

EXECUTIVE OFFICE OF THE PRESIDENT

STATEMENT OF FEDERAL FINANCIAL ACCOUNTING CONCEPTS NO. 2

ENTITY AND DISPLAY

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INTRODUCTION

- 1 A basic postulate of accounting is that accounting information pertains to entities, i.e., circumscribed legal, administrative, fiduciary, or other organizational structures. Another basic postulate is that entities use financial reports to communicate financial and related information about the entity to persons concerned with the entity.
- 2 The purpose of this statement of accounting concepts is to provide guidance as to what would be encompassed by a Federal Government entity's financial report. The statement specifies the types of entities for which there ought to be financial reports (hereinafter called reporting entities), establishes guidelines for defining the makeup of each type of reporting entity, identifies types of financial reports for communicating the information for each type of reporting entity, and suggests the types of information each type of report would convey.
- 3 A statement of financial accounting concepts is intended to guide the members of the Federal Accounting Standards Advisory Board (FASAB) as they deliberate and recommend accounting standards for the Federal Government. It also would be useful to the Office of Management and Budget (OMB), when it carries out its statutory responsibilities for specifying who should prepare financial statements and the form and content of those statements;[note 1] and as broad guidance for preparers, auditors, and users of financial statements of Federal agencies. A statement of financial accounting concepts does not, in and of itself, represent standards that would be considered generally accepted accounting principles for Federal agencies to be followed for the preparation of financial statements. [NOTE 1: OMB specifies the form and content of agency and governmentwide financial statements, pursuant to authority assigned in the Chief Financial Officers Act of 1990, as amended (title 31, U. S. Code, section 3515(d) and section 331 (e) (1)) through periodic issuance of OMB Bulletins. OMB intends to base the form and content on the concepts contained in this statement.]
- 4 This statement does not try to define which reporting entities must prepare and issue financial statements. That authority and responsibility resides with the Congress, OMB, and other oversight organizations and resource providers.
- 5 The specification of reporting entities intends to be suitable for all

organizations within the Executive branch of the Federal Government, including the Departments, independent agencies, [NOTE 2] commissions, and corporations. FASAB does not propose to recommend accounting concepts and standards for the Legislative and Judicial branches. However, the concepts recommended in this statement would be appropriate for those branches. [NOTE 2:"Independent agencies" is a term used to distinguish agencies that are independent of a Cabinet department from the agencies that are part of the Cabinet departments. Independent agencies report directly to the President and are part of the U. S. Government.]

- 6 The concepts, as defined in this statement, are intended primarily for the general purpose financial reporting performed by Federal entities. This is the financial reporting that these entities would undertake to help meet the objectives defined in Statement of Federal Financial Accounting Concepts (SFFAC) No. 1, "Objectives of Federal Financial Reporting." These objectives are as follows:

Budgetary integrity. Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government's budget for a particular fiscal year and related laws and regulations.

Operating performance. 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.

Stewardship. Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial conditions have changed and may change in the future.

Systems and control. Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure proper execution of transactions, safeguard assets, and support performance measurement.

- 7 The concepts are also intended, as FASAB's mission statement requires, to help in meeting the financial and budgetary information needs of executive agencies and Congressional oversight groups, and to strengthen the conceptual basis and consistency of Federal accounting data.
- 8 The entity and display concepts presented in this statement do not preclude the specification of ad hoc or temporary reporting entities to meet special reporting needs of users of Federal agencies' financial information. Nor do they preclude a reporting entity from preparing special purpose financial reports to meet the specific needs of persons in the reporting entity or in response to requests from persons outside the entity for certain financial information; or from preparing a so-called "popular report," which provides a simplified, highly readable, easily understandable description of a reporting entity's finances. These statements would not necessarily purport to be presented in accordance with generally accepted accounting principles.

REASONS FOR DEFINING REPORTING ENTITIES

- 9 The most basic reason for having an explicit understanding of what the reporting entity entails is to ensure that the users of the entity's financial reports are provided with all the information that is relevant to the reporting entity, subject to cost and time constraints. Clearly defining the boundaries of the reporting entity provides the users with a clear understanding of what the reporting entity encompasses. It helps to establish what information is relevant to the financial statements and what information is not.
- 10 Other reasons for having an explicit understanding of what the reporting entity entails are to:
 - ensure that for the aggregation of information at each reporting level, no entity is omitted, and to provide for consolidations and/or combinations of information from reporting units at the same level, as appropriate;
 - assist in making comparisons among comparable reporting entities by reducing the possibility of unintended or arbitrary exclusions or inclusions of entities;
 - assist in making comparisons among alternative ways to provide similar services or products;

be able to distribute costs properly and fully and to properly attribute the responsibility for assets and liabilities; and

facilitate evaluating performance, responsibility, and control, especially where one agency is the provider or recipient of services attributable to or financed by another agency.

STRUCTURE OF THE FEDERAL GOVERNMENT

- 11 The Federal Government is an extremely complex organization composed of many different components. For accounting and reporting purposes, it may be viewed from at least three perspectives. However, the nature of each type of component and the relationships among the components and perspectives are not always consistent.

Organization Perspective

- 12 The first type of perspective is the organization perspective. The Federal Government is composed of organizations that manage resources and are responsible for operations, i.e., delivering services. These include the major Departments and independent agencies, which are generally divided into suborganizations, i.e., smaller organizational units with a wide variety of titles, including bureaus, administrations, agencies, services, and corporations. Many of these are further divided into even smaller suborganizations. On the other hand, there are small agencies for which division into smaller units is generally not considered appropriate.

Budget Perspective

- 13 From another perspective, the government is composed of accounts presented in the budget, hereinafter referred to as budget accounts. Budget accounts are composed of expenditure (appropriations or fund) accounts and receipt (including offsetting receipt) accounts. The size and scope of these accounts varies according to Congressional preference. They can vary from very small accounts, which are useful for constraining management, to very large accounts, which can be used to finance many activities.

- 14 Budget accounts are not the same as Treasury accounts. The latter are accounts established in the Treasury to, among other purposes, record the appropriations and other budgetary resources provided by statutes and the transactions affecting those accounts. For the most part, budget accounts are aggregations of Treasury accounts. Also, Treasury accounts include deposit accounts as well as budget accounts.
- 15 Nor are budget accounts the same as the uniform ledger accounts established by the U. S. Government Standard General Ledger (SGL). SGL accounts record specific homogeneous types of transactions and balances that aggregate to specific classifications on the financial statements. They have been established so that agencies can establish control over their financial transactions and balances, meet the basic financial reporting requirements, and integrate budgetary and financial accounting in the same general ledger.
- 16 A budget account may coincide with an organization or one or more of its suborganizations. Other times, several budget accounts need to be aggregated to constitute an organization or sub-organization.
- 17 Budget accounts are classified as federal funds or trust funds. Any account that is designated by the laws governing the federal budget as being a trust fund is so classified. Federal funds comprise the larger group and include all transactions not classified by law as trust funds. Three components make up federal funds: the general fund, special funds, and revolving funds. The definition of each of these categories can be found in the OMB circular A-11 and the GAO Glossary of Terms Used in the Federal Budget Process.
- 18 Care must be taken in determining the nature of all trust funds and their relationship to the entity responsible for them. A few trust funds are truly fiduciary in nature. Most trust funds included in the budget are not of a fiduciary nature and are used in federal financing in a way that differs from the common understanding of trust funds outside the federal government. In many ways, these trust funds can be similar to revolving or special funds in that their spending is financed by earmarked collections.
- 19 In customary usage, the term "trust fund" refers to money belonging to one party held "in trust" by another party operating as a fiduciary. The money in a trust fund must be used in accordance with the trust's terms, which the trustee cannot

unilaterally modify, and is maintained separately and not commingled with the trustee's own funds. This is not the case for most federal trust funds that are included in the budget--the fiduciary relationship usually does not exist. The beneficiaries do not own the funds and the terms in the law that created the trust fund can be unilaterally altered by Congress.

- 20 Special funds and trust funds, except trust revolving funds, are aggregates of budget accounts. They normally consist of one or more receipt accounts and one or more expenditure accounts. Among the trust funds, social insurance programs (such as social security and unemployment compensation) have the largest amount of funds and federal employee programs (such as retirement and health benefits) the second largest. Together they make up about 90 percent of all trust fund receipts. Other trust funds include excise tax financed programs for highway construction, airports and airway operations, and other public works. Like other budget accounts, trust funds are usually the responsibility of a single organization, although sometimes they are the responsibility of more than one organization.
- 21 Budget accounts are also categorized, as mandated by law and defined by OMB, into functions and subfunctions that represent national needs of continuing national importance and substantial expenditures of resources. Examples of functions are national defense and health.

Program Perspective

- 22 From a third perspective, the government is composed of programs and activities, i.e., the services the organizations provide and the specific lines of work they perform. Each program and activity is responsible for producing certain outputs in order to achieve desired outcomes.
- 23 There is no firm definition for the term "program;" it varies in the eye of the beholder. For example, the Highway program could relate to the entire Federal highway program, the program to build interstate highways (in contrast to city streets, secondary roads, etc.), or a program to build a highway between two specific points. Moreover, in accordance with the sequester provisions of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the House and Senate Appropriations Subcommittees annually define, in the Committee Reports, the meaning of "Programs, Projects, and Activities" as they relate to

each of the Appropriations Acts.

- 24 The term "program" is also often used interchangeably with the terms "function" and "sub-function" (see paragraph 21). Generally, however, the term "function" would be used only for the functions defined in the budget. Otherwise, the term "program" would be used.

Intertwining of the Perspectives

- 25 The programs are administered by the organizations and financed by the budget accounts. In a few instances, there is a one-to-one relationship among the three perspectives. A single budget account finances a single program and organization. Thus, the program is carried out only by the single organization and the organization performs only one program.
- 26 However, most programs are financed by more than one budget account, some of which might not be under the control of the organizational unit administering the program. Some programs are even administered by more than one organization. Likewise, a single organization or budget account could be responsible for several programs. In some instances, a program could also be considered an organizational unit, e.g., the Center for Disease Control and Prevention.
- 27 Furthermore, some of the support necessary to perform a program is frequently provided by other organizations and/or financed by other budget accounts. Examples are the computer support for a program that is obtained from a central unit within the department, or retirement health costs for a program's current and former employees.
- 28 This complex situation is the result of the evolution of Federal organizations, programs, and budgetary structures over many years. As Federal missions and programs have expanded and changed, new departments have been created, new organizations have been added to existing departments, and new duties have been assigned to existing organizations on the basis of various considerations. Similarly, the budget structure has evolved in response to the needs of the Congress; its committees and subcommittees; and various initiatives by the President, program managers, and interest groups.

IDENTIFYING THE REPORTING ENTITIES FOR GENERAL PURPOSE FINANCIAL REPORTING

- 29 As stated, reporting entities are entities that issue general purpose financial statements to communicate financial and related information about the entity. For any entity to be a reporting entity, as defined by this Statement of Federal Financial Accounting Concepts, it would need to meet all of the following criteria.

There is a management responsible for controlling and deploying resources, producing outputs and outcomes, executing the budget or a portion thereof (assuming that the entity is included in the budget), and held accountable for the entity's performance.

The entity's scope is such that its financial statements would provide a meaningful representation of operations and financial condition.

There are likely to be users of the financial statements who are interested in and could use the information in the statements to help them make resource allocation and other decisions and hold the entity accountable for its deployment and use of resources.

- 30 Budget accounts, in and of themselves, do not meet the criteria in the preceding paragraph and, therefore, would not be considered a reporting entity for the purposes of issuing general purpose financial statements. Also, the size and scope of the budget accounts across all government agencies lack sufficient consistency for them to be universally considered as the reporting entity. Similarly, programs generally do not meet the criteria in paragraph 29 and, therefore, would not be a considered a reporting entity that prepares general purpose financial statements.
- 31 On the other hand, organizations, and particularly larger organizations, meet the criteria in paragraph 29. While the occasional overlap of programs and budget accounts among more than one organizational unit could complicate financial reporting, the association of data with the responsibility centers, revenue centers, profit centers, cost centers, etc. which managers typically use for organizing and operating permit the following:

aggregating information for not only the organization (and suborganizations), but also for one or more of the programs performed by the organization, and one or more of the budget accounts for which the organization is responsible, and

the subsequent arraying of the information not only by organization, but also by sub-organization, program, and/or budget accounts.

- 32 This approach to defining the appropriate reporting entities in the Federal Government supports establishment of accountability in the organizations (and suborganizations) while still enabling them to provide information pertaining to their programs.
- 33 Although a reporting entity might not control all the budget accounts used to finance one or more of the programs it administers, any revenues attributable to or costs incurred on behalf of the programs it administers should be associated with that reporting entity. This notion holds true regardless of whether the reporting entity maintains personnel on a payroll.
- 34 The departments and major independent agencies are organizational units and therefore would be the primary reporting entities. However, in many instances, financial statements that present aggregations of information into suborganization entities, i.e., bureaus, administrations, or agencies, may be more useful than statements that present only aggregations into organizational entities. The former can provide a better understanding of the financial results and status of the many individual suborganizations and programs constituting a department or major independent agency. They can reveal instances where programs are carried out by several suborganizations within the department or major independent agency.
- 35 Similar to other budget accounts, trust funds, special funds, and revolving funds are usually administered by a single organization. For financial reporting purposes, the organization would be the reporting entity; the trust fund or revolving fund would be a component of the organization that administers the fund in the same manner that a suborganization or other type of budget account is a component of the organization. This would not preclude separate reporting for the trust fund, special fund, or revolving fund by the managing organization, nor would it preclude disclosure of trust fund, special fund, or revolving fund information within the organization's report when there is

sufficient interest.[NOTE 3] [NOTE 3: For some trust funds, the collection of the revenues is performed by an organizational entity acting in a custodial capacity that differs from the organizational entity that administers the trust fund. In those instances, the organizational entity that collects the revenues would be responsible for reporting only the collection and subsequent disposition of the funds. The organizational entity responsible for carrying out the program(s) financed by a trust fund, or in the case of multiple responsible entities, the entity with the preponderance of fund activity, will report all assets, liabilities, revenues, and expense of the fund, notwithstanding the fact that another entity has custodial responsibility for the assets.]

- 36 Likewise, some programs are coterminous, i.e., share the same boundaries, with an organization or sub-organization, while other programs--such as student loan programs--are the component for which resources are deployed, are responsible for achieving objectives, and/or are of great interest to outsiders. In both instances, the financial operations and results of the program might warrant highlighting or even separate reporting by the organization or suborganization which manages the program.
- 37 Financial statements for organizationally-based reporting entities may be audited and issued to external parties, unaudited and used for internal management purposes, or, perhaps to be more relevant and meaningful, combined with financial statements from other organizationally-based reporting entities.
- 38 The ultimate aggregation of entities is into the entire Federal Government which, in reality, is the only independent economic entity--although some would say the entire country is the ultimate economic entity. The Federal Government entity would encompass all of the resources and responsibilities existing within the component entities, whether they are part of the Executive, Legislative, or Judicial branches (although, as noted in paragraph 5, FASAB's recommendations pertain only to the Executive Branch). The aggregation would include organizations for which the Federal Government is financially accountable as well as other organizations for which the nature and significance of their relationship with the government (see paragraphs 39 through 50) are such that their exclusion would cause the Federal Government's financial statements to be misleading or incomplete.

CRITERIA FOR INCLUDING COMPONENTS

IN A REPORTING ENTITY

- 39 Regardless of whether a reporting entity is the U. S. Federal Government, or an organization, suborganization, or program, there can be uncertainty as to what should be included and inconsistency as to what is included in the reporting entity. The identification and application of specified criteria can reduce this uncertainty and inconsistency.
- 40 The Governmental Accounting Standards Board (GASB) has established criteria for what would be included in a state or local government reporting entity. These criteria relate to financial accountability, which includes appointment of a voting majority of the organization's governing board, together with imposition of will, and financial benefit to or burden on a primary government. These criteria, while in part relevant, must be tailored to the Federal Government environment. First, there are not as many different types of entities in the Federal Government as there are in state and local governments. Second, the Congress and others with oversight authority frequently establish explicit rules for what to include as part of a Federal reporting entity. Finally, as indicated, with the exception of the Federal Government as a whole, all the reporting units are components of a larger entity, namely the Federal Government, rather than independent economic entities.

Conclusive Criterion

- 41 There are two types of criteria that should be considered when deciding what to include as part of a financial reporting entity. The first is a conclusive criterion, i.e., an inherent conclusion that for financial reporting purposes, any organization meeting this criterion is part of a specified larger entity.
- 42 Appearance in the Federal budget section currently entitled "Federal Programs by Agency and Account" is a conclusive criterion. Any organization, program, or budget account, including off-budget accounts and government corporations, included in that section should be considered part of the U. S. Federal Government, as well as part of the organization with which it appears. This does not mean, however, that an appropriation that finances a subsidy to a non-Federal entity would, by itself, require the recipient to be included in the financial statements of the organization or program that expends the appropriation.

Indicative Criteria

- 43 There are instances when, for political or other reasons, an organization (including a government corporation), program, or account is not listed in the "Federal Programs by Agency and Account," yet the general purpose financial statements would be misleading or incomplete--in regard to the objectives for Federal financial reporting--if the organization, program, or account were not included therein. These organizations, programs, or accounts would normally be considered to be operating at the "margin" of what would be considered a governmental function in contrast to providing a more basic governmental function. Thus, in addition to the conclusive criterion, there are several indicative criteria that should be considered in the aggregate for defining a financial reporting entity in the Federal Government. No single indicative criterion is a conclusive criterion in the manner that appearance in the "Federal Programs by Agency and Account" section of the budget is. Nor can weights be assigned to the indicative criteria. Thus, while the indicative criteria are presented in descending order of importance, judgment must be based on a consideration of all of the indicative criteria.
- 44 The indicative criteria for determining whether an organization not listed in the "Federal Programs by Agency and Account" section of the budget is nevertheless part of a financial reporting entity are as follows:
- It exercises any sovereign power of the government to carry out Federal functions. Evidence of sovereign powers are the power to collect compulsory payments, e.g., taxes, fines, or other compulsory assessments; use police powers; conduct negotiations involving the interests of the United States with other nations; or borrow funds for Government use.
 - It is owned by the Federal Government, particularly if the ownership is of the organization and not just the property. Ownership is also established by considering who is at risk if the organization fails, or identifying for whom the organization's employees work.
 - It is subject to the direct or continuing administrative control of the reporting entity, as revealed by such features as (1) the ability to select or remove the governing authority or the ability to designate management, particularly if there is to be a significant continuing relationship with the governing authority

or management with respect to carrying out important public functions (in contrast to selections and designations in which there is little continuing communication with, or accountability to, the appointing official); (2) authority to review and modify or approve budget requests, budgetary adjustments, or amendments or rate or fee changes; (3) ability to veto, overrule, or modify governing body decisions or otherwise significantly influence normal operations; (4) authority to sign contracts as the contracting authority; (5) approval of hiring, reassignment, and removal of key personnel; (6) title to, ability to transfer title to, and/or exercise control over facilities and property; and (7) right to require audits that do more than just support the granting of contracts. (While many of these criteria exist in a client-contractor relationship, it is not necessarily intended that an entity's contractor be considered as part of the reporting entity.)

It carries out Federal missions and objectives.

It determines the outcome or disposition of matters affecting the recipients of services that the Federal Government provides.

It has a fiduciary relationship with a reporting entity, as indicated by such factors as the ability of a reporting entity to commit the other entity financially or control the collection and disbursement of funds; and other manifestations of financial interdependency, such as a reporting entity's responsibility for financing deficits, entitlement to surpluses (although not necessarily the assets acquired from failed units), or the guarantee of or "moral responsibility" for debt or other obligations.

- 45 The entity or any of the above criteria are likely to remain in existence for a time, i.e., the interest in the entity and its governmental characteristics is more than fleeting.
- 46 In applying the indicative criteria, the materiality of the entities and their relationship with one another should be considered. Materiality should not be measured solely in dollars. Potential embarrassment to any of the entities' stakeholders should also be considered. Thus, a bias toward expansiveness and comprehensiveness would be justified, particularly if it could contribute to maintenance of fiscal control.[NOTE 4] [NOTE 4: Any uncertainty as to what to consider as a reporting entity would be resolved by OMB in consultation with the appropriate

Congressional committees.]

Federal Reserve System

47 In establishing and monitoring monetary policy, the Federal Reserve System, i.e., the Board of Governors of the Federal Reserve System and the Federal Reserve Banks, could be considered as functioning consistent with the indicative criteria presented in paragraph 44. However, in the United States, the organization and functions pertaining to monetary policy are traditionally separated from and independent of the other central government organizations and functions in order to achieve more effective monetary and fiscal policies and economic results. Therefore, the Federal Reserve System would not be considered part of the government-wide reporting entity. Payments made to or collections received from the Federal Reserve System would be reported in the financial statements of the Federal Government. Certain other disclosures might also be appropriate in the financial statement for the entire government.

Government Sponsored Enterprises

48 There are also several Federally chartered but privately owned and operated financial institutions that have been established as financial intermediaries to facilitate the flow of investment funds to specific segments of the private sector. These entities are called government sponsored enterprises (GSE). Examples are the Federal National Mortgage Association, the Farm Credit Banks, and the Federal Home Loan Banks. By law, each of these GSEs is subject to oversight from a specific Federal agency. However, they are not included in the Federal budget section entitled "Federal Programs by Agency and Account." Nor, as currently constituted, do they function in a manner consistent with the indicative criteria presented in paragraph 44. Thus they would not be considered part of the government-wide reporting entity nor the reporting entity to which they have been assigned for oversight.

49 On the other hand, there are "political expectations" associated with the GSEs, the most significant of which is an expectation that legislation would be enacted to support a GSE experiencing severe financial difficulties. (Political expectations are different than "moral obligations" established by many states. There is no statutory authority that defines whether and how a political

expectation would be met. With a moral obligation, the manner in which it may be met is usually explicitly defined in statute.) Therefore, agencies assigned oversight responsibility for a GSE(s) would need to consider making disclosures of the government's relationship with the GSE(s) and other information that would provide an understanding of the possibility of a contingent liability.[NOTE 5] [NOTE 5: The term government sponsored enterprise is also sometimes used in a broader manner to encompass other entities established by the Federal Government to further a public policy and that are also not included in the budget section "Federal Programs by Agency and Account." Examples are the Financing Corporation, Resolution Funding Corporation, Amtrak, and even, on occasion, the American National Red Cross. These entities have varied characteristics and different types of relationships to the Federal Government, and therefore, in some cases, may be included with the above mentioned GSEs in sections or tables of Federal budget documents. These entities need to be judged individually with respect to the indicative criteria presented in paragraph 39 in order to determine whether they should be considered part of a Federal reporting entity.]

Bailout Entities

- 50 The Federal Government occasionally bails out, i.e., guarantees or pays debt, for a privately owned entity whose failure could have an adverse impact on the nation's economy, commerce, national security, etc. As a condition of the bail out, the Federal Government frequently obtains rights similar to the authorities associated with the indicative criteria presented in paragraph 44. The existence of these rights does not make the bailed out entity part of the Federal Government reporting entity or any of the other reporting entities that are part of the Federal Government. Disclosure of the relationship(s) with the bailed out entity(ies) and any actual or potential material costs or liabilities would be appropriate.

OTHER ASPECTS CONCERNING THE COMPLETENESS OF THE ENTITY

- 51 The application of specified criteria to delineate the reporting entity is one aspect of ensuring that the users of a reporting entity's financial reports are provided with all the information relevant to the reporting entity. However, because the only independent economic entity is the entire Federal Government,

financial resources or free services are often provided from one component in the government to another component without a quid pro quo. For example, a portion of the retirement costs of Federal employees is reported by the Office of Personnel Management rather than the organizational entities employing the persons. Thus, within the parameters explained in paragraphs 52 and 53, it is important to ensure that the reporting entity's financial reports include amounts that are attributable to the reporting entity's activities, even though they are recorded elsewhere. This is particularly important for costs associated with the use of human resources; personnel services are such a major part of most government activities. It is also important for the costs of services provided by other reporting entities, such as computer services provided by another unit.

- 52 A process in which the reporting entity is billed and pays for the amounts attributable to its activities is normally the most desirable approach for recording and reporting these amounts. However, when this type of direct debiting or crediting is not done, the decision as to whether to capture and report attributable amounts would be based on such criteria as the magnitude of the attributable amounts, the decision usefulness of the information to its likely users, the costs of capturing the data, whether a decision would be made differently as a result of having the information, and whether the information would have a policy impact.[NOTE 6] [NOTE 6: The Board is developing a Statement of Managerial Cost Accounting Concepts and Standards. This document, when finalized, will address recognition of these amounts.]
- 53 It might be appropriate to consider the interest expense inherent in devoting a sum of capital to an organization or program as part of the total costs incurred in operating the organization or performing the program. This principle has already been adopted for the accounting for loans and loan guarantees, whereby a loan program is charged for the cost of capital provided by the U. S. Treasury.[NOTE 7] [NOTE 7: The Board has decided to undertake a project addressing the types of capital for which it might be appropriate for a reporting entity to disclose the costs, the reasons thereof, and the manner in which to determine and report these costs. A determination of the appropriateness of considering interest expense as part of the costs incurred by an organization or program will be made by that project.]

DISPLAYING FINANCIAL INFORMATION

- 54 Financial information is typically provided by or for a reporting entity through financial statements. Financial statements represent the principal means of communicating accounting information about an entity's resources, obligations, revenues, costs, etc. to those outside the entity. However, financial statements, and particularly those prepared for governmental and other not-for-profit organizations, may also contain information from sources other than accounting records. Also, management may communicate information to those outside the entity by means of financial reporting other than financial statements, either because the information is required to be disclosed by statute, regulation, or custom; or because management believes the information would be useful to those outside the entity and discloses it voluntarily.
- 55 To enhance confidence in the reliability of information presented in financial statements, the statements are often, but not always, audited by Inspectors General, independent accounting firms, or the General Accounting Office. Some financial reporting by management, both within and outside the financial statements, is audited, or is reviewed but not audited; and some information is presented by management without audit or review by persons independent of those who prepared the statements or information.
- 56 In the Federal Government, there are several types of reporting entities (organizations, suborganizations, programs, and the government as a whole) and several financial reporting objectives (budgetary integrity, operating performance, stewardship, and systems and control). Each of the reporting objectives can be met to a certain degree by the statements prepared by or for one type of reporting entity and to a greater or lesser degree by the statements prepared by or for the other types of reporting entities. For example, the objective of budgetary integrity can be best met with the program and financing schedules prepared for individual budget accounts. The objective of operating performance can be best met with financial statements from organizations/suborganizations and programs (although financial statements at this level can also help readers evaluate the reporting entity's budgetary integrity). The objective of stewardship can be best met with a financial statement for the entire government. Meeting the financial reporting objectives in their totality requires financial statements from all of the types of reporting entities.

Stock Statements

- 57 The financial reporting objectives are also met with different types of financial statements. A financial statement that presents financial information for an entity as of a particular point in time, however the information is measured, i.e., budgetary, cash, or accrual, is often characterized as a stock statement. An example of a stock statement is a balance sheet. It presents the total balances of assets, liabilities, and net position of an organization as of a specific time.

Flow Statements

- 58 Another type of financial statement provides information on an entity's flows of revenues, receipts, expenditures, expenses, gains, losses, and/or other changes of the entity's net resources during a period, however they are measured, i.e., budgetary, cash, or accrual. This type of financial statement is frequently characterized as a flow statement. The traditional flow statement is a statement of operations and changes in net position issued by private sector, profit seeking organizations. It presents the results of an entity's operations for a reporting period, including the changes in the entity's net position from the end of the prior reporting period. This type of statement is particularly useful for private sector, profit seeking organizations since their objective is to generate earnings and returns on investment. The statement of operations and changes in net position presents the revenues the entity receives, the expenses incurred to generate the revenues, the amount left for the entity's owners, and the resulting effect on the owners' equity.
- 59 The Federal Government and most of the other reporting entities in the Federal Government are spending entities whose objective is to provide services, some of which are financed by revenues received from the recipients of the service, and some of which, if not all or most of which, are financed by taxes and other unearned revenues.[NOTE 8] Thus, the most useful information a flow statement could present is the total and net costs of the services, i.e., how much of the services provided by the entity was financed by the taxpayers. This type of statement, which would be a statement of net costs, would support the achievement of Federal financial reporting objective 2A. Objective 2A states that "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." [NOTE 8: The Board is currently developing an Exposure Draft entitled "Revenue and Other Financing Sources" which addresses more fully the types of revenues (i.e., exchange versus non-exchange and earned versus unearned revenues) discussed here.]

- 60 As indicated, revenues provided in exchange for the services, i.e., earned revenues, are not the only manner in which a Federal Government entity finances the services it provides. Other sources of financing are the appropriations received from the Congress, and such various non-exchange revenues as fines, donations, and transfers from other agencies. Therefore, another useful flow statement would be a statement of changes in net position that presents the manner in which the entity's net costs were financed and the resulting effect on the entity's net position. This also would be consistent with Federal financial reporting objective 2: "Federal financial reporting should assist report users in evaluating. . .the manner in which these efforts and accomplishments have been financed...."
- 61 The collection of the major sources of funds for the appropriations, e.g., taxes, royalty payments, and fines, is the responsibility of just a few reporting entities, especially the Internal Revenue Service, the Customs Service, and the Minerals Management Service. These entities are functioning in a custodial capacity and are required to turn the taxes or other monies they collect over to the Treasury or other organizations. The results of these entities' custodial activities could be reported in a flow statement that provides an understanding of from whom the taxes or other monies were collected and to whom they were distributed. This would be called a statement of custodial activities.
- 62 For many reporting entities, and particularly those engaged in reimbursable activities, it is useful to have an understanding of the sources and amounts of cash provided to the entity for operating, investing, and financing purposes and the major purposes for which the cash was used. This type of information can be displayed with a statement of cash flows, in accompanying footnotes, or as supplemental financial and management information.

- 63 Meeting the first objective of SFFAC No. 1, "Objectives of Federal Financial Reporting," namely the budgetary integrity objective, necessitates that the reader receive assurance that

the amounts obligated or spent did not exceed the available budget authority,

obligations and outlays were for the purposes intended in the appropriations and authorizing legislation,

other legal requirements pertaining to the account have been met, and

the amounts are properly classified and accurately reported.

- 64 This information is provided in other reports, but there needs to be auditor involvement to provide assurance as to the reliability of the information. The assurance as to reliability of the information could be accomplished by including a statement of budgetary resources in the reporting entity's financial statements, recognizing that the statement will likely be subject to audit. The presentation of data could be for the reporting entity as a whole, for the major suborganization units (assuming there is congruity among the major suborganization units and the budget accounts), or for the aggregations of the major budget accounts, rather than for the individual budget accounts of the entity or other types of entities. Violations of budgetary integrity at the account level occurring during the current year could be disclosed on an exception basis. (Many violations of budgetary integrity would also be violations of the Anti-Deficiency Act. Disclosure in the financial statements notwithstanding, these violations would also have to be reported as required by the Act.)

Performance Measures Statement

- 65 The second objective of Federal financial reporting states, in part, that Federal financial reporting should provide information that helps readers of the financial reports determine the efforts and accomplishments associated with Federal programs and the changes over time and in relation to costs. This suggests that a statement of program performance measures,[NOTE 9] i.e., one or more statements presenting service efforts and accomplishments measures for each of a reporting entity's significant programs, is necessary. [NOTE 9: The Board does not consider the Statement of Program Performance Measures to be a

basic financial statement.]

- 66 The Federal Government is increasing its interest in measuring and reporting program performance, as evidenced by the enactment of the Government Performance and Results Act and increasing emphasis during budget reviews on program performance. Moreover, the ability to seek and obtain maximum return from increasingly limited resources can be enhanced by an understanding of the results of the programs for which budget resources have been expended. In the final analysis, the objective of the Federal Government is to provide services, in contrast to the objective of private sector organizations, which is to earn profits and enhance the return on investment, both of which are monetary objectives. All of these factors suggest that the statement of program performance measures is not only an appropriate statement, but likely to be the most important statement for those persons interested in how a Federal entity is using its resources.
- 67 For a statement of program performance measures prepared by an organization-level reporting entity, the outputs and outcomes would be related to the performance of the entity itself and its own programs, e.g., clients vaccinated, illnesses prevented. For the government-wide report, broader measures of outcomes and impacts that depended on the joint efforts of several reporting entities would be appropriate, e.g., state of the economy, national security, environment, personal health, social welfare, although some narrower outcome measures might also be included.

Other Information

- 68 Financial information is also conveyed with accompanying footnotes, which are an integral part of the financial statements. Footnotes typically provide additional disclosures that are necessary to make the financial statements more informative and not misleading.
- 69 It is also necessary to convey more general information about the reporting entity. This could entail such matters as a brief description of the reporting entity; its missions, goals, and objectives; the programs it provides and the major recipients for the program; its major sources of funding; the manner in which the reporting entity is organized; its personnel resources; highlights of the entity's accomplishments during the reporting period; selected measures of program performance abstracted

from the statement of program performance; problems encountered or targets missed and the reasons why; financial highlights and trends; expected problems and challenges; future targets the entity is setting for itself; and any other information the agency head or CFO considers necessary to fully and fairly provide an understanding of the entity's financial affairs. This type of information is typically presented in what has come to be known as a management discussion and analysis or overview of the reporting entity.

- 70 The third objective of Federal financial reporting is that it "should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial conditions have changed and may change in the future." [NOTE 10] This objective requires a reporting of information concerning investments in education, training, research, and development and certain types of property, plant, and equipment that can affect the nation's future wealth, and to the claims on future budgetary resources resulting from prior decisions and actions. [NOTE 10: A complete discussion of the third objective for Federal financial reporting, which is called the "stewardship objective," is contained on pages 41-45 in Statement of Federal Financial Accounting Concepts No. 1, "Objectives of Federal Financial Reporting."]
- 71 The information pertaining to the aforementioned investments, certain types of property, plant, and equipment, [NOTE 11] and claims on future budgetary resources is maintained in part in the entities' general ledgers and, in part, external to the general ledgers. Some of the information is recorded in units other than dollars, e.g., acres, millions of square feet. Finally, some of the information is not subject to the types of controls present in a system of double entry recordkeeping. Accordingly, a more suitable way to fulfill the third reporting objective would be to display the appropriate information as required supplemental information rather than attempting to include it in financial statements. [NOTE 12] [NOTE 11: The Board is currently considering accounting standards for Federally-owned property, plant, and equipment. These standards will address placement of information related to various types of PP&E. The Board is considering placing information about some types of PP&E in footnotes with information about other types in required supplemental information. The Board's proposals will be presented in an exposure draft on stewardship reporting.] [NOTE 12: Required supplemental information is information that would be reported

outside the principal financial statements that the Federal Accounting Standards Advisory Board considers an essential part of a reporting entity's financial reporting, and therefore recommends authoritative guidelines for the measurement and presentation of the information. It is analogous to the required supplementary information discussed in Statement on Auditing Standards-AU Section 558.06, which addresses pronouncements of the Financial Accounting Standards Board and the Governmental Accounting Standards Board.]

- 72 Finally, some reporting entities desire or need to report information to support information in the overview or to enhance the understanding of the entity's operations or financial condition. That additional information would not always be appropriate for the overview or the financial statements or accompanying footnotes. Examples are delivery times, turnover, and wastage of inventories; condition, maintenance, and expected replacement of physical capital; and delinquency, aging, and default rates for loan portfolios. This information is typically reported as supplemental financial and management information. It can be reported in the form of schedules, charts, tables, and/or narrative text.
- 73 The fourth objective, systems and controls, is fulfilled, in part, by the act of preparing the financial statements. Other ways the fourth objective could be fulfilled through the audited financial reporting process is by a management assertion that would accompany the financial statements and/or an auditor's attestation on the financial statements. The management assertion would be an acknowledgment of its responsibility for the accuracy of the information in the financial statements, the completeness and fairness of the presentation of the information, the accuracy of the information in all material respects, and the reporting of the information in a manner designed to fairly present financial position and results of operations. The assertion could also include a statement regarding the adequacy of the entity's systems and controls, accompanied by the auditor's concurrence with the assertion.

Financial Reporting for an Organizational Entity

- 74 Meeting the four objectives of Federal financial reporting in the most efficient manner suggests that reporting entities issue a

financial report that would include the following:

- management discussion and analysis;
- balance sheet;
- statement of net costs;
- statement of changes in net position;
- statement of custodial activities, when appropriate;
- statement of budgetary resources;
- statement of program performance measures;[NOTE 13]
- accompanying footnotes;
- required supplemental information pertaining to physical, human, and research and development capital and selected claims on future resources, when appropriate; and
- other supplemental financial and management information, when appropriate.

[NOTE 13: The statement of program performance measures is not a basic financial statement. Nevertheless, it is an important component of the financial reports.]

- 75 With some organizations, and even suborganizations, the activities of one or more programs or other components are as important to the readers of the financial statements as are the activities of the entity as a whole. This would be particularly true for a Department composed of many bureaus, administrations, agencies, services, etc., and particularly if their programs are dissimilar. In those instances, consideration should be given to the preferability of reporting the assets, liabilities, revenues, expenses, etc. of both the significant components individually and of the entity in its entirety. Hence, larger organizations, and particularly those composed of many bureaus, administrations, agencies, etc., would prepare not only consolidated financial statements for the organizational entity, but also provide information pertaining to their individual significant components.[NOTE 14] The information for the individual components could be provided with separate columns in consolidating financial statements[NOTE 15] (with the

information for the less significant components, and possibly the entity's management component, aggregated into a single separate column), in separate financial statements for each significant component, or in the accompanying footnotes. The significant components can be suborganizations or programs. If they are suborganizations, information regarding programs should be provided in some manner. [NOTE 14: Such components are similar to responsibility segments as referred to in FASAB Exposure Draft, "Managerial Cost Accounting for the Federal Government" (see pages 26-30). Responsibility segments are used to accumulate costs and outputs for major lines of activity.] [NOTE 15: A consolidated financial statement presents the transactions and balances for a reporting entity's components in a single column. In arriving at the consolidated amounts, the transactions and balances among the entities are eliminated. A consolidating financial statement presents the information for the reporting entity's components as well as the consolidated amounts in individual columns. The elimination of the inter-entity transactions and balances needed to arrive at the consolidated amounts might or might not be presented in a separate column.]

- 76 Furthermore, there are frequently instances when one or more of the suborganizations conduct a very visible or critical activity and there is a high level of public interest, e.g., Internal Revenue Service tax collection activity; maintains complex accounts with large fund flows, e.g., Defense Business Operations Fund; has major responsibilities for the appropriate use of earmarked taxes, e.g., Health Care Financing Administration; or its financial viability is of special concern to the Executive Branch or the Congress, e.g., deposit insurance funds. In those situations, it may be desirable for the sub-organization to prepare and issue a separate financial statement that is consistent with the concepts presented in this concepts statement.[NOTE 16] In doing so, it would need to identify the parent entity and describe the sub-organization's relationship to the parent.[NOTE 16: Sub-organizations required by statute to prepare and issue a separate financial statement would, by definition, also need to do so.]
- 77 The components of any reporting entity are likely to conduct transactions with other components in the reporting entity, other Federal entities, and persons and organizations outside the Federal Government. Likewise, they are likely to have assets due from and liabilities due to other Federal components and entities and to non-Federal persons and organizations. In reporting the transactions and balances of a Federal reporting entity in its

entirety, it is conceptually desirable, although not always practicable, to eliminate the intra-entity transactions and balances. Factors to consider are the utility of the information for the entity in its entirety if the intra-entity balances are not eliminated, the misunderstanding that might result if the balances are not eliminated, and the cost-benefit of making the eliminations.[NOTE 17] [NOTE 17: A reporting entity that eliminates none of the intra-entity transactions or balances and still desires to present the information for its individual components in separate columns could do so by preparing and issuing a combining financial statement. If the individual columns are added to a total column without elimination of the intra-entity transactions or balances, the total column would have to be labeled "Memorandum Only" to signify that it is not net of eliminations. Recognizing that the U. S. Standard General Ledger does not presently provide accounts for identifying intra-entity transactions, the decision as to when the information for a reporting entity other than the Federal Government as a whole should be presented in a consolidating financial statement rather than a combining financial statement would be specified by OMB in a Form and Content Bulletin.]

- 78 Some of a reporting entity's components are likely to be required by law or policy to prepare and issue financial statements in accordance with accounting standards other than those recommended by FASAB and issued by OMB and GAO, e.g., accounting standards issued by the Financial Accounting Standards Board or accounting standards established by a regulatory agency. Those components should continue to issue the required reports. The reporting entities of which the components are a part can issue consolidated, consolidating, or combining statements that include the components' financial information prepared in accordance with the other accounting standards. They need to be sensitive, however, to differences resulting from applying different accounting standards that could be material to the users of the reporting entity's financial statements. If these differences are material, the standards recommended by FASAB and issued by OMB and GAO should be applied. The components would need to provide any additional disclosures recommended by FASAB and included in the OMB-issued standards that would not be required by the other standards.

79 Readers of the financial statements for the entire government are likely to be concerned primarily with whether the government has been a proper steward. This can best be achieved with the preparation and issuance of the following:

management discussion and analysis;

balance sheet;

statement of operations or net costs;

statement of program performance measures;

accompanying footnotes;

required supplemental information pertaining to physical, human, and research and development capital and selected claims on future resources; and

other supplemental financial and management information, when appropriate

80 The readers should be made aware of whether the financial statements for the entire government exclude any significant entities that are included in the budget or include significant entities that are not included in the budget.

81 Readers of the financial statements for the entire government are also likely to be concerned with the results of the budget process. This interest can be fulfilled by providing a comparison of budgeted and actual use of resources, presented on the same basis as the budget is accounted for; and a reconciliation of accrual-based operating results to the budget-based operating results. The budget would be the amounts included in the President's Budget or the Mid-session Review of the budget, whichever is appropriate.

82 The financial statements for the entire government could also be used to provide information on Presidential initiatives or crosscutting programs that is not available in financial statements for individual organizations or programs.

83 Because the government is a complete and integral economic entity, in contrast to the departments and major agencies whose components frequently have nothing in common other than belonging to the same department, it would be appropriate that

the financial statement for the entire government be a consolidated financial statement. However, it might also be appropriate to display selected information for the components, funds, etc., either within the consolidated financial statement, in accompanying footnotes, and/or as supplemental information.

RECOMMENDED CONTENTS FOR THE RECOMMENDED DISPLAYS

Balance Sheet

- 84 The elements most likely to be presented in the balance sheet of a Federal suborganization/organization, program, or the entire government would be as follows:

Fund Balance with Treasury. This represents the amount in the entity's accounts with the Treasury that is available only for the purposes for which the funds were appropriated. It would also include balances held by the entity in the capacity of a banker or agent for others. (This classification would not be included in the financial statements of the U. S. Government.)

Cash and other monetary assets. Cash consists of coins, paper currency and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit, amounts on demand deposit with banks or other financial institutions, cash held in imprest funds, and foreign currencies.

Investments. While Federal agencies have the authority to invest, they are typically limited to investing in securities issued by the Department of the Treasury or other Federal entities. There could be instances, however, when an agency owns property or securities issued by state or local governments, private corporations, or government sponsored enterprises, primarily for the purpose of obtaining a monetary return.

Receivables. These are the amounts that the entity claims for payment from others. Receivables can result from such activities as the sales of goods or services, the non-payment of taxes, the making of loans or loans assumed from defaults on previously made loan guarantees, the earning of interest,

the advance or prepayment of monies, etc.

Inventories and related properties. Inventories consist of tangible personal property held for sale, in the process of production for sale, or to be consumed in the production of goods for sale or in the provision of services for a fee.

Related properties that could be owned by a Federal program, suborganization or organization, or the entire government include operating materials and supplies, stockpile materials, seized property, forfeited property, and goods held under price support and stabilization programs.

Property, plant, and equipment. Property, plant, and equipment (PP&E) have been defined in the Federal Government as tangible items owned by the Federal Government and having an expected useful life of greater than two years. Some PP&E are held by the Federal Government but not used to provide a service. They are in themselves a service. Examples are heritage assets such as monuments and museum collections; the service is the sense of tradition, understanding, and pride visitors receive visiting these sites. Information pertaining to these assets would not necessarily be displayed in the balance sheet, but rather as required supplemental information.[NOTE 18] [NOTE 18: The Board issued an Exposure Draft, Accounting for Property, Plant, and Equipment (PP&E ED), on February 28, 1995 addressing those items of PP&E that would be reported on the balance sheet. The PP&E ED also proposes definitions for categories of PP&E that would not be reported on the balance sheet. In a separate ED, the Board will address other means of reporting on the non-balance sheet categories--possibly including separate basic financial statements and required supplemental information.]

Liabilities. These are the amounts the reporting entity owes to others for goods or services received, progress in contract performance, defaulted guarantees, funds held as deposits etc. Because no liability can be paid without an enacted appropriation, some liabilities are funded while others are unfunded. Also, because the Federal Government is a sovereign entity, it can abrogate at any time many of its liabilities arising from other than contracts. This does not, however, eliminate the existence of, and therefore the need to report, liabilities incurred by the reporting entity.

Net position. Net position is the residual difference between assets and liabilities. It is generally composed of unexpended appropriations and the cumulative results of operations. Included in the former would be appropriations not yet obligated or expended, including undelivered orders. Included in the latter would be the amounts accumulated over the years by the entity from its financing sources less its expenses and losses, which would include donated capital and transfers in the net investment of the Government in the reporting entity's assets; and an amount representing the entity's liabilities for such things as accrued leave, credit reform subsidies, and actuarial liabilities not covered by available budgetary resources.

- 85 Assets the reporting entity holds and has the authority to use in its operations should be displayed separately from assets the entity holds but does not have the authority to use. Likewise, liabilities for which budgetary authority has been received for liquidating the liabilities should be displayed separately from liabilities for which budget authority has not been received (even if the authority is expected). Assets and liabilities arising from transactions among Federal entities should be displayed separately from assets and liabilities arising from transactions with non-Federal entities.

Statement of Net Costs

- 86 The main purpose of a statement of net costs is to provide an understanding of the net costs of each organization and each program that the government supports with taxes and other unearned monies. Another important purpose for the statement is to provide gross and net cost information that can be related to the amounts of outputs and outcomes for the programs and/or organization. Thus the statement of net costs should present the amounts paid, the consumption of other assets, and the incurrence of liabilities as a result of rendering services, delivering or producing goods, or carrying out other operating activities.
- 87 The costs can be classified in a reporting entity's statement of net costs by sub-organization (assuming the reporting entity is an organization), by program, or by object class, or any combination thereof. Object class, also referred to as a "natural" classification, represents the nature or types of goods or services acquired without regard to the organization involved or the program for

which they were used. Reporting of the sub-organization incurring the costs and/or the purposes for which the costs were incurred generally provides more useful information than reporting on the types of goods or services acquired.

- 88 The statement of net costs should also present the revenues earned by each program and organization. The manner in which the earned revenues would be presented would depend on the purpose of the program and the reasons why the revenues are present.
- 89 Some programs are established with generation of revenue as a primary consideration or purpose. One example would be when the goods or services provided by the organization are also available from the private sector and not charging a fee for the goods or services would be unfair competition. Another example would be when it is deemed appropriate that the persons or organizations receiving the goods or service pay for the goods or services, usually to be able to ascertain the true cost of the activity using the goods or services, e.g., the Defense Business Operations Fund, Postal Service. Still another example is when revenues are imposed to limit the unnecessary consumption of the goods or services. In each of these instances, the revenues earned by the program(s) should be considered a deduction from the total costs of the program(s).
- 90 With other programs, the revenues are generated from administering an inherently governmental service, which means the revenues are not a primary consideration for the program. Rather, the revenues are a means to recover all or most of the costs of administering the program, e.g., the Securities and Exchange Commission. In those instances, the revenues should be considered a deduction from the total costs of the organization, not the program.
- 91 In still other instances, an organization's revenues can be generated by providing a specific program, but the revenues are not a primary consideration in the conduct of the program; they are incidental to the purpose of the program, e.g., the sale of maps by the Geological Survey. In those instances, it would be appropriate to consider the earned revenues as a deduction from the incremental costs that need to be incurred in order to provide the goods or services that generate the incidental revenues, to the extent that the incremental costs are measurable and relevant to decision making. Otherwise the revenues should be considered a deduction from the program's or organization's total

costs.

- 92 Earned revenues that are insignificant in amount can be netted into the costs of the programs with the amounts disclosed in accompanying footnotes, if appropriate.
- 93 An organization or sub-organization could receive different types of revenues for different purposes and/or reasons. Each of the revenues and associated costs would be displayed in accordance with the concepts presented in paragraphs 89 through 92.
- 94 The costs associated with and displayed for each program should reflect costs that can be directly traced to the program, assigned to the program based on cause and effect, or allocated to the program on a reasonable and consistent basis, consistent with the premise that any costs reported for a program should be controllable by the program to at least some degree. Those costs that are not directly traceable, assignable, or allocable could be considered program or management support costs that are incurred by the reporting organization or another organization to administer the reporting organization's or program's activities. For example, in a reporting entity that provides social services, the program costs would be the cash payments and the salary and other costs, e.g., rent, supplies, directly associated with persons providing counseling to the recipients of the cash payments. The organizational support costs would be the costs of the organizational structure required to administer the organization, i.e., not directly attributable to the programs provided by the organization.
- 95 Organizational and program management costs are necessary costs of operating an organization and programs. Not displaying these costs because of a belief that an allocation for these activities would be eliminated or reduced in order to obtain a reduction of the cost of the entire organization or program is illogical. The alternative concept, which is burying the management costs with the program costs, increases the likelihood that the management activity will be subject to reductions imposed on the program delivery activities. Separately identifying the management costs enables the use of resources for these activities to be justified on their own merit. The costs for managing the organization and/or program can therefore be displayed on the face of the financial statements or in accompanying footnotes, particularly when it would assist in evaluating operating performance and is cost-effective. Disclosure of what the support costs entail would be appropriate.

- 96 The total costs displayed in a reporting entity's financial statements should be the same as the total costs recorded by an organization in its cost accounting system. If, for financial reporting purposes, the organization does not allocate organizational management costs among the programs, the total costs displayed for any one program in the entity's financial statements could be different than the costs recorded for that program in the cost accounting system.
- 97 Other earned revenues would include revenues not attributable to a specific program.
- 98 Costs and revenues arising from transactions with other Federal entities should be displayed separately from transactions with non-Federal entities.
- 99 The decision as to how to display total program costs, earned revenues, net program costs, and organizational and program management costs should be based, in part, on a consideration of what the Congress, management, and others might want to know about the costs of providing an organization's programs.

Statement of Changes in Net Position

- 100 The appropriate elements for a statement of changes in net position would be as follows:

Net costs display the amount that had to be financed by other than earned revenues.

Appropriations used represent the amount of budget authority, including transferred budget authority, used by the organization to finance its operations.

Non-exchange revenues include dedicated taxes, fines, and other revenues the Government is able to obtain due to its sovereign powers.

Donations are monies and materials given by private persons and organizations to the Government without receiving anything in exchange.

Transfers in are amounts of cash or other capitalized assets received by one Government entity from another Government

entity without reimbursement.

Transfers out are amounts of cash or other capitalized assets provided by one Government entity to another without reimbursement.

Imputed financing sources are of two types: amounts equal to the costs that have been incurred by the reporting entity but financed by another entity, e.g., retirement costs; and amounts representing costs that are attributable to the reporting entity's activities but that do not require a direct out-of-pocket payment, e.g., the interest costs associated with carrying inventory or investing in physical assets.[NOTE 19] [NOTE 19: The Board plans to undertake a project on the interest cost associated with investing in operating assets. At this time, no decision has been made on the recognition by individual entities of these types of costs.]

Prior period adjustments are corrections of prior period results of operations.

Increase (decrease) in unexpended appropriations is the change in appropriated capital, including transferred budgetary resources, that does not affect the net cost of operations but does affect net position.

Net position-beginning of the period is the total unexpended appropriations and cumulative results of operations held by the entity at the beginning of the reporting period.

Net position-end of the period results from adding and netting the various amounts associated with the operations of the entity during the reporting period, including the net position-beginning of the period and any prior period adjustments. The amount will thus equal the total unexpended appropriations and cumulative results of operations held by the entity at the end of the period.

Statement of Custodial Activities

101 A separate statement of custodial activities would be appropriate for those entities whose primary mission is collecting taxes or other revenues, particularly sovereign revenues that are intended to finance the entire Government's operations, or at least the

programs of other entities, rather than their own activities. The revenues should be characterized by those agencies as custodial revenues. The statement should display the sources and amounts of the collections of custodial revenues, any increases or decreases in amounts collectable but not collected, the disposition of the collections through transfers to other entities, the amounts retained by the collecting entity, and any increase or decrease in the amounts to be transferred.

- 102 Custodial collections do not include deposit funds, i.e., amounts held temporarily by the government (e.g., bidders' earnest money or guarantees for performance) or amounts held by the Government as an agent for others, (e.g., state income taxes withheld from Federal employees' salaries that are to be transferred to the states). Both of these types of collections can be considered assets and liabilities until they are returned to the depositor or forwarded to the organization entitled to the funds.
- 103 Organizations that collect custodial revenues that are incidental to their primary mission do not need to report the collections and disposition of these revenues in a separate statement. The disclosure of the sources and amounts of the collections and the amounts distributed to others could be disclosed in accompanying footnotes.

Statement of Budgetary Resources

- 104 The appropriate elements for a statement of budgetary resources prepared for a reporting entity would be as follows:

Budgetary resources made available is the amount available to enter into obligations that will result in immediate or future outlays involving Federal Government funds. The resources should be relevant to the reporting period. The components of budgetary resources would include budget authority (i.e., appropriations, borrowing authority, and contract authority) and unobligated balances of multi-year and no-year money remaining from prior reporting periods. Budgetary resources would also include reimbursements and other income (i.e., spending authority from offsetting collections credited to an appropriation or fund account) and adjustments (e.g., recoveries of prior year obligations).

Status of Budgetary Resources displays the disposition of the budgetary resources made available. It consists of the

obligations incurred; the unobligated balances of multi-year and no-year budget authority that are available; and the unobligated balances of one-year and multi-year lapsed budget authority that are not available, but have been carried forward to be used only to record, adjust, or liquidate obligations chargeable to the appropriation. The total amount displayed for status should be equal to the total amount displayed as being made available.

Outlays are payments to liquidate obligations, net of offsetting collections. Obligations are usually liquidated by means of cash payments (currency, checks, or electronic funds transfers), but in certain cases obligations are liquidated and outlays recorded even though no cash is disbursed. It would be appropriate, in displaying outlay information, to tie it to the obligations incurred by also displaying the transfers of obligations and the obligated balances at the beginning and end of the period.

- 105 Budgetary resources, obligations, outlays, and receipts are reported in the Treasury's Annual Report and Monthly Treasury Statement and in the President's Budget, although not all these publications report all these measures. These documents are usually issued prior to the issuance of financial statements prepared in accordance with generally accepted accounting principles applicable to the Federal Government. In preparing these statements, significant differences should be noted between amounts reported in the former documents and amounts reported in the subsequently prepared financial statements. Such differences should be adjusted in the records of the reporting entity and in the related records maintained by the central agencies, and the correct amounts reported in the financial statements. It would also be desirable to provide a reconciliation for significant differences appearing in the two types of statements.

Statement of Program Performance Measures

- 106 The statement of program performance measures should include measures for each of the major programs the reporting entity operates. The preferred types of measures are (1) output measures, i.e., the quantity of a service or product provided or the percentage of the target group provided the service or product, and that ideally meets a certain quality requirement; and (2) outcome measures, i.e., the accomplishments or results

that occurred because of the services or outcomes provided. Outcome measures could address either the ultimate program outcome or intermediate outcomes, e.g., accuracy of, timeliness of, or satisfaction with the services provided. Workload, process, and input measures should be in the minority. Explanatory information that helps the readers understand the reported measures, assess the entity's performance, and evaluate the significance of underlying factors that may have affected the reported performance is appropriate. Comparative measures from prior years or similar programs and industry standards are also appropriate. They help to provide a better understanding of the level of the reporting entity's performance.[NOTE 20] [NOTE 20: The acceptance of a statement of program performance will increase in relation to the users' perception of the relevance and reliability of the reported information. These perceptions can be enhanced to the extent there are independent assessments of the appropriateness of the measures, the completeness of the data, the actual occurrence of the reported events, and the values assigned to the data. Auditors of Federal agency financial statements are currently required (by an OMB Bulletin) to evaluate the underlying control structure for program performance measures included with the financial statements. The extent to which auditors will be expected to expand the scope of their involvement with program performance measures to include the aforementioned independent assessments would be specified by OMB consistent with government audit standards.]

- 107 The measures selected for reporting should relate to the programs' purposes and goals. It would be particularly useful to include measures previously included in budget documents and other materials released to the public. It would also be useful to base the selection of measures on discussions with budget examiners, Congressional staffs, and other users of the entity's financial statements.
- 108 The statement of program performance measures should not be cluttered with trivial measures. Measures selected should be considered important by decisionmakers and particularly the resource providers that are likely to use the financial statements. Also, relevant measures should be reported, without regard to whether they portray positive or negative performance. The most significant measures should be extracted for highlighting in the management discussion and analysis.
- 109 Other characteristics to consider for reporting program performance measures are as follows :

Completeness. The measures, in the aggregate, should cover all aspects of the reporting entity's mission.

Legitimacy. The measures should be accepted as relevant both inside the reporting entity and by the external stakeholders and others, e.g., the central management agencies, Congress, interest groups, the public.

Understandability. The measures should communicate the performance of the entity in a readily understandable manner to any reasonably informed and interested party.

Comparability. The measures should provide a frame of reference for assessing, and comparing, if appropriate, the performance of the entity and entities with similar programs for both the immediate period and over time.

Ability to relate to cost. The measures should be such that a cost can be defined for each unit of output, outcome, input, etc.

Timeliness. The measures should be available to users of the financial statements before they lose their capacity to be of value in assessing accountability and making decisions. The value of timeliness should not preclude the use of important measures for which results are not immediately available.

Consistency. The measures should be reported consistently from period to period to allow users to have a basis for comparison and to gain an understanding of the measures being used and their meaning (recognizing that the measures should be reviewed regularly and modifications made to reflect changing circumstances).

Reliability. The information should be derived from systems that produce controlled and verifiable data, although at times it may be necessary to rely on secondary sources of data.[NOTE 21] [NOTE 21: The Public Management Committee of the Organization for Economic Cooperation and Development, which is comprised of the twenty four democratic nations with advanced market economies, has been studying performance management systems. It has concluded, based on the experiences of countries that have implemented such systems, that performance measures should reflect three important characteristics: validity, continuity, and legitimacy. These characteristics, while

intended to guide management systems in their totality, rather than simply inclusion in financial statements, have nonetheless been incorporated into the above characteristics.]

110 Since many Federal Government programs have counterpart programs at the state and local government level, for those programs, it would also be appropriate to consider the measures states and local governments use to report performance.

111 Numerical measures are not the only way to report program performance. In some instances, it may be more meaningful and practicable to report performance with other than numerical measures.

112 Example formats for displaying the recommended elements are provided in appendix 1. These formats are illustrative and provided solely to help readers of this document better understand the recommended concepts for displaying financial and related information. In exposing proposed standards, the Board might portray other formats. The ultimate specification of the form and content for financial statements for Federal agencies is defined by OMB. [THE FOLLOWING FORMATS HAVE BEEN REVISED FOR PRESENTATION VIA ELECTRONIC MEDIA SOME DIFFERENCES EXIST BETWEEN THE OFFICIAL PRINTED DOCUMENT AND THESE FORMATS.]

EXAMPLE FINANCIAL STATEMENT FORMATS

BALANCE SHEET
as of September 30, 19X4

ASSETS

Suborganization A Suborganization B Suborganization C

Total
FY 19X4

Total
FY 19X3

Entity assets:

Fund balance with Treasury

Cash (and other monetary assets)

Investments:

Intragovernmental

With the public

Receivables:

Intragovernmental

With the public

Inventories and related properties

Physical assets

Total entity assets

Non-entity assets:

Fund balance with Treasury

Cash

Receivables:

Intragovernmental

With the public

Total non-entity assets

Total assets

LIABILITIES AND NET POSITION

Suborganization A Suborganization B Suborganization C

Total FY 19X4

Total FY 19X3

LIABILITIES:

Liabilities covered by budgetary resources:

Intragovernmental liabilities:

Payables

Governmental liabilities:

Payables

Total liabilities covered by budgetary resources

Liabilities not covered by budgetary resources:

Intragovernmental liabilities:

Payables

Governmental liabilities:

Payables

Amounts held for others

Total liabilities not covered
by budgetary resources

Total liabilities

NET POSITION

Unexpended appropriations

Cumulative results of operations

Total net position

Total liabilities and net position

Note: The above balance sheet format is for an organization composed of three significant suborganizations. An organization deciding to forego presenting the information pertaining to the suborganizations would provide only the information contained in the last two columns.

EXAMPLE FINANCIAL STATEMENT FORMATS

STATEMENT OF NET COSTS
For the year ended September 30, 19X4

Sub-organization A Sub-organization B Sub-organization C

Total FY 19X4

Total FY 19X3

COSTS:

Program A:

 Intragovernmental

 With the public

 Total

 Less earned revenues

 Net program costs

Program B:

 With the public

 Less earned revenues

 Net program costs

Program C:

 Intragovernmental

 With the public

 Net program costs

Program D:

 Costs with the public

Cost not allocated to programs

Less other earned revenues

NET COST OF OPERATIONS

EXAMPLE FINANCIAL STATEMENT FORMATS

STATEMENT OF CHANGES IN NET POSITION
For the year ended September 30, 19X4

Suborganization A Suborganization B Suborganization C

NET COST OF OPERATIONS

FINANCING SOURCES:

Appropriations used

Taxes (non-exchange revenue)

Donations (non-exchange revenue)

Imputed financing

Transfers-in

Transfers-out

NET RESULTS OF OPERATIONS

PRIOR PERIOD ADJUSTMENTS

NET CHANGE IN CUMULATIVE
RESULTS OF OPERATIONS

INCREASE (DECREASE) IN
UNEXPENDED APPROPRIATIONS

CHANGE IN NET POSITION

NET POSITION-BEGINNING OF PERIOD
NET POSITION-END OF PERIOD

Note: The above statement of changes in net position format is for an organization comprised of three significant suborganizations. An organization deciding to forego presenting the information pertaining to the suborganizations would provide only the information contained in the last two columns.

EXAMPLE FINANCIAL STATEMENT FORMATS

STATEMENT OF CUSTODIAL ACTIVITIES
For the year ended September 30, 19X4

FY 19X4 FY 19X3

Collections:

Income taxes
Estate and gift taxes
Excise taxes
Employment taxes
Penalties and interest
Total collections
Refunds and other payments
Net collections
Accrual adjustment
Total revenues collected

Disposition of revenues collected:

Transferred to others:
Department of the Treasury
Department of Labor
Environmental Protection Agency
Total transfers
Retained by the entity
Increase (decrease) in amounts
to be transferred
Total disposition of revenues collected

Net custodial collections \$000 \$000

STATEMENT FORMATS

EXAMPLE FINANCIAL

STATEMENT OF BUDGETARY RESOURCES
For the year ended September 30, 19X4

Sub-organization A Sub-organization B Sub-organization C

Total FY 19X4
Total FY 19X3

Budgetary resources made available:

Budget authority

Unobligated balances-beginning of period
Reimbursements and other income
Adjustments

Total, budgetary resources made available

Status of budgetary resources:

Obligations incurred (gross)

Unobligated balances-end of period
Unobligated balances-not available

Total, status of budgetary resources

Outlays:

Obligations incurred, net
Obligated balance transferred
Obligated balance-beginning of period
Less: obligated balance-end of period
Total, outlays

EXAMPLE FINANCIAL STATEMENTS FORMATS

STATEMENT OF PROGRAM PERFORMANCE MEASURES[NOTE 22]
For the year ended September 30, 19X4

FY 19X4 FY 19X3 FY 19X2

Sub-organization A

Program

Performance Measure

xxx

xxx

xxx

Performance Measure

xxx

xxx

xxx

Program

Performance Measure

xx%

xx%

xx%

Performance Measure

xxx

xxx

xxx

Program

Performance Measure

xxx

xxx

xxx

Performance Measure

xx%

xx%

xx%

Sub-organization B

Program

Performance Measure

xxx

xxx

xxx

Performance Measure

xx%

xx%

xx%

Performance Measure

xxx

xxx

xxx

Program

Performance Measure

xx%

xx%

xx%

Performance Measure

xxx

xxx

xxx

Program

Performance Measure

xxx

xxx

xxx

Performance Measure

xx%

xx%

xx%

Sub-organization C

Program

Performance Measure

xxx

xxx

xxx

Performance Measure

xx%

xx%

xx%

NOTE: Sub-organizations A, B, and C are equivalent to responsibility segments for which cost and financial data are collected. (See FASAB Exposure Draft "Managerial Cost Accounting for Federal Government", pages 26-30.)

[NOTE 22: Although this example contains only numerical measures, the performance for some programs might be reported with other than numerical measures.]LIST OF ACRONYMS

FASAB Federal Accounting Standards Advisory Board

OMB Office of Management and Budget

SGL Standard General Ledger

SFFAC Statement of Federal Financial Accounting Concepts.