Federal Accounting Standards Advisory Board

August 15, 2014

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Reporting Model – **TAB D** [1]

MEETING OBJECTIVE

The overall objective of this session is to discuss proposed concepts for ideally presenting accrual basis flows, particularly costs. Concepts developed during this discussion would be used to inform development of concepts for presenting budgetary and other flows.

BRIEFING MATERIALS

The memo presents background information on the project along with:

- Attachment I: Presentation of Costs describes proposed concepts for presenting costs.
- Attachment II: CFR Flow Statements presents the current flow statements for the CFR.
- Attachment III: Component Flow Statements presents examples of current department/agency level flow statements.

[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

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- Attachment IV: Working Draft Concepts Statement provides a working draft concepts statement that will be developed concurrently as the project progresses.

BACKGROUND

FASAB's ideal reporting model project is a part of the Board's conceptual framework initiative. After several years of progress in federal financial reporting, FASAB decided to revisit its conceptual framework with a focus on ensuring that accounting standards are based on a sound framework of objectives and concepts. The project history and findings are documented in the draft SFFAC found in Attachment IV. A summary of milestones is presented in this memo but members may benefit from a review of the findings presented in the draft SFFAC in more detail.

Key milestones and findings include:

- Based upon a review of the objectives, the Board agreed to retain the broad objectives and issue its *Strategic Directions* report in 2006 to identify primary and secondary focuses (http://www.fasab.gov/about/our-annual-reports/).
- The Board decided to focus on "what should be" versus "what is" when considering the objectives and whether statements are useful to readers. Research to support this included the diverse needs of users and how they access information; surveying other countries and their reporting models; and conducting discussions with preparers, citizen intermediaries, congressional staff, program managers, executives, auditors, state and local government planners and analysts, and experts in federal financial reporting.
- Based on its work on social insurance and fiscal sustainability, the Board determined that the conceptual framework needed to better explain unique accounting issues such as why:

    - the power to tax is not an asset but nonetheless is relevant to assessing the sustainability or the financial condition of the federal government;
    - current deficits are indeed bad but that the problem is actually long-range rather than short-range;
    - the timing of a cash flow problem is important; and
    - the point estimates on the balance sheet have limitations for assessing financial condition.

- FASAB staff completed the users' needs and reporting model research and provided the Board with a series of reports and discussion papers.[2] In summary, staff noted that users expect plain-English, understandable information, such as charts and graphs, the ability to access standardized

[2] See http://www.fasab.gov/projects/active-projects/concepts-the-financial-report/ for the reports and discussion papers.

information, and the ability to customize (perform drill-downs, slice and dice, etc.). Users expressed interest in the following types of information:

- The cost of programs
- The performance of programs
- The sustainability of programs
- Budget versus actual comparison
- Where are funds going (geographically and to whom)

- The Reporting Model Task Force was formed and considered the user needs and reporting community results. In 2010, the task force made recommendations for the Financial Report of the U.S. Government (CFR) because the public would likely start with the CFR to learn about the fiscal health of the federal government. They recommended raising public awareness and recommended:

  - adoption of a centralized, web-based method of reporting financial and performance information;
  - changes to particular financial statements; and
  - additional disclosures. (see http://www.fasab.gov/accounting-standards/other-sources-of-information/other-reports-documents/)

- In 2011, the Board discussed its priorities and plans and reaffirmed its conclusions in the *Strategic Directions* report and noted that FASAB standards should focus on the CFR and should primarily consider citizens' information needs. Additionally, the factor implies that component entity reports should support the needs identified for the CFR.

- *The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General* (CFO Act Report (2011)) recommended that Congress consider directing FASAB, the Office of Management and Budget (OMB), and the Government Accountability Office (GAO) to evolve the financial reporting model.[3] The report and other efforts identified a range of ideas such as:

  - Restructure the financial statements and develop a statement of spending
  - Require that less time be spent on asset valuation
  - Develop a presentation that shows costs and value delivered
  - Develop a presentation with drilldown capability and improve user interactivity
  - Provide more useful information in the statement of net cost and provide additional cost accounting guidance
  - Improve performance reporting

[3] The full report can be accessed at http://www.whitehouse.gov/omb/financial_default .

- The Board decided that the project needed to be segmented into three separate projects – improving cost, performance, and budgetary reporting – and task forces would be organized for each project.

- In 2012, the three task forces recommended that the Board revisit Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts* and provide adequate cost guidance to support users of budget and performance information. The Board determined this would involve matters outside of the Board's domain and would require coordination with the OMB and the Department of the Treasury. Also, members again raised concerns about systems constraints and challenges in presenting integrated cost, budget, and performance information.

- The Board decided to develop a conceptual, ideal model that integrates budget, cost, and service performance information.

Flow Information: The Starting Point for Developing the Ideal Model

During the April 2014 meeting, FASAB members developed and presented their view of an ideal reporting model. The presentations addressed the Budgetary Integrity objective, in general, and each of the sub-objectives of the Operating Performance objective. Also, with respect to the Stewardship objective, the Board decided to focus on the federal government as the entity rather than the nation's economy. In addition, in June, the Board decided not to revisit the reporting objectives or clarify the role of FASAB with respect to the objectives. Instead, the Board decided to begin developing the ideal reporting model by focusing on the flows and the flow statements that would help achieve the reporting objectives.

Users have consistently sought to better understand flow information, such as costs and budgetary information, and how they relate. The Board would consider how cost and budgetary information should be aggregated and disaggregated and address how to reconcile cost and budget at a level that would be understandable to users. In addition, the Board's work will support efforts to move toward a qualified opinion on the CFR.

NEXT STEPS

During the October 2014 meeting, staff plans to discuss concepts for budgetary flows.

MEMBER FEEDBACK

If you have any questions or comments, please contact me by telephone at (202) 512-2512 or by email at simmsr@fasab.gov with a cc to paynew@fasab.gov .

Attachment I: Presentation of Costs

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Introduction

During this next phase of the ideal model project, the Board is undertaking an effort to develop conceptual guidance regarding the reporting of flows. The Board's research has noted the need for improving the reporting of flows measured on an accrual and budgetary basis. Users have expressed significant interest in the sources of revenues, both exchange and non-exchange; the costs incurred to conduct programs; and how the amounts budgeted compare with actual expenditures. Their interests primarily focus on the need for different levels of aggregation and disaggregation so that they can better understand the government's various activities and programs and to conduct their analyses. The Board has agreed that the ideal model should help achieve the reporting objectives and those objectives will guide the development of concepts for systematically determining the levels of detail needed for reporting flows.

The Need for an Iterative Process

Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, discusses the need for information on different types of flows. For instance, the objectives discuss inflows, such as taxes and other monies raised for expenditure, and outflows, such as the cost of providing programs and the use of budgetary resources. Because each type may involve multiple issues and constituents, it may be challenging for the Board to discuss these different flows concurrently. Consequently, staff will begin the flows discussion by focusing on costs. Principles developed from discussing how to aggregate and disaggregate costs can be used to inform the Board's discussion on other flows.

Starting with Costs

To determine the focus for the August 2014 meeting, staff considered the flows that demonstrated a consistent area of concern during the reporting model research, and the flows topic that often appeared to be an area that needed improvement was costs. Objectives to guide principles for presenting costs are discussed in the Operating Performance Objective. The Operating Performance objective states that:

> 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. 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;
> - the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs; and

- the efficiency and effectiveness of the government's management of its assets and liabilities.[4]

With respect to flows, the Operating Performance objective appears to indicate that the costs of providing programs would provide relevant information to users so that they can evaluate entity performance. This perspective is consistent with the Board's recent user needs research as users continue to seek information on the costs of programs.

Cost Defined

The Board has defined cost as "the monetary value of resources used or sacrificed or liabilities incurred to achieve an objective, such as to acquire or produce a good or to perform an activity or service."[5] The Board also noted that costs may be charged to operations immediately or to an asset account for recognition as an expense of subsequent periods, depending on the nature of the transaction.[6] Consequently, in FASAB literature, the term cost is used synonymously with expense as well as in reference to the cost of acquiring an asset. The most prominent use is in reference to expense through its use in the "Statement of Net Cost." (Note that the term "cost" is widely used with different meanings. For example, it is sometimes used in the context of budgetary obligations or outlays as well as in the broader economic sense to refer to the cost to all parties (e.g., regulatory cost or unfunded mandate cost).)

Costs Presented at the CFR Level

Current legislation requires government-wide and agency level reporting and throughout the reporting model discussions, different Board members have focused on the need to improve the financial reporting of different entity levels. For instance, some Board members have largely expressed concern with agency level reporting while others have discussed the need to improve the CFR, and others have indicated that the entity level of discussion depends on the reporting objective being achieved. Accordingly, to focus the cost flows discussion, staff will start discussions with the CFR level because it is considered the "starting point" for citizen intermediaries[7] who can inform citizens.

<u>Concepts Regarding How to Present Information in the CFR</u>

The Board has discussed various concepts for the CFR that should guide presenting costs in a manner that would help achieve the Operating Performance objective. The Board developed Statement of Federal Financial Accounting Concepts (SFFAC) 4: *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government* because the report had grown in size and complexity along with users' increased interest in the report.[8] The Board noted that the CFR

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[4] SFFAC 1, par. 14.
[5] FASAB, *2013 FASAB Handbook of Federal Accounting Standards and Other Pronouncements, as Amended*, Appendix E: Consolidated Glossary.
[6] Ibid.
[7] SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*.
[8] SFFAC 4, pars, 2 and 4.

should be a "general purpose statement of accountability to the public,"[9] and should provide "information that addresses the areas of the Board's objectives identified in SFFAC1." [10] Accordingly, some aspects of the Operating Performance objective should be addressed in the CFR.

The Board has also noted that the CFR is aggregated from agency reports[11] and is primarily directed to citizens and citizen intermediaries (the media, public interest groups, analyst, etc.).[12] Citizens expect a comprehensive but concise report of the government's activities and overall financial position[13] and the Board believes that intermediaries may use the CFR as the "starting point" for their analyses.[14] Consequently, the Board expects users to consult sources other than the CFR for detailed information on the cost of programs.

Additionally, the Board noted that understandability is a key qualitative characteristic of the CFR and the report should be structured so that all user groups, both external and internal, can easily locate the information of interest.[15] The Board particularly noted that "If an item is reported, all information related to that item should be reported in one primary location, if feasible."[16] This ideal scenario can be accommodated through electronic reporting because users would have the capability to click on an item and perform drill-downs, review references, or enter queries regarding the item.

The existing broad concepts imply the following concepts[17] for the presentation of cost information in the CFR:

1. To obtain a concise presentation of cost, the CFR should reference other sources of information relevant to assessments of operating performance.

    a) Disclosures regarding the statement of net cost presentation and sources of more detailed information should be provided in the CFR.

    b) Electronic reporting should support access to more detailed information providing disaggregated financial information as well as related contextual information.

    c) The audit status of sources – whether presented in a report or through electronic means - should be understandable to the user.

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[9] SFFAC 4, par. 6.
[10] SFFAC 4, par. 8.
[11] SFFAC 4, par. 6.
[12] SFFAC 4, par. 8.
[13] SFFAC 4, par. 17.
[14] SFFAC 4, par. 19.
[15] SFFAC 4, par. 25
[16] SFFAC 4, par. 25.
[17] Note that staff is not asserting that the present standards or CFR are lacking in a particular area. Rather, the presentation of concepts is meant to build a set of concepts whether currently attained or not.

2. Descriptive information should be provided so that users can easily search and locate detailed information. For instance, if costs are presented by agency, a user may need to review a: description of the agency's mission, goals, and major programs; list of other agencies with similar goals and programs to identify information on government-wide programs; and link to the relevant financial statement for the period under consideration. This information would help a user know upfront how they should use resources to seek more detail and information on programs that involve multiple agencies.

3. To aid understandability, the CFR should include the definition of the term "cost," explain how it is being used in particular contexts, and use it in a manner consistent with the definition.

Supporting a Comprehensive but Concise Overall Presentation

The Board's focus on understandability suggests that a presentation of costs would be a part of a comprehensive but concise overall presentation. While users expect information on costs and to relate costs to performance and budgetary information, the format of the financial statements and level of aggregation should result in a concise presentation that prompts the user to more detail. Regardless of the medium used to present the CFR, format guidelines could lead to a concise presentation of all information including costs. For instance, the Reporting Model Task Force recommended relabeling the Statement of Changes in Cash Balance from Unified Budget and Other Activities.[18] The idea was that heading and/or section labels could be used to help users understand the items of information presented and how items relate to other items. The task force also recommended electronic reporting[19] which would permit users to readily locate and review definitions and other educational aids.

In addition, the task force suggested presenting an electronic report so that, among other reasons, links could be used to guide users directly to more detailed information. The idea is that while the CFR should be highly aggregated, users should be able to easily locate the more detailed information. Absent an electronic medium, users would need descriptive information to help them locate the detail. For instance, if costs are presented by agency, a user may need to review a description of the agency's mission, goals, and major programs; list of other agencies with similar goals and programs to identify information on government-wide programs; and link to the relevant financial statement for the period under consideration. This information would help a user know how to access more detail and information on programs that involve multiple agencies.

[18] FASAB, *Financial Reporting Model Task Force Report*, December 22, 2010.
[19] Ibid.

The existing broad concepts and task force feedback imply that the following concepts would support a concise but understandable presentation of cost information in the CFR:

1. Presentation of cost information should help the user understand the costs of goods and services provided during the period and support an assessment of how goods and services were financed including whether revenues were sufficient to pay for the goods and services.

2. The CFR should include information that helps the user understand the categories selected for aggregation, any limitations of the categories, and the subcategories that may be useful in identifying the more detailed information they seek.

3. Multiple categorizations are needed to aid users in locating more detailed information. It would be helpful if the CFR supplemented the primary presentation with presentations based on alternative categories.

    a. Disclosures or required supplementary information might be used to augment the primary presentation.

    b. Electronic reporting may allow the user to select from a variety of categorization schemes.

Broad Categories Needed for Aggregating Costs

During the Board's ideal model presentations, members primarily indicated that accrual basis flows should be presented in a Statement of Net Cost. The statement shows the gross cost of services, the amount financed by exchange revenue and the net cost. For the government-wide level, broad or general categories may be needed to aggregate cost amounts on the face of the statement so that users can locate the cost of programs that involve multiple agencies as well as individual agencies. The Board has noted that "citizens' needs are more specifically targeted to issues of general interest and to broad indicators of the overall financial health of the Government."[20]

To help provide information on costs to citizens, FASAB's Reporting Model Task Force recommended that cost and revenue be aggregated by function,[21] with department and agency net cost presented as required supplementary information.[22] Functions could provide broad categories for aggregating and presenting information in terms of the principal national need that the programs are intended to serve. They provide a means of aggregating program amounts to facilitate a concise but informative presentation and are broad enough to assist users interested in locating information on multi-agency programs.

[20] SFFAC 4, par.16.
[21] Functions include, among others, national defense, energy, agriculture, Medicare, income security, administration of justice, and general government.
[22] FASAB, Financial Reporting Model Task Force Report, December 22, 2010

Users are often interested in programs that involve multiple agencies, such as the cost of war efforts or education. These multi-agency programs may be perceived as government-wide programs and users would likely expect to locate them by reviewing the CFR. Using a broad category classification scheme – such as functions - as the basis for cost aggregation would be consistent with the Board's concepts for the CFR because it could permit users to start with the financial statement and "identify the departments most relevant to the functions of interest to them."[23]

Also, federal websites use broad categories to report spending information to the public and enable users to search or drill-down for programs of interest to them. For instance, citizen intermediaries cited the federal government's *Your 2013 Federal Taxpayer Receipt* webpage when reporting on federal spending. The webpage provides taxpayers with a breakdown of how their tax dollars are spent on priorities like Education, Veterans Benefits, or Health Care. Illustration 1: Excerpt of Your Federal Tax Receipt provides an example of the categories used in reporting to the public and Illustration 2: Example Sub-Categories provides an example of the sub-categories used for the National Defense and Health care categories. Some sub-categories are large programs and others are object classes like salaries and benefits.

[23] FASAB, Financial Reporting Model Task Force Report, December 22, 2010.

Illustration 1: Excerpt of Your Federal Tax Receipt

PROGRAMS & SERVICES		YOUR TAX PAYMENT
Social Security Tax		**$4,960.00**
Social Security Retirement, Survivors, and Disability Insurance		$4,960.00
Medicare Tax		**$1,160.00**
Medicare Hospital Insurance		$1,160.00
Income Tax Expand All Sub-Categories	% of Total Income Tax Payment	**$4,341.00**
National Defense	24.79%	$1,076.13
Health care	25.19%	$1,093.50
Job and Family Security	18.77%	$814.81
Education and Job Training	2.85%	$123.72
Veterans Benefits	5.44%	$236.15
Natural Resources, Energy, and Environment	1.92%	$83.35
International Affairs	1.82%	$79.01
Science, Space, and Technology Programs	1.13%	$49.05
Immigration, Law Enforcement, and Administration of Justice	2.06%	$89.42
Agriculture	1.15%	$49.92
Community, Area, and Regional Development	0.37%	$16.06
Response to Natural Disasters	0.90%	$39.07
Additional Government Programs	4.98%	$216.18
Net Interest	8.64%	$375.06
TOTAL INCOME AND PAYROLL TAXES YOU PAID		$10,461.00

Source: http://www.whitehouse.gov/2013-taxreceipt [Note the online function allows the user to enter tax amounts and then applies the percentages to the entered amount. Staff entered an amount for demonstration purposes.]

Illustration 2: Example Sub-Categories

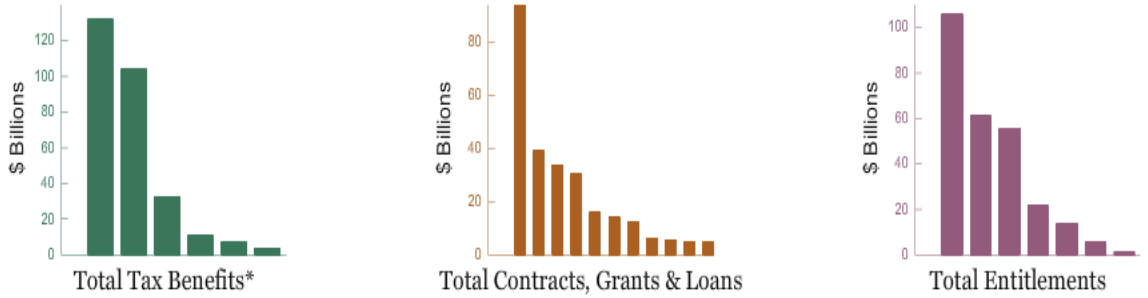
PROGRAMS & SERVICES		YOUR TAX PAYMENT
Social Security Tax		**$4,960.00**
Social Security Retirement, Survivors, and Disability Insurance		$4,960.00
Medicare Tax		**$1,160.00**
Medicare Hospital Insurance		$1,160.00
Income Tax Expand All Sub-Categories	% of Total Income Tax Payment	**$4,341.00**
National Defense	24.79%	$1,076.13
Military personnel salaries and benefits	*5.97%*	*$259.16*
Ongoing operations, equipment, and supplies	*10.16%*	*$441.05*
Research, development, weapons, and construction	*7.60%*	*$329.92*
Atomic energy defense activities	*0.69%*	*$29.95*
Defense-related FBI activities and additional national defense	*0.37%*	*$16.06*
Health care	25.19%	$1,093.50
Medicaid and Children's Health Insurance Program (CHIP)	*10.76%*	*$467.09*
Medicare doctor payments and prescription drug payments	*11.17%*	*$484.89*
Health research and food safety	*1.43%*	*$62.08*
Disease control and public health services	*0.85%*	*$36.90*
Additional health care activities	*0.96%*	*$41.67*
Job and Family Security	18.77%	$814.81
Education and Job Training	2.85%	$123.72
Veterans Benefits	5.44%	$236.15
Natural Resources, Energy, and Environment	1.92%	$83.35

Source: http://www.whitehouse.gov/2013-taxreceipt

In addition, Recovery.gov aggregates outflows using broad categories such as Education, Transportation, Infrastructure, Family Services, and Housing. Illustration 3: Example Breakdown of Recovery Funds provides an excerpt of a webpage that presents some of the broad categories used to report Recovery Act spending. Also, a user can drill-down on a category and view additional detail, facilitating access to disaggregated data. Illustration 3: Example of Detail shows the detail of the spending for the Education category.

Illustration 3:Example Breakdown of Recovery Funds

Breakdown Of Funds Paid Out By Category



For a complete list of all programs in a category, click the category name.

Individual Tax Credits
$131.8B
First-Time Homebuyers. Transportation Subsidy. Education benefits. Earned Income Tax Credits.

Making Work Pay
$104.4B
$400 tax credit for working individuals; $800 for working married couples

Tax Incentives For Businesses
$32.6B
The Work Opportunity Tax Credit added unemployed veterans and 16-to-24 year olds to the list of new hires that businesses could claim. The Net Operating Loss Carryback allows small businesses to offset losses by receiving refunds on taxes paid up to five years ago.

Energy Incentives
$10.9B

Education
$94.0B
State Fiscal Stabilization Fund. Student Aid. Training and Employment Services. Aid for the Disadvantaged. Special Education and Rehabilitative Services

Transportation
$39.2B
Highway Infrastructure. High-Speed Rail Corridors. Grants for Railroads and Airports

Infrastructure
$33.8B
Broadband. Federal Building Fund. Highway Construction. Rural Water and Waste Disposal Account

Medicaid/Medicare
$105.7B
Medicaid Grants to States; Medicare HITECH Incentive Payments; Program Management

Unemployment Insurance Programs
$61.3B

Family Services
$55.5B
Foster Care and Adoption Assistance; Child Support; Food Stamp Program; Assistance for Needy Families

Energy
$21.5B
Grants for Specified Energy Property in Lieu of Tax Credits; Bonneville Power Administration Fund; Western Area Power Administration, Borrowing Authority

Source: http://www.recovery.gov/arra/Transparency/fundingoverview/Pages/fundingbreakdown.aspx

Illustration 4: Example of Detail

Categories	Funds Paid Out
[-] Education	**$93,952,728,450**
Department of Education-Office of Elementary and Secondary Education-State Fiscal Stabilization Fund, Recovery Act	$51,382,814,410
Department of Education-Federal Student Aid-Student Financial Assistance, Recovery Act	$16,482,204,658
Department of Education-Office of Elementary and Secondary Education-Compensatory Education for the Disadvantaged, Recove	$12,353,845,213
Department of Education-Office of Special Education and Rehabilitative Services-Special Education, Recovery Act	$12,150,504,923
Department of Education-Office of Elementary and Secondary Education-School Improvement Programs, Recovery Act	$705,538,124
Department of Education-Institute of Education Sciences-Institute of Education Sciences, Recovery Act	$196,545,302
Department of Education-Office of Innovation and Improvement-Innovation and Improvement, Recovery Act	$145,381,820
Corporation for National and Community Service-Operating Expenses, Recovery Act	$141,180,991
Department of Education-Office of Elementary and Secondary Education-Impact Aid, Recovery Act	$99,135,201
National Science Foundation-Education and Human Resources, Recovery Act	$75,169,722
Department of Education-Office of Postsecondary Education-Higher Education, Recovery Act	$60,160,876
Department of Education-Federal Student Aid-Student Aid Administration, Recovery Act	$59,742,739
Department of Labor-Employment and Training Administration-Program Administration	$50,523,165
National Endowment for the Arts-National Endowment for the Arts: Grants and Administration	$49,981,306
[+] Transportation	**$39,244,489,416**
[+] Infrastructure	**$33,827,519,944**

Source: http://www.recovery.gov/arra/Transparency/fundingoverview/Pages/fundingbreakdown.aspx

Citizen intermediaries also use broad categories similar to functions to aggregate and present flows. For example, the Center on Budget and Policy Priorities uses categories constructed by grouping related programs and activities into broad functions, which are further broken down into sub-functions.[24]

[24] http://www.cbpp.org/cms/?fa=view&id=1258 accessed August 1, 2014.

The existing broad concepts, task force feedback, and electronic reporting practices imply the following concepts would support a concise but understandable presentation of cost information in the CFR:

1. In selecting broad categories for the presentation of gross cost information, the following should be considered:

    a. Is the categorization broad enough to provide a sufficiently concise presentation of cost information?

        i. Are the categories so broad that the information is not useful?

        ii. Are the categories distinct enough to provide a path to more detailed information the user may desire? If not, can the path be clarified through disclosures or links?

    b. Is the categorization useful and understandable to citizens and citizen intermediaries?

        i. Does it facilitate helping users understand the government's activities?

        ii. Does it facilitate linkage of information presented in non-GAAP venues with the financial information presented in the CFR?

        iii. Does it support assessments across government, particularly of performance?

Streamlined Statements for Presenting Costs to Citizens

The existing model for the CFR requires eight basic financial statements and three - the Statement of Net Cost, Statement of Operations and Changes in Net Position, and Reconciliations of Net Operating Cost and Unified Budget Deficit - present cost amounts.[25] However, the Board has noted that the "CFR should not attempt to meet all users needs for all objectives. Instead it should focus on meeting the basic needs of citizens for highly summarized information."[26] Thus, the Board's conceptual guidance for the CFR requires a concise presentation, and presenting costs in multiple basic financial statements could confuse the intended audience who are mostly non-accountants.

The Board's Reporting Model Task Force noted the need to streamline the basic statements and recommended relocating a statement, the Statement of Changes in

[25] See Attachment II: CFR Flow Statements for examples of the Statement of Net Cost, Statement of Operations and Changes in Net Position, and Reconciliations of Net Operating Cost and Unified Budget Deficit.
[26] SFFAC 4, par.15.

Cash Balance from Unified Budget and Other Activities. Although the statement does not present accrual basis costs, it involves other flows that the Board will discuss and indicates the need to move toward a concise presentation overall.

In addition, during previous discussions regarding the CFR, the Board acknowledged that the CFR model involves a number of financial statements and some do not articulate with the others. While Board members also noted that presenting multiple financial statements could be confusing to users, some members believed that the CFR should focus on the sustainability of programs and informing users on the government's financial condition.[27] Accordingly multiple presentations of costs would not be consistent with these preliminary views. Staff believes the series of flow statements can be streamlined with the following goals in mind:

1. Titles and headings understandable to the knowledgeable citizen.

2. A logical flow from one statement to the next (e.g., the bottom line of one becomes the top line of another where feasible).

3. Aggregation of like items to attain a concise understandable presentation on the face of the statements. Needed detail may reside in notes or agency statements.

CFR QUESTIONS FOR THE BOARD

1. The Board has determined that the CFR: is intended for citizens; is the likely starting point for citizen intermediaries; is aggregated from agency reports; and should be a brief presentation that would guide users to more detail.[28] Accordingly, does the Board:

    a. Agree or disagree that regardless of the approach for categorizing costs on the face of financial statements, descriptive information should be provided so that users can easily search and locate detailed information? For instance, if costs are presented by agency, a user may need to review a: description of the agency's mission, goals, and major programs; list of other agencies with similar goals and programs to identify information on government-wide programs; and link to the relevant financial statement for the period under consideration. This information would help a user know upfront how they should use resources to seek more detail and information on programs that involve multiple agencies.

    b. Agree or disagree that the CFR should ideally present gross costs by broad categories that enable users to locate and review multi-agency and individual agency programs? For example, FASAB's Reporting Model

[27] FASAB Minutes, April 27-28, 2011.
[28] Statement of Federal Financial Accounting Concepts (SFFAC) 4: *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*.

Task Forces recommended function-based categories which could accommodate aggregating multi- agency programs as well as individual agency programs, streamline the presentation of costs, and resonate with the intended audience. A function-based presentation need not coincide with the existing budget function classification system, but that system could serve as an example.

c. Agree or disagree that the CFR financial statement presentations of costs should ideally be streamlined? The current model requires reporting costs in three basic financial statements, excluding the statements requiring long term projections, and FASAB's Reporting Model Task Force recommended reducing the number of basic financial statements in the CFR. Consequently, users could view the most fundamental information in highly aggregated statements and be directed to other sources for disaggregated information.

d. Do members have comments or suggestions regarding the discussion and concepts staff identified in each section or additional concepts for consideration?

Costs Presented at the Agency Level

Similar to the CFR, agency reports involve aggregating information from various sources. An agency may be responsible for administering numerous programs and may need to address the information needs of multiple user groups. Also, the agency report would likely be the next source of financial information following the CFR. Consequently, the agency level report would need to be aligned with the CFR and provide both aggregated and disaggregated information regarding costs. See Attachment III: Agency Flow Statements for examples of existing agency level presentations of costs.

Concepts Regarding the Agency Level Report

The Board has noted that an agency financial report is a "highly summarized profile of a complex entity."[29] By noting that agencies are complex, the Board appears to acknowledge that agencies comprise various yet distinct programs. The programs can involve different goals and objectives; industries; stakeholders, including Congressional committees and consumers; means of providing services (physical capital, contractors, federal employees, grantees, or a combination thereof); sources of financing (tax dollars versus earned revenues); types and durations of liabilities; risks; and sets of data for making decisions and demonstrating accountability. Despite these complexities, the report should be highly summarized. Therefore, similar to the CFR, broad categories may be needed to report information on the face of the financial statements.

[29] SFFAC 3, Management's Discussion and Analysis, par. 2.

In addition, agency reports should provide some disaggregated information. The Board noted that the CFR is aggregated from agency reports;[30] therefore, the reports should provide some details of the information presented in the CFR. Also, the Board noted that one or more programs are as important to users as the activities of the agency as a whole.[31] Consequently, while agency reports should be highly summarized, some level of detail should also be provided. The level of detail could inform users on topics such as the cost of programs.

While the Board has not explicitly expressed the intended audience for agency level reports, the Board has determined that both external and internal users have an interest in the cost of programs. In particular, the Board stated that

> The cost of government is a concern to the public as well as to the federal government itself. Most government service efforts and accomplishments cannot be measured in financial terms alone. Unlike private business, there is no "bottom line" or profit index to help measure public sector performance. However, government service efforts and accomplishments can be evaluated using both financial and non-financial measures, and "cost" is an important financial measure for government programs. **Internal and external** federal information users identified below will find these standards helpful in assessing operating performance, stewardship, systems, and control of the federal government. [Emphasis added]
>
> *Government managers* are the primary users of cost information. They are responsible for carrying out program objectives with resources entrusted to them. Reliable and timely cost information helps them ensure that resources are spent to achieve expected results and outputs, and alerts them to waste and inefficiency.
>
> *Congress and federal executives*, including the President, make policy decisions on program priorities and allocate resources among programs. These officials need cost information to compare alternative courses of action and to make program authorization decisions by assessing costs and benefits. They also need cost information to evaluate program performance.
>
> *Citizens*, including news media and interest groups, are concerned with the costs and results of federal programs that affect their interests. They need program cost information to judge whether resources are allocated to programs rationally and if the programs operate efficiently and effectively.[32]

Also, the Board noted that while citizen intermediaries may start with the CFR, they are interested in "all of the major facets of each of the Board's objectives, including

[30] SFFAC 4, par. 6.
[31] SFFAC 2, par. 75.
[32] Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*, pars.18-21.

individual programs."[33] Additionally, the Board believes that disaggregated information is necessary for assessing Operating Performance.[34]

The existing broad concepts imply the following concepts for the presentation of cost information in agency level reports:

1. The report should include information that helps the user understand the categories selected for aggregation, any limitations of the categories, and the subcategories that may be useful in identifying the more detailed information they seek.

2. Multiple categorizations are needed to aid users in locating more detailed information. It would be helpful if the report supplemented the primary presentation with presentations based on alternative categories.

    a. Disclosures or required supplementary information might be used to augment the primary presentation.

    b. Electronic reporting may allow the user to select from a variety of categorization schemes.

3. Descriptive information should be provided so that users can easily search and locate detailed information. For instance, if costs are presented by responsibility segment, a user may need to review a description of the segment's mission, goals, and major programs; list of other segments or agencies with similar goals and programs to identify information on government-wide programs; and link to the relevant financial statement for the period under consideration. This information would help a user locate and access more detail and information on programs that involve multiple agencies.

4. To aid understandability, the report should include the definition of the term "cost," explain how it is being used in particular contexts, and use it in a manner consistent with the definition.

<u>The Need for Broad Categories</u>

Similar to the CFR, broad categories may be needed to aggregate information from the breadth of agency programs and to inform users of their relationship to similar programs administered by other agencies. A single agency report may need to inform users about programs such as wireless broadband access, economic statistics, demographic statistics, technical assistance grants, the 21st Century Innovation Infrastructure program, disaster recovery assistance, trade promotion, patents, trademarks, marine

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[33] SFFAC 4, par 19.

[34] SFFAS 32, *Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4 "Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*," par. 38.

fisheries, the national weather service, and many others. Broad categories could provide the link from the aggregated CFR level to the additional details and provide context regarding how the individual agency contributes to national initiatives.

For instance, using electronic reporting, if a CFR line item presents the cost of defense, the user could click on the CFR line item and view information on the various agencies that comprise the defense category. Next, the user could click on the agency of interest and drill-down to the program or programs and their costs. However, apart from the medium in use (printed or electronic report), the CFR and agency level categories would need to align in some manner so that users can easily locate the additional detail being sought, especially when multiple agencies contribute the same priority. The user would know that the agency being reviewed is not the only agency that contributes to a government-wide program.

The existing broad concepts, task force feedback, and electronic reporting practices imply the following concepts would support a high level of summarization accompanied by additional details in notes or RSI:

1. In selecting broad categories for the presentation of gross cost information, the following should be considered:

    a. Is the categorization broad enough to provide a sufficiently concise presentation of cost information?

        i. Are the categories so broad that the information is not useful?

        ii. Are the categories distinct enough to provide a path to more detailed information the user may desire?

    b. Is the categorization useful and understandable to internal and external users?

        i. Does it facilitate helping users understand the entity's activities?

        ii. Does it facilitate linkage of information presented in non-GAAP venues with the financial information presented in the CFR and agency report?

        iii. Does it support assessments across government, particularly of performance?

<u>Presenting Information on Costs by Program</u>

Statement of Federal Financial Accounting Standards (SFFAS) 4*, Managerial Cost Accounting Standards and Concepts*, discusses cost and emphasizes the need to link program costs and performance information for external reporting purposes. For

instance, while managers are the primary users of cost information, the guidance states that external users, such as citizens, the news media, and interest groups, focus on "the costs and results of federal programs that affect their interests. They need program cost information to judge whether resources are allocated to programs rationally and if the programs operate efficiently and effectively."[35] Also, the Board has noted that reporting the sub-organization incurring the costs and/or the purpose of the costs incurred is more useful than reporting on the goods and services acquired (e.g., object class or natural classification).[36] In addition, during the Board's ideal model presentations, members noted that the agency level should provide program cost information.[37]

Additional Disaggregation

The Board expects that disaggregated information would be provided to inform users on the entity's operating performance. Costs may need to be distinguished by their nature because costs do not all respond equivalently to the same events. For instance, an increase in the number of participants in a job training program may not affect the depreciation of the building where the training is conducted, but may affect the cost of training materials distributed to each participant. Consequently, additional disaggregation could help users analyze performance.

In addition, task forces recognized that the various users of financial reports seek to review costs from different dimensions or perspectives. For instance, some may seek to know what was purchased or obtained with resources (a natural classification perspective) while others may seek to know why resources were used (a program perspective). As a result, the task forces proposed various schedules including a schedule providing cost by major program and object class so that users could aggregate the information as needed for their analyses.[38]

Also, the reporting objectives discuss the need to relate the cost of program operations to the use of budgetary resources. Currently, agencies may use broad categories for the Statement of Net Cost and discuss specific types of costs to help users understand the differences in budgetary reporting and accrual basis reporting. For instance, agencies may categorize cost by strategic goal in the Statement of Net Cost but depreciation and amortization expenses are reported as reconciling items between the net cost of operations and the budgetary resources obligated. Accordingly, when different categories and levels of disaggregation are being used, the approach may not facilitate articulation among the presentations of cost information.

[35] SFFAS 4, par. 21.
[36] SFFAC 2, par, 87.
[37] FASAB, Reporting Model – TAB B, Attachment I:Summary of Ideal Model Presentations, June 6, 2014.
[38] FASAB, Reporting Model – TAB B-1: Summary of Task Force Discussions, December 7, 2012.

AGENCY LEVEL QUESTIONS FOR THE BOARD

1. The Board has noted that disaggregated information is needed to assess operating performance[39] and agency level reports are one source of disaggregated information presented in the CFR. Also, presently, costs may be categorized in different ways, within and among agency reports. For instance, costs may be aggregated by strategic goal in the Statement of Net Cost but a natural classification approach, such as depreciation and amortization, used in presenting a reconciliation of budgetary resources obligated to net cost of operations. Accordingly, does the Board:

    a. Agree or disagree that citizens and citizen intermediaries as well as internal users such as Congress, executives, and managers are the intended audience for agency level reports?

    b. Agree or disagree that, given the breadth and complexity of agency programs, agencies should present costs on the face of financial statements by broad categories so that users can go from the CFR to the agency statements and locate additional detail?

    c. Agree or disagree that agencies should present information on the cost of programs, the information most likely being sought by users?

    d. Agree or disagree that agencies should refer users to additional disaggregated information on the cost of programs, such as salaries, energy, materials, etc.?

    e. Agree or disagree that the categorization of costs should be presented in a manner that facilitates articulation among different presentations of costs? For instance, if one categorization approach is used to present costs in the Statement of Net Costs and another approach or disaggregated costs provided in another presentation, there should be some matrix or tool to help users align the differences or understand the context for the detail.

    f. Do members have comments or suggestions regarding the discussion and concepts staff identified in each section or additional concepts for consideration?

[39] Statement of Federal Financial Accounting Standards (SFFAS) 32: Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4 "Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government," par. 38.

ADDITIONAL QUESTION FOR THE BOARD

Staff intends to discuss budgetary flows during the October 2014 Board meeting. Accordingly, would the Board like an education session on budget scoring before discussing budgetary flows?

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Attachment II: *CFR Flow Statements*

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United States Government
Statement of Net Cost
for the Year Ended September 30, 2013

(In billions of dollars)	Gross Cost	Earned Revenue	Subtotal	(Gain)/Loss from Changes in Assumptions	Net Cost
Department of Health and Human Services	968.4	72.9	895.5	0.2	895.7
Social Security Administration	867.4	0.4	867.0	-	867.0
Department of Defense	685.1	44.9	640.2	(62.8)	577.4
Department of Veterans Affairs	243.3	4.5	238.8	114.1	352.9
Interest on Treasury Securities Held by the Public	247.6	-	247.6	-	247.6
Department of Agriculture	147.6	7.5	140.1	-	140.1
Office of Personnel Management	67.3	19.2	48.1	81.9	130.0
Department of Labor	80.1	-	80.1	-	80.1
Department of Transportation	77.3	0.9	76.4	-	76.4
Department of Homeland Security	70.7	9.7	61.0	(2.4)	58.6
Department of Housing and Urban Development	42.6	1.5	41.1	-	41.1
Department of Energy	38.5	4.3	34.2	-	34.2
Department of Justice	31.8	1.3	30.5	-	30.5
Department of State	29.4	4.2	25.2	0.4	25.6
National Aeronautics and Space Administration	18.1	0.2	17.9	-	17.9
Department of the Interior	16.9	2.7	14.2	-	14.2
Agency for International Development	10.6	0.2	10.4	-	10.4
Department of Education	32.9	23.2	9.7	-	9.7
Federal Communications Commission	9.9	0.4	9.5	-	9.5
Railroad Retirement Board	13.5	4.2	9.3	-	9.3
Environmental Protection Agency	9.8	0.5	9.3	-	9.3
Department of Commerce	11.1	2.9	8.2	-	8.2
National Science Foundation	7.1	-	7.1	-	7.1
U.S. Postal Service	72.4	66.3	6.1	-	6.1
Smithsonian Institution	0.8	-	0.8	-	0.8
Small Business Administration	0.7	0.4	0.3	-	0.3
U.S. Nuclear Regulatory Commission	1.0	0.8	0.2	-	0.2
Export-Import Bank of the United States	1.1	1.0	0.1	-	0.1
Farm Credit System Insurance Corporation	-	0.1	(0.1)	-	(0.1)
Pension Benefit Guaranty Corporation	9.1	9.4	(0.3)	-	(0.3)
Securities and Exchange Commission	1.3	1.8	(0.5)	-	(0.5)
Tennessee Valley Authority	10.7	11.0	(0.3)	(0.2)	(0.5)
General Services Administration	0.1	0.7	(0.6)	-	(0.6)
National Credit Union Administration	(1.8)	0.9	(2.7)	-	(2.7)
Federal Deposit Insurance Corporation	(2.9)	12.7	(15.6)	-	(15.6)
Department of the Treasury	75.3	103.5	(28.2)	-	(28.2)
All other entities	46.1	1.3	44.8	-	44.8
Total	3,940.9	415.5	3,525.4	131.2	3,656.6

The accompanying notes are an integral part of these financial statements.

United States Government
Statement of Net Cost
for the Year Ended September 30, 2012 (See Note 1.U.)

(In billions of dollars)	Gross Cost	Earned Revenue	Subtotal	Loss from Changes in Assumptions	Net Cost
Department of Health and Human Services	922.4	67.8	854.6	0.3	854.9
Social Security Administration	822.9	0.3	822.6	-	822.6
Department of Defense	769.6	56.0	713.6	70.4	784.0
Department of Veterans Affairs	209.9	4.1	205.8	149.3	355.1
Interest on Treasury Securities Held by the Public	245.4	-	245.4	-	245.4
Department of Agriculture	158.8	12.0	146.8	-	146.8
Office of Personnel Management	82.0	19.1	62.9	98.9	161.8
Department of Labor	102.6	-	102.6	-	102.6
Department of Transportation	77.3	0.8	76.5	-	76.5
Department of Homeland Security	58.9	9.9	49.0	0.4	49.4
Department of Housing and Urban Development	74.0	1.5	72.5	-	72.5
Department of Energy	60.2	4.3	55.9	-	55.9
Department of Justice	38.8	1.3	37.5	-	37.5
Department of State	29.5	3.5	26.0	0.8	26.8
National Aeronautics and Space Administration	18.1	0.2	17.9	-	17.9
Department of the Interior	21.7	2.7	19.0	-	19.0
Agency for International Development	11.4	0.2	11.2	-	11.2
Department of Education	62.6	20.0	42.6	-	42.6
Federal Communications Commission	10.0	0.4	9.6	-	9.6
Railroad Retirement Board	15.2	5.1	10.1	-	10.1
Environmental Protection Agency	10.7	0.3	10.4	-	10.4
Department of Commerce	12.0	2.6	9.4	-	9.4
National Science Foundation	7.3	-	7.3	-	7.3
U.S. Postal Service	81.5	64.2	17.3	-	17.3
Smithsonian Institution	0.7	-	0.7	-	0.7
Small Business Administration	1.5	0.4	1.1	-	1.1
U.S. Nuclear Regulatory Commission	1.0	0.8	0.2	-	0.2
Export-Import Bank of the United States	1.2	0.8	0.4	-	0.4
Farm Credit System Insurance Corporation	-	0.1	(0.1)	-	(0.1)
Pension Benefit Guaranty Corporation	20.2	10.4	9.8	-	9.8
Securities and Exchange Commission	1.2	1.6	(0.4)	-	(0.4)
Tennessee Valley Authority	11.0	11.3	(0.3)	0.1	(0.2)
General Services Administration	0.1	0.5	(0.4)	-	(0.4)
National Credit Union Administration	1.3	1.0	0.3	-	0.3
Federal Deposit Insurance Corporation	2.4	19.3	(16.9)	-	(16.9)
Department of the Treasury	(152.9)	27.5	(180.4)	-	(180.4)
All other entities	54.4	0.8	53.6	-	53.6
Total	3,844.9	350.8	3,494.1	320.2	3,814.3

United States Government
Statement of Operations and Changes in Net Position
for the Year Ended September 30, 2013

(In billions of dollars)	Funds other than those from Dedicated Collections (Combined)	Funds from Dedicated Collections (Note 22) (Combined)	Eliminations	Consolidated
		2013		
Revenue (Note 18):				
Individual income tax and tax withholdings	1,294.0	902.4	-	2,196.4
Corporation income taxes	270.4	-	-	270.4
Excise taxes	32.8	52.8	-	85.6
Unemployment taxes	-	54.0	-	54.0
Customs duties	30.6	-	-	30.6
Estate and gift taxes	18.8	-	-	18.8
Other taxes and receipts	139.7	36.4	(0.6)	175.5
Miscellaneous earned revenues	7.0	4.2	-	11.2
Intragovernmental interest	-	119.6	(119.6)	-
Total Revenue	1,793.3	1,169.4	(120.2)	2,842.5
Net Cost of Government Operations:				
Net cost	2,175.2	1,482.0	(0.6)	3,656.6
Intragovernmental interest	119.6	-	(119.6)	-
Total net cost	2,294.8	1,482.0	(120.2)	3,656.6
Intragovernmental transfers	(307.6)	307.6	-	-
Unmatched transactions and balances (Note 1.T)	9.0	-	-	9.0
Net operating (cost)/revenue	(800.1)	(5.0)	-	(805.1)
Net position, beginning of period	(19,248.8)	3,147.8	-	(16,101.0)
Prior period adjustments--changes in accounting principles (Note 19)	(4.1)	0.9	-	(3.2)
Net operating (cost)/revenue	(800.1)	(5.0)	-	(805.1)
Net position, end of period	(20,053.0)	3,143.7	-	(16,909.3)

The accompanying notes are an integral part of these financial statements.

Statement of Operations and Changes in Net Position
for the Year Ended September 30, 2012 (Restated - See Note 22)

(In billions of dollars)	Funds other than those from Dedicated Collections (Combined)	Funds from Dedicated Collections (Note 22) (Combined)	Eliminations	Consolidated
		2012		
Revenue (Note 18):				
Individual income tax and tax withholdings	1,135.2	789.9	-	1,925.1
Corporation income taxes	237.5	-	-	237.5
Excise taxes	24.6	56.5	-	81.1
Unemployment taxes	-	66.5	-	66.5
Customs duties	28.6	-	-	28.6
Estate and gift taxes	13.9	-	-	13.9
Other taxes and receipts	115.3	31.3	(0.8)	145.8
Miscellaneous earned revenues	13.5	6.2	-	19.7
Intragovernmental interest	-	128.4	(128.4)	-
Total Revenue	1,568.6	1,078.8	(129.2)	2,518.2
Net Cost of Government Operations:				
Net cost	2,381.8	1,433.3	(0.8)	3,814.3
Intragovernmental interest	128.4	-	(128.4)	-
Total net cost	2,510.2	1,433.3	(129.2)	3,814.3
Intragovernmental transfers	(419.7)	419.7	-	-
Unmatched transactions and balances (Note 1.T)	(20.2)	-	-	(20.2)
Net operating (cost)/revenue	(1,381.5)	65.2	-	(1,316.3)
Net position, beginning of period	(15,533.6)	748.2	-	(14,785.4)
Prior period adjustments--changes in accounting principles (Note 19)	(2,333.7)	2,334.4	-	0.7
Net operating (cost)/revenue	(1,381.5)	65.2	-	(1,316.3)
Net position, end of period	(19,248.8)	3,147.8	-	(16,101.0)

The accompanying notes are an integral part of these financial statements.

United States Government
Reconciliations of Net Operating Cost and Unified Budget Deficit
for the Year Ended September 30, 2013, and 2012

(In billions of dollars)	2013	2012
Net operating cost	(805.1)	(1,316.3)
Components of net operating cost not part of the budget deficit:		
(Decrease)/increase in liability for military employee benefits (Note 13):		
Increase in military pension liabilities	42.2	120.7
(Decrease) in military health liabilities	(85.7)	(9.0)
(Decrease) in other military benefits	(0.4)	(0.6)
(Decrease)/increase in liability for military employee benefits	(43.9)	111.1
Increase in liability for veteran's compensation (Note 13)	213.2	227.9
Increase in liabilities for civilian employee benefits (Note 13):		
Increase in civilian pension liabilities	95.6	152.6
(Decrease) in civilian health liabilities	(1.4)	(14.4)
Increase in other civilian benefits	0.8	4.6
Increase in liabilities for civilian employee benefits	95.0	142.8
Increase in environmental and disposal liabilities (Note 14):		
Increase in Energy's environmental and disposal liabilities	11.8	17.8
(Decrease) in all others' environmental and disposal liabilities	(1.7)	(2.9)
Increase in environmental and disposal liabilities	10.1	14.9
Property, plant, and equipment depreciation expense	62.1	59.1
Property, plant, and equipment disposals and revaluations	(36.2)	9.4
Increase/(decrease) in benefits due and payable	8.1	(4.8)
(Decrease) in insurance and guarantee program liabilities	(26.4)	(5.3)
(Decrease)/increase in other liabilities	(20.9)	5.6
Increase in accounts payable	1.0	1.8
Decrease/(increase) in net accounts and taxes receivable	8.0	(4.9)
TARP yearend (downward) re-estimate	(8.1)	(9.0)
(Decrease) in liabilities to Government-Sponsored enterprises (GSEs)	(9.0)	(307.2)
(Decrease)/increase in valuation loss on investments in GSEs	(30.9)	42.3
Components of the budget surplus (or deficit) that are not part of net operating revenue/(or cost):		
Capitalized property, plant, and equipment:		
Department of Defense	(37.0)	(33.6)
All other agencies	(30.6)	(37.1)
Total capitalized property, plant, and equipment	(67.6)	(70.7)
Effect of prior year TARP downward/(upward) re-estimate	9.0	(23.3)
(Increase) in inventory	(12.1)	(2.9)
(Increase) in investments in GSEs	-	(18.6)
Decrease in debt and equity securities	2.4	0.4
(Increase)/decrease in other assets	(5.2)	21.7
Credit reform and other loan activities	(25.4)	38.6
All other reconciling items	1.6	(2.0)
Unified budget deficit	(680.3)	(1,089.4)

The accompanying notes are an integral part of these financial statements.

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Attachment III: Agency Flow Statements

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CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2013 and 2012
(Dollars in Thousands)

	2013	2012
NET COST OF OPERATIONS (Note 1-S and 15)		
CROSSCUTTING PROGRAMS		
Income maintenance		
Gross cost	$ 77,921,579	$ 100,682,210
Less earned revenue	(4,037,710)	(4,338,716)
Net program cost	73,883,869	96,343,494
Employment and training		
Gross cost	6,432,749	6,695,330
Less earned revenue	(12,408)	(10,606)
Net program cost	6,420,341	6,684,724
Labor, employment and pension standards		
Gross cost	839,964	851,197
Less earned revenue	(10,357)	(10,059)
Net program cost	829,607	841,138
Worker safety and health		
Gross cost	1,009,235	1,058,194
Less earned revenue	(5,305)	(4,282)
Net program cost	1,003,930	1,053,912
OTHER PROGRAMS		
Statistics		
Gross cost	635,763	682,894
Less earned revenue	(12,083)	(13,286)
Net program cost	623,680	669,608
COSTS NOT ASSIGNED TO PROGRAMS		
Gross cost	110,672	81,176
Less earned revenue not attributed to programs	(816)	(22,166)
Net cost not assigned to programs	109,856	59,010
Net cost of operations	$ 82,871,283	$ 105,651,886

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2013 and 2012
(Dollars in Thousands)

	2013 Consolidated			2012 Consolidated		
	Funds from Dedicated Collections	All Other Funds	Total	Funds from Dedicated Collections	All Other Funds	Total
Cumulative results of operations, beginning	$ (18,333,071)	$ (8,641,960)	$ (26,975,031)	$ (33,466,525)	$ (8,471,933)	$ (41,938,458)
Budgetary financing sources (Note 1-T)						
Appropriations used	-	38,260,332	38,260,332	-	51,574,836	51,574,836
Non-exchange revenue (Note 16)						
Employer taxes	54,494,335	-	54,494,335	63,653,314	-	63,653,314
Interest	1,272,176	-	1,272,176	1,586,958	3,996	1,590,954
Reimbursement of unemployment benefits and other	2,509,745	22,716	2,532,461	3,457,681	(9,110)	3,448,571
Total non-exchange revenue	58,276,256	22,716	58,298,972	68,697,953	(5,114)	68,692,839
Transfers without reimbursement (Note 17)	22,153,422	(21,953,782)	199,640	35,770,127	(35,545,276)	224,851
Other financing sources (Note 1-U)						
Imputed financing from costs absorbed by others	2,992	109,937	112,929	3,462	121,680	125,142
Transfers without reimbursement (Note 17)	-	4,764	4,764	-	966	966
Other	-	(1,737)	(1,737)	-	(3,321)	(3,321)
Total financing sources	80,432,670	16,442,230	96,874,900	104,471,542	16,143,771	120,615,313
Net cost of operations	(67,138,167)	(15,733,116)	(82,871,283)	(89,338,088)	(16,313,798)	(105,651,886)
Net change	13,294,503	709,114	14,003,617	15,133,454	(170,027)	14,963,427
Cumulative results of operations, end of year	(5,038,568)	(7,932,846)	(12,971,414)	(18,333,071)	(8,641,960)	(26,975,031)
Unexpended appropriations, beginning	-	10,476,263	10,476,263	-	9,210,647	9,210,647
Budgetary financing sources (Note 1-T)						
Appropriations received (Note 18-F)	-	43,105,275	43,105,275	-	62,229,387	62,229,387
Appropriations used	-	(38,260,332)	(38,260,332)	-	(51,574,836)	(51,574,836)
Appropriations transferred	-	3,202	3,202	-	(4,505)	(4,505)
Other adjustments	-	(5,977,476)	(5,977,476)	-	(9,384,430)	(9,384,430)
Subtotal	-	(1,129,331)	(1,129,331)	-	1,265,616	1,265,616
Unexpended appropriations, end of year	-	9,346,932	9,346,932	-	10,476,263	10,476,263
Net position	$ (5,038,568)	$ 1,414,086	$ (3,624,482)	$ (18,333,071)	$ 1,834,303	$ (16,498,768)

NOTE 19 - RECONCILIATION OF BUDGETARY RESOURCES OBLIGATED TO NET COST OF OPERATIONS

(Dollars in thousands)	FY 2013	FY 2012
Resources used to finance activities		
Budgetary resources obligated		
Obligations incurred	$ 118,111,427	$ 156,284,367
Recoveries of prior year obligations	(461,549)	(369,860)
Less spending authority from offsetting collections	(7,826,120)	(8,460,059)
Obligations, net of offsetting collections and recoveries	109,823,758	147,454,448
Other resources		
Imputed financing from costs absorbed by others	112,929	125,142
Transfers, net	4,764	966
Exchange revenue not in budget	(985,901)	(1,346,690)
Total resources used to finance activities	108,955,550	146,233,866
Resources used to finance items not part of the net cost of operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet received or provided	(160,936)	(237,196)
Resources that finance the acquisition of assets	(66,477)	(141,648)
Transfers that do not affect the net cost of operations	(26,393,701)	(40,693,007)
Total resources used to finance items not part of the net cost of operations	(26,621,114)	(41,071,851)
Total resources used to finance the net cost of operations	82,334,436	105,162,015
Components of the net cost of operations that will not require or generate resources in the current period		
Components requiring or generating resources in other periods		
Increase (decrease) in annual leave liability	(39)	5,057
Increase in benefits liabilities	299,882	431,371
Increase in capitalized interest and other	196,245	67,513
Total	496,088	503,941
Components not requiring or generating resources		
Depreciation and amortization	73,501	76,507
Revaluation of assets and liabilities	1,062,620	1,461,338
Benefit overpayments	(1,095,362)	(1,551,915)
Total	40,759	(14,070)
Total components of the net cost of operations that will not require or generate resources in the current period	536,847	489,871
Net cost of operations	$ 82,871,283	$ 105,651,886

United States Department of Commerce Consolidated Statements of Net Cost
For the Years Ended September 30, 2013 and 2012 (Note 17) *(In Thousands)*

	FY 2013	FY 2012
Theme 1: Economic Growth		
Gross Costs	$ 5,674,809	$ 6,531,035
Less: Earned Revenue	(2,896,650)	(2,628,952)
Net Program Costs	**2,778,159**	**3,902,083**
Theme 2: Science and Information		
Gross Costs	4,142,171	4,156,232
Less: Earned Revenue	(522,512)	(520,569)
Net Program Costs	**3,619,659**	**3,635,663**
Theme 3: Environmental Stewardship		
Gross Costs	2,239,164	2,331,038
Less: Earned Revenue	(149,947)	(186,763)
Net Program Costs	**2,089,217**	**2,144,275**
NET COST OF OPERATIONS	**$ 8,487,035**	**$ 9,682,021**

The accompanying notes are an integral part of these financial statements.

United States Department of Commerce Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2013 and 2012 *(In Thousands)*

	FY 2013			FY 2012		
	Funds from Dedicated Collections (Note 21)	All Other Funds	Consolidated Total	Restated Funds from Dedicated Collections (Note 21)	Restated All Other Funds	Consolidated Total
Cumulative Results Of Operations:						
Beginning Balance	$ 9,904,756	$ 9,095,044	$ 18,999,800	$ 10,018,759	$ 7,569,497	$ 17,588,256
Changes in Accounting Principle (Notes 7 and 13)	-	(169,319)	(169,319)	-	-	-
Beginning Balance, as Adjusted	9,904,756	8,925,725	18,830,481	10,018,759	7,569,497	17,588,256
Budgetary Financing Sources:						
Appropriations Used	-	9,096,654	9,096,654	-	10,270,400	10,270,400
Non-exchange Revenue	101,468	3,754	105,222	222,492	12,541	235,033
Donations and Forfeitures of Cash and Cash Equivalents	-	11,400	11,400	-	5,303	5,303
Transfers In/(Out) Without Reimbursement, Net	3,650	132,720	136,370	13,058	109,751	122,809
Rescissions/Sequestrations (Note 18)	-	-	-	(350)	(17,848)	(18,198)
Other Budgetary Financing Sources/(Uses), Net	-	137	137	-	6,208	6,208
Other Financing Sources (Non-exchange):						
Donations and Forfeitures of Property	-	856	856	-	579	579
Transfers In/(Out) Without Reimbursement, Net	-	(56,353)	(56,353)	-	182,220	182,220
Imputed Financing Sources from Cost Absorbed by Others	44,818	250,470	295,288	-	297,694	297,694
Other Financing Sources/(Uses), Net	350	(2,168)	(1,818)	19,480	(27,963)	(8,483)
Total Financing Sources	**150,286**	**9,437,470**	**9,587,756**	**254,680**	**10,838,885**	**11,093,565**
Net Cost of Operations	**(21,440)**	**(8,465,595)**	**(8,487,035)**	**(368,683)**	**(9,313,338)**	**(9,682,021)**
Net Change	**128,846**	**971,875**	**1,100,721**	**(114,003)**	**1,525,547**	**1,411,544**
Cumulative Results of Operations – Ending Balance	**10,033,602**	**9,897,600**	**19,931,202**	**9,904,756**	**9,095,044**	**18,999,800**
Unexpended Appropriations:						
Beginning Balance	-	6,716,434	6,716,434	-	9,219,657	9,219,657
Budgetary Financing Sources:						
Appropriations Received (Note 18)	-	8,293,875	8,293,875	-	7,884,258	7,884,258
Appropriations Transferred In/(Out), Net	-	27,299	27,299	-	23,223	23,223
Rescissions/Sequestrations of Appropriations (Note 18)	-	(560,334)	(560,334)	-	(5,450)	(5,450)
Other Adjustments	-	(39,741)	(39,741)	-	(134,854)	(134,854)
Appropriations Used	-	(9,096,654)	(9,096,654)	-	(10,270,400)	(10,270,400)
Total Budgetary Financing Sources	**-**	**(1,375,555)**	**(1,375,555)**	**-**	**(2,503,223)**	**(2,503,223)**
Unexpended Appropriations – Ending Balance	**-**	**5,340,879**	**5,340,879**	**-**	**6,716,434**	**6,716,434**
NET POSITION	**$ 10,033,602**	**$ 15,238,479**	**$ 25,272,081**	**$ 9,904,756**	**$ 15,811,478**	**$ 25,716,234**

The accompanying notes are an integral part of these financial statements.

The reconciliations of Net Cost of Operations to Budget for the years ended September 30, 2013 and 2012 are as follows:

	FY 2013	FY 2012
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	$ 12,354,766	$ 12,238,097
Less: Spending Authority From Offsetting Collections and Actual Recoveries of Prior-years Unpaid Obligations	(4,531,305)	(4,607,196)
Obligations Net of Offsetting Collections and Actual Recoveries	7,823,461	7,630,901
Less: Distributed Offsetting (Receipts)/Outlays, Net	(46,853)	(62,667)
Net Obligations	7,776,608	7,568,234
Other Resources:		
Donations and Forfeitures of Property	856	579
Transfers In/(Out) Without Reimbursement, Net	(56,353)	182,220
Imputed Financing Sources From Cost Absorbed by Others	295,288	297,694
Other Financing Sources/(Uses), Net	(1,818)	(8,483)
Net Other Resources Used to Finance Activities	237,973	472,010
Total Resources Used to Finance Activities	**8,014,581**	**8,040,244**
Resources Used to Finance Items Not Part of Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	1,619,746	3,088,147
Resources that Fund Expenses Recognized in Prior Periods	(1,819)	(5,718)
Budgetary Obligations for Downward Subsidy Reestimates Payable to Treasury	(21,447)	(6,375)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:		
Distributed Offsetting (Receipts)/Outlays, Net (excludes Clearing Accounts' Gross Costs)	46,853	62,667
Credit Program Collections which Increase Loan Guarantee Liabilities or Allowance for Subsidy Cost	68,158	68,138
Budgetary Financing Sources/(Uses), Net	(113,241)	137,002
Resources that Finance the Acquisition of Assets	(2,032,544)	(2,231,293)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations:		
Change in Unfilled Customer Orders	4,502	(15,472)
Donations and Forfeitures of Property	(856)	(579)
Transfers In/(Out) Without Reimbursement, Net	56,353	(182,220)
Other Financing Sources/(Uses), Net	1,818	8,483
Other	(5,027)	(3,409)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	**(377,504)**	**919,371**
Total Resources Used to Finance Net Cost of Operations	**7,637,077**	**8,959,615**

(continued on next page)

(continued from previous page)

	FY 2013	FY 2012
Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Accrued Annual Leave Liability	1,395	394
Increase in Federal Employee Benefits	45,980	42,729
Increase in Environmental and Disposal Liabilities	4,473	-
Increase (Decrease) in Contingent Liabilities	123	(2,900)
Reestimates of Credit Subsidy Expense	1,801	3,440
Other	13,810	5,545
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	67,582	49,208
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	736,100	551,210
NOAA Impairment of Construction-in-progress (Note 16)	-	98,260
NOAA Issuances of Materials and Supplies	12,729	21,581
Revaluation of Assets or Liabilities	24,196	20,728
Other	9,361	(18,581)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	782,376	673,198
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**849,958**	**722,406**
NET COST OF OPERATIONS	**$ 8,487,035**	**$ 9,682,021**

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Attachment IV: Working Draft Concepts Statement

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Federal Accounting Standards Advisory Board

WORKING DRAFT

SUBTITLE

Statement of Federal Financial Accounting Concepts

Exposure Draft

Written comments are requested by [date 90 days after issuance]

Month day, year

Working Draft – Comments Are Not Requested on This Draft

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an Exposure Draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- "Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board."
- "Mission Statement: Federal Accounting Standards Advisory Board", exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB's website at: www.fasab.gov.

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Contact us:

Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Mail stop 6H19
Washington, DC 20548
Telephone 202-512-7350
FAX – 202-512-7366
www.fasab.gov

Federal Accounting Standards Advisory Board

ISSUE DATE

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

Your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Concepts, entitled *TITLE*, are requested. Specific questions for your consideration appear on page 7 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by DUE DATE.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by e-mail to fasab@fasab.gov. If you are unable to e-mail your responses, we encourage you to fax the comments to (202) 512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop H19
441 G Street, NW, Suite 6814
Washington, DC 20548

We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at 202.512.7350 to determine if your comments were received.

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. or A public hearing has been scheduled at 9:00 AM on Month Day, Year, in Room 7C13 at the GAO Building, 441 G Street, NW, Washington, D.C.

Notice of the date and location of any public hearing on this document will be published in the Federal Register and in the FASAB's newsletter.

Sincerely,

Tom L. Allen

Chairman

STATEMENTS OF FEDERAL FINANCIAL ACCOUNTING CONCEPTS

This Statement of Federal Financial Accounting Concepts (SFFAC) is the eighth in a series of concepts statements intended to set forth objectives and fundamentals on which financial accounting and reporting standards will be based. The objectives identify the goals and purposes of financial reporting. The fundamentals are the underlying concepts of financial accounting—concepts that guide the selection of transactions, events, and circumstances to be accounted for; their recognition and measurement; and the means of summarizing and communicating them to interested parties.

The Federal Accounting Standards Advisory Board's (FASAB or "the Board") conceptual framework enhances the consistency of standards and serves the public interest by providing structure and direction to federal financial accounting and reporting. The most direct beneficiaries of the FASAB's concepts statements are the Board itself and preparers and auditors of federal financial reports. The statements guide the Board's development of accounting and reporting standards by providing the Board with a common foundation and basic reasoning on which to consider the merits of alternatives.

Knowledge of the objectives and concepts the Board considers should help users and others who are affected by or interested in federal financial accounting and reporting standards to understand better the purposes, content, and qualitative characteristics of information provided by federal financial accounting and reporting. That knowledge should enhance the usefulness of, and confidence in, federal financial accounting and reporting.

Concepts statements enhance preparers' and auditors' understanding of the common foundation and reasoning employed in considering alternatives. The GAAP hierarchy provides that statements of federal financial accounting standards constitute level A (the highest level) guidance. Statements of federal financial accounting concepts are not GAAP. Instead, concepts statements constitute "other literature" and may only be relied upon by financial statement preparers and auditors to resolve specific accounting issues in the absence of GAAP literature. In developing and amending accounting standards, the Board looks to concepts statements for guiding principles and also considers relevant existing standards and guidance issued by the Board and other standard setting bodies. Until the Board amends existing standards, the Board expects practice to be governed by the accounting principles embodied in the four levels of the GAAP hierarchy. Thus, the Board distinguishes between material presented in concepts which are used to guide Board deliberations on future GAAP and accounting principles presented in standards which constitute current GAAP.

For federal entities, in the absence of specific authoritative literature applicable to a transaction or event, it should be possible to report the event or transaction by selecting an established accounting principle for an analogous transaction or event that appears appropriate when applied in a similar manner. In the unusual case where an analogy cannot be drawn to established authoritative literature, the American Institute of CPAs permits consideration of other literature including concepts statements. Consideration of individual concepts statements will be helpful but often may not provide sufficient guidance in resolving emerging issues.

Therefore, the Board encourages careful study of the conceptual framework and established practice in resolving such issues.

Statements in this series describe concepts and relations that will underlie future federal financial accounting standards and practices and in due course will serve as a basis for evaluating existing standards and practices. With issuance of this statement, the series of concepts statements comprises:

- SFFAC 1, *Objectives of Federal Financial Reporting* (includes the qualitative characteristics of information in financial reports)
- SFFAC 2, *Entity and Display*
- SFFAC 3, *Management's Discussion and Analysis*
- SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*
- SFFAC 5, *Elements of Accrual-Basis Financial Statements and Basic Recognition Criteria*
- SFFAC 6, *Communication Methods*
- SFFAC 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*
- SFFAC 8, TBD

Like other pronouncements of the FASAB, Statements of Federal Financial Accounting Concepts remain in effect until amended, superseded, or withdrawn by appropriate action under the Board's Rules of Procedure.

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

The Board is proposing definitions and basic criteria for summarizing and disaggregating flows in financial statements of the CFR and its component entities. Also, the Board is proposing criteria for determining whether and how flows between the CFR and components should articulate.

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

FASAB has conducted research regarding what information users of federal financial reporting are seeking and how they would like that information summarized and communicated. Given the feedback received, the Board has initiated a project to develop an ideal reporting model and, while the research identified several topics that could serve as the starting point for developing model, the Board decided to begin by focusing on conceptual guidance concerning the flows of government resources. Users are highly interested in the flows of government resources and their views helped identify the following matters where the articulation of fundamentals could help improve financial accounting and reporting:

- Flows can be summarized and disaggregated in a variety of ways and users, on balance, seek to know the cost of programs. However, different users can define programs differently and 'programs' are not always defined in advance of the costs being incurred. For instance, while helping an area recover from a particular disaster may involve several disparate agencies and established programs, public interest in the range of costs related to this disaster may develop after some agencies and programs have already started recovery efforts. Concepts would help in choosing among possible alternatives for classifying and disaggregating flows, such as costs.

- External users are highly interested in flows measured on both a budgetary and an accrual basis. However, the differences between the two different measurement bases and the financial matters that they inform may not always be apparent to them. Concepts would help in determining how the different flows should be communicated to help users determine the information relevant for their analysis and decision-making.

- All users have difficulty understanding the existing agency level budgetary financial statement, the Statement of Budgetary Resources (SBR), and the flows it presents. Concepts are needed to help determine how flows should be classified and disaggregated so that users understand how component entities obtain and use budgetary resources.

- During FASAB's early years, legislation and administrative directives primarily focused on component level financial reporting. Accordingly, the Board developed some of its key conceptual guidance and focused more on components of the federal government rather than a financial report of the U.S. government (CFR). Later, with enactment of legislation requiring a CFR, the Board began to develop additional concepts and standards that considered the differences between component and CFR level reporting. Differences in reporting continue and, with respect to budgetary flows in particular, the differences may hinder users' efforts to understand basic financial information about the federal government, such as the plan for using tax dollars and how tax dollars were actually used. Concepts would help in determining how component and CFR flows should be aligned and, where differences should exist, how to communicate those differences so that users have the context necessary for understanding the relationship between components and the CFR and their respective transactions and events.

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QUESTIONS FOR RESPONDENTS

The Board encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement. Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the Federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

The questions in this section are available in a Word file for your use at www.fasab.gov/exposure.html. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond by e-mail, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

All responses are requested by [insert date].

Q1. A summary of the issue (one paragraph) should be presented followed by a question. If multiple questions follow one issue summary, use letters to distinguish them.

Q2. New Question

INTRODUCTION

PURPOSE

1. Brief history
    a. Use Outline Number for the text format
    b. It gives
        i. Several levels
        ii. For paragraphs

MATERIALITY

2. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

3. New para

PROPOSED CONCEPTS

HEADING

4. Establish boundaries or purpose of the concepts.

5. Further scope information

HEADING

6. As you go into each section – use the style code for outline numbers to continue the format

HEADING

7. It should

    a. Still give you multiple

    b. Levels to work with

8.

HEADING

9.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement–not the material in this appendix–should govern the accounting for specific transactions, events, or conditions.

PROJECT HISTORY

A1. FASAB's reporting model project is a part of the Board's conceptual framework initiative. After several years of progress in federal financial reporting, FASAB decided to revisit its conceptual framework with a focus on ensuring that accounting standards are based on a sound framework of objectives and concepts. At that time, Board members were concerned that the reporting objectives were broad and some members sought to better determine the role of GAAP-based financial statements in achieving them. Accordingly, the Board began the conceptual framework initiative by revisiting the reporting objectives and engaging the federal reporting community in the discussions.

User Needs and Reporting Community Outreach

A2. FASAB staff conducted a series of roundtable discussions to determine whether the objectives remained valid and appropriate and to help define the role of the Board in achieving them. Roundtable participants provided views on whether the objectives continued to reflect the information needs of users and whether they are being achieved. The participants believed the reporting objectives remained valid and they noted that the objectives could be accomplished by sources and systems other than financial statements. Consequently, in 2006, the Board agreed to retain the broad objectives and issue its Strategic Directions report that discusses the Board's primary and secondary focuses relative to the reporting objectives.

A3. Next, the Board began discussing the need for conceptual guidance that describes the reporting model and how it relates to the reporting objectives. The concepts would guide the Board in determining the financial statements necessary for achieving the reporting objectives and help focus on "what should be" versus "what is." The former would ensure that the objectives are adequately addressed and the statements are useful to readers. Also, members were concerned about whether a relationship should exist among financial statements, such as the balance sheet and a statement of net cost, and how the model compares with other reporting models. As a result, staff began researching the diverse needs of users and how they access information; surveying other countries and their reporting models; and conducting discussions with preparers, citizen intermediaries, congressional staff, program managers, executives, auditors, state and local government planners and analysts, and experts in federal financial reporting.

A4. Meanwhile, the Board continued its deliberations on social insurance and long term sustainability reporting, projects that would significantly impact the existing reporting model and raise conceptual questions that should be addressed in the conceptual framework initiative. Board members discussed conceptual issues such as the purpose of the balance sheet and its elements and eventually the Board determined that the conceptual framework needed to better explain unique accounting issues such as why:

a. the power to tax is not an asset but nonetheless is relevant to assessing the sustainability or the financial condition of the federal government;
b. current deficits are indeed bad but that the problem is actually long-range rather than short-range;
c. the timing of a cash flow problem is important; and
d. the point estimates on the balance sheet have limitations for assessing financial condition.

Accordingly, the Board decided to consider these and other reporting concepts in the reporting model project.

A5. FASAB staff completed the users' needs and reporting model research and provided the Board with a series of reports and discussion papers. In summary, staff noted that users expressed interest in the following types of information:

a. The cost of programs.
b. The performance of programs
c. The sustainability of programs
d. Budget versus actual comparison
e. Where are funds going (geographically and to whom)

Also, users expect plain-English, understandable information, such as charts and graphs, the ability to access standardized information, and the ability to customize (perform drill-downs, slice and dice, etc.).

Task Forces and Additional Research

A6. The Board organized the Reporting Model Task Force to consider the user needs and reporting community results and provide suggestions for the reporting model. In 2010, the task force completed its work and presented recommendations to enhance the reporting model. In general, the task force focused on what could be accomplished in the near term and on the Financial Report of the U.S. Government (CFR) because the public would likely start with the CFR to learn about the fiscal health of the federal government. Consequently, they recommended the adoption of a centralized, web-based method of reporting financial and performance information, recommended changes to particular financial statements, and recommended additional disclosures. They believed that the success of these recommendations require raising public awareness of federal financial reporting.

A7. In 2011, the Board discussed the task force recommendations and members discussed systems constraints and challenges and noted that many of the recommendations could be adopted voluntarily by preparers. However, members did note that the conceptual framework that should guide accounting standards remained incomplete and not current.

Also, at that time, the Board discussed its priorities and plans and revisited its Strategic Directions report. The Board reaffirmed its conclusions in the Strategic Directions report and noted factors that would likely influence federal financial reporting. Those factors included the notion that citizens and citizen intermediaries are the primary audience for the CFR, which implies that FASAB standards should focus on the CFR and should primarily consider citizens' information needs. Additionally, the factor implies that component entity reports should support the needs identified for the CFR.

A8. Later in 2011, the Board discussed the report, The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the Comptroller General (CFO Act Report). The report recommended that Congress consider directing FASAB, the Office of Management and Budget (OMB), and the Government Accountability Office (GAO) to evolve the financial reporting model. Consequently, the Board decided to review the reporting model of component entities and conduct discussions with CFOs and various groups to help the Board determine the information of value to users.

A9. The CFOs and various groups provided a range of ideas such as:

a. Restructure the financial statements and develop a statement of spending
b. Require that less time be spent on asset valuation
c. Develop a presentation that shows costs and value delivered
d. Develop a presentation with drilldown capability and improve user interactivity
e. Provide more useful information in the statement of net cost and provide additional cost accounting guidance
f. Improve performance reporting

In addition, potential users sought cost, budget, and performance data and preferred flexible end-reporting. Also, other countries were reporting on service performance as well as financial performance. Given the range of issues, the Board decided that the project needed to be segmented into three separate projects – improving cost, performance, and budgetary reporting – and task forces would be organized for each project. This approach would allow members to better focus on issues that needed to be addressed.

A10. In 2012, the three task forces proceeded to discuss issues and subsequently recommended that the Board revisit SFFAS 4, Managerial Cost Accounting Standards and Concepts. The task forces believed that adequate cost guidance is needed to support users of budget and performance information and provide cost information that meets the expectations of financial information users. Upon reviewing the task force results, the Board determined that the recommended project would involve matters outside of the Board's domain and would require coordination with the OMB and the Department of the Treasury. Also, members again raised concerns about systems constraints and challenges in presenting integrated cost, budget, and performance information.

Developing the Ideal Reporting Model without Constraints

A11. At this point, members noted that a model of the ideal presentation is needed to serve as the end-goal for the project and help guide their direction. Also, given that raising concerns about existing systems and challenges directed the discussions away from "what should be," the Board determined that development of the ideal model would not be constrained by

considering existing systems and what the Board could accomplish immediately. In addition, the model will take a holistic view and consider the other conceptual issues discussed previously and include explanations on why the resulting construct should be considered ideal. Consequently, the Board decided to develop a conceptual, ideal model that integrates budget, cost, and service performance information.

Flow Information: The Starting Point for Developing the Ideal Model

A12. During the April 2014 meeting, FASAB members developed and presented their view of an ideal reporting model. The presentations addressed the Budgetary Integrity objective, in general, and each of the sub-objectives of the Operating Performance objective. Also, with respect to the Stewardship objective, the Board decided to focus on the federal government as the entity rather than the nation's economy. In addition, in June, the Board decided not to revisit the reporting objectives or clarify the role of FASAB with respect to the objectives. Instead, the Board decided to begin developing the ideal reporting model by focusing on the flows and the flow statements that would help achieve the reporting objectives.

A13. Users have consistently sought to better understand flow information, such as costs and budgetary information, and how they relate. The Board would consider how cost and budgetary information should be disaggregated and address how to reconcile cost and budget at a level that would be understandable to users.

APPENDIX B: ILLUSTRATIONS

This appendix illustrates the application of the provisions of this Statement to assist in clarifying their meaning. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the situations or methods illustrated. Additionally, these illustrations are not intended to provide guidance on determining the application of materiality. Application of the provisions of this Statement may require assessing facts and circumstances other than those illustrated here and require reference to other applicable Standards.

APPENDIX C: ABBREVIATIONS

CFR	Consolidated financial report of the U.S. government
ED	Exposure draft
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GASB	Governmental Accounting Standards Board
IPSASB	International Public Sector Accounting Standards Board
OMB	Office of Management and Budget
SFAS	Statement of Financial Accounting Standards (FASB)
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

APPENDIX D: GLOSSARY