, 2019	Intragov	Public	Total
<b>Net Operating Cost</b>	<b>\$ 473,069</b>	<b>\$ (336,540)</b>	<b>\$ 136,529</b>
<b>Components of Net Operating Cost Not Part of the Net Outlays</b>			
Property, plant and equipment depreciation	-	(151)	(151)
Year-end credit reform subsidy reestimates	-	1,078,441	1,078,441
<b>Increase/(decrease) in assets:</b>			
Accounts Receivable	-	70,274	70,274
Other Changes in Allowance Before Reestimates	-	(359,476)	(359,476)
Other assets	(3,855)	(759)	(4,614)
<b>(Increase)/decrease in liabilities not affecting Net Outlays:</b>			
Accounts Payable	139	5,752	5,891
Salaries and Benefits	2,134	(5,152)	(3,018)
Other Changes in Liability for Loan Guaranties Before Reestimates	-	(111,700)	(111,700)
Other Liabilities	(1,978)	660	(1,318)
<b>Other Financing Sources:</b>			
Federal employee retirement benefit costs paid by OPM and imputed to Agency	(21,503)	-	(21,503)
<b>Total Components of Net Operating Cost Not Part of the Net Outlays</b>	<b>(25,063)</b>	<b>677,889</b>	<b>652,826</b>
<b>Components of the Net Outlays That Are Not Part of Net Operating Cost</b>			
Effect of Prior Year Reestimate Paid to General Fund Receipt (GFR) Account	797,694	-	797,694
Changes in Loans Receivable Before Allowance	-	274,709	274,709
Other Changes in Liability for Loan Guaranties	-	169,311	169,311
Cash Transfer to the Master Reserve Fund	-	380,000	380,000
Effect of Current Year Downward President's Budget Reestimate Transferred to GFR Account	147,554	-	147,554
Other	-	(3,118)	(3,118)
<b>Total Components of the Net Outlays That Are Not Part of Net Operating Cost</b>	<b>\$ 945,248</b>	<b>\$ 820,902</b>	<b>\$ 1,766,150</b>
<b>Net Outlays Before Distributed Offsetting Receipts</b>	<b>\$ 1,393,254</b>	<b>\$ 1,162,251</b>	<b>2,555,505</b>
<b>Distributed Offsetting Receipts</b>			<b>(946,587)</b>
<b>Net Outlays</b>			<b>\$ 1,608,918</b>
<b>Related Amounts on the Statement of Budgetary Resources</b>			
Net Outlays (discretionary and mandatory)			2,555,505
Distributed Offsetting Receipts			(946,587)
<b>Agency Outlays, net (discretionary and mandatory)</b>			<b>\$ 1,608,918</b>

Table 2: Budget and Accrual Reconciliation

- j. Replace the SBR with 1) a statement of enacted budget to obligations, for discretionary spending; and 2) a statement showing estimated obligations with actual obligations, for mandatory spending and explain differences.
- k. Replace the SBR with a statement that compares budgeted receipts and disbursements with actual receipts and disbursements. See Table 3: Budget to Actual Comparison

Agency	President's Proposed Budget	Congressionally Approved Initial Budget	Congressionally Approved Final Budget	Actual Results	Budget Surplus/ (Deficit)
<b>Budget Outlays for 24 CFO Act Agencies</b>					
<b>A separate line item for each CFO Act Agency</b>					
<b>Budget Outlays for Remaining Agencies as a single line item</b>					
<b>Grand Total Budget Outlays</b>					
<b>Budget Receipts by All Federal Agencies</b>					
<b>Grand Total Budget Receipts</b>					
<b>Budget Surplus/ (Deficit)</b>					

**Table 3: Budget to Actual Comparison**

- I. Replace the SBR with a statement or schedule of obligations by program activity. This presentation would be more intuitive than the SBR and informative to potential users interested in program activities rather than the agency as a whole. See Table 4: Obligations by Program Activity

Schedule of Obligations by Program Activity (amounts in billions)					
Program Activity	Grants, Subsidies, and Contributions	Communications, utilities, and miscellaneous charges	Other Contractual Services	Personnel Compensation and Benefits	Total
Child care entitlements	100	50	45	555	750
Food safety	100	25	5	370	500
Disaster Relief	200	20	15	465	700
Decennial Census	300	50	15	635	1000
Total	700	145	80	2025	2950

**Table 4: Obligations by Program Activity**

- m. Retain the SBR as a basic statement and require note disclosures that explain the SBR line items or elements.
- n. Develop an approach for addressing the differences in materiality used for financial reporting and budgetary reporting purposes. Budgetary reporting does



not apply a concept of materiality while financial reporting applies the concepts discussed in SFFAC 1 as amended.

## **TASK FORCE PRELIMINARY RESULTS**

The task force reviewed the ideas and decided to retain the SBR as a basic financial statement and develop disclosures to help users understand the accountability that the statement demonstrates. The SBR supports the budgetary integrity objective of federal financial reporting and the preparation of the consolidated financial report of the U.S. government. The statement also uses a format, terms, and basis of accounting developed to ensure compliance with budget laws. In addition, component reporting entities must execute their programs in accordance with budget laws and accounting that informs compliance with those laws is essential to managers and executives. Thus, the SBR informs readers on the reporting entity's compliance with budget laws and preparation of the statement facilitates internal control activities over financial reporting.

Although the SBR supports the budgetary integrity objective and demonstrates accountability, the task force acknowledged that external users may not understand the presentation and that other government entities present a budget to actual comparison. Task force members noted that a comparison might not be useful because most federal budgetary resources are mandatory, based on estimated obligations rather than an annual appropriation and reporting entities can receive multi-year and indefinite appropriations. As a result, the task force will focus on the qualitative characteristic understandability.

Given the broad audience for budgetary information, understandability is a key qualitative characteristic. Federal financial reports are general purpose reports; therefore, the intended audience for federal reporting includes both internal and external users. FASAB has noted that general purpose reports should be understood by those who may not have a detailed knowledge of accounting principles.<sup>7</sup>

One reporting means that helps users understand federal general purpose reports is disclosures. Disclosures can explain or provide suitable detail, and possibly discuss the processes used to ensure that agencies do not spend more than their appropriations and the control activities involved. Thus, the task force is considering potential disclosures that might help users understand how the SBR demonstrates accountability.

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<sup>7</sup> SFAC 1, paragraph 158.

## **QUESTIONS FOR THE BOARD**

1. What additional information does the Board need to determine whether to retain the SBR as a basic financial statement and focus on developing guidance for disclosures that would improve its understandability?
2. Do members have suggestions the task force should consider in developing disclosures or other approaches for improving the understandability of the SBR?

## **NEXT STEPS**

The task force is working on potential disclosures that might help users understand the SBR. Thus, for the August 2020 meeting, staff will discuss the progress and potential suggestions.

## **MEMBER FEEDBACK**

If you have any questions or comments, please email Mr. Simms at [simmsr@fasab.gov](mailto:simmsr@fasab.gov) with a cc to Ms. Valentine at [valentinem@fasab.gov](mailto:valentinem@fasab.gov), by June 22, 2020.

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2. Do members have suggestions the task force should consider in developing disclosures or other approaches for improving the understandability of the SBR?

## Attachment I: Task Force Members

Name	Organization
Christine Barber	Health and Human Services (HHS)
Atisha Burks	Navy
Brian David Casto	Treasury
Michael Conley	Treasury
Regina Epperly	Treasury
Daniel Farricker	HHS
Mark Hayes	Justice
Jean Hebert	Energy
Bruce Henshel	Commerce
Jesse Hughes	Old Dominion University
Carol Johnson	OMB
Lori King	Energy
Kim Laurance	Defense
Yianting Lee	HHS
Madison Marchbank	HHS
Kelly McFadden	Justice
Carla Mewborn	HHS
Maribel Miller	Defense
Charles Morse	Defense
Joseph O'Neil	Government Accountability Office
Eileen Parlow	Securities and Exchange Commission
Shakira Ross	HHS
Kristin Salzer	Commerce
Samantha Siegelman	Energy
Heather Six	Treasury
Teresa Tancre	OMB
Debbi Thomas	11thhourservice
Melissa Williams	Treasury