This is the original Implementation Guide to SFFAS 7 and was replaced by the Revised Implementation Guide at http://www.fasab.gov/pdffiles/impguid7200204.pdf. Neither guide has been updated for subsequent changes to SFFAS 7; please check for the most recent SFFAS 7 file in the FASAB Handbook at www.fasab.gov/pdffiles/handbook_sffas_7.pdf.

IMPLEMENTATION GUIDE

ACCOUNTING FOR REVENUE AND OTHER FINANCING SOURCES

June 1996

This guide presents illustrations and explanations intended to help practice and understanding; it does not constitute authoritative standards for preparers and auditors of financial statements. Authoritative guidance on display (format) of financial reports prepared pursuant to the Chief Financial Officers Act of 1990 (as amended) is provided by the Office of Management and Budget (OMB) in its periodic bulletins on the form and content of agency financial statements. Further guidance on applying Statements of Federal Financial Accounting Standards (SFFAS) and interpretations of those standards may be requested from OMB, Office of Management and Budget, pursuant to OMB Circular 134, *Financial Accounting Principles and Standards* (May 20, 1993). Also, guidance on specific questions that arise in practice concerning the proper account(s) to use to record a given transaction may be sought from the Standard General Ledger Board.

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IMPLEMENTATION GUIDE FOR

ACCOUNTING FOR REVENUE

AND

OTHER FINANCING SOURCES

IMPLEMENTATION GUIDE TO ACCOUNTING FOR REVENUE AND OTHER FINANCING SOURCES

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CHAPTER 1: REPORTING ON REVENUE AND OTHER FINANCING SOURCES

INTRODUCTION

1. Statement of Federal Financial Accounting Standards Number 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting (SFFAS No. 7), provides authoritative standards for classifying, recognizing, and measuring inflows of resources to the U.S. Government and its component reporting entities. These standards help provide better information about the cost of the Government's activities, make Federal financial reporting more supportive of the budget and performance measurement, and demonstrate accountability. The standards reflect the concepts adopted in Statement of Federal Financial Accounting Concepts No. 1, Objectives of Federal Financial Reporting (SFFAC No. 1), and Statement of Federal Financial Accounting Concepts No. 2, Entity and Display (SFFAC No. 2).

2. This document is an implementation guide for SFFAS No. 7. It is not authoritative material. The guide presents illustrations, explanations, and a case study intended to help practice and understanding. Authoritative guidance on form and content (i.e., display) of financial reports prepared pursuant to the Chief Financial Officers Act of 1990 (as amended) is provided by OMB in its periodic bulletins on the form and content of agency financial statements. Further guidance on applying SFFAS No. 7 and interpretations of it and other Federal accounting standards may be requested from the Office of Federal Financial Management, Office of Management and Budget, pursuant to OMB Circular A-134, *Financial Accounting Principles and Standards* (May 20, 1993, or as subsequently amended).[1] Also, guidance on specific questions that arise in practice concerning the proper account(s) to use to record a given transaction may be sought from the Standard General Ledger Board.

[1] A-134 is reproduced in the Appendix to this Implementation Guide.

3. FASAB prepared this implementation guide pursuant to Paragraph III.I, "Pronouncements," of FASAB's approved rules of procedure. Subparagraph 3 of paragraph III.I reads: "The FASAB may, in its discretion and with or without appointment of task forces, research, notice, public hearings, or public exposure, issue in its name or at its direction other communications of an informational nature related to Federal accounting and financial reporting, including the FASAB's mission, policies, and activities. Such communications may include, among others, discussion memorandums, summary and related documents, research reports, responses to requests and inquiries, and statements of policy dealing with matters of Federal accounting and financial reporting." Most of this Guide is a revision or expansion of parts of the material included in the exposure draft, Accounting for Revenue and Other Financing Sources (July 1995). It has been revised in light of the comments on that exposure draft.

4. This implementation guide is organized largely in terms of the new basic financial statements for component Federal reporting entities. The following new financial statements illustrate the application of the standards in SFFAS No. 7:

- Statement of Net Cost,
- Statement of Custodial Activity,
- Statement of Changes in Net Position,
- Statement of Budgetary Resources, and
- Statement of Financing.

5. Some accounting and disclosure issues peculiar to the consolidated financial statements of the U.S. Government (required by the Government Management Reform Act) have not yet been addressed by the Board. Those consolidated statements may differ from the statements of the component units described in this guide.

OVERVIEW OF NEW FINANCIAL STATEMENTS

6. The standards in SFFAS No. 7 contemplate that for each component reporting entity, all costs will be shown in a Statement of Net Cost, along with applicable exchange (i.e., earned) revenues. Another statement, the Statement of Changes in Net Position, will report nonexchange revenues and appropriations. Separating costs and exchange revenues from nonexchange revenues and other financing sources is necessary to calculate the net cost incurred by a reporting entity in providing its outputs and its contributions to outcomes.

Statement of Net Cost

7. Under the new accounting standards, exchange revenues will be deducted from gross costs on a Statement of Net Cost to show the net cost of the entity's operating activities. Gross cost consists of all the costs recognized by an entity for a given period under Federal accounting standards. Net cost is the amount for which the entity is responsible and may, with appropriate details or "breakdowns" by suborganizations and programs, be compared with the entity's outputs to evaluate its performance. Gross cost also is relevant to performance measurement and, for some purposes, is more useful than net cost. Net cost is also the amount that, with some exceptions, must ultimately be paid by the taxpayer. The only major exception is for intragovernmental sales of goods and services. The extent to which taxpayers bear the costs of these goods and services depends on whether the goods and services are sold to entities that in turn sell goods and services to the public, or to entities that are financed by taxes. The net cost of operations may also be financed by other nonexchange revenue such as fines and donations.

8. Details or breakdowns within the Statement will also show exchange revenues deducted from the related costs of the transactions that generated these revenues. This will show the extent to which the costs of goods and services sold to the public are recovered by exchange revenues. Exchange revenues will be included in the Statement of Net Cost regardless of whether the entity retains the amounts or transfers them to others.

Statement of Net Cost
Focuses on: Operating costs (gross costs) and related exchange revenues of the reporting entity
Presents information about: All costs less earned revenues in total and by suborganizations and programs
Emphasizes: Net cost of operations for comparison with performance measures

Statement of Custodial Activity

9. For reporting entities such as the Internal Revenue Service (IRS) that collect taxes for other entities, such custodial collections and the adjustments to measure revenue will be reported in statements that are separate from those used to report on the collecting entity's own operations. A Statement of Custodial Activity will reflect the collections by type, the adjustments to calculate the revenue, and the disposition of the amounts to the entities entitled to receive them. The collecting entities will not recognize inflows from these custodial activities as their own revenue.[2]

Statement of Custodial Activity
Focuses on: Revenue collections on behalf of other entities
Presents information about: Source and disposition of collections and related accruals
Emphasizes: Accountability for collections

[2]The IRS and the Customs Service now prepare a Statement of Custodial Activity.

Statement of Changes in Net Position

10. The Statement of Changes in Net Position provides a summary of all the entity's transactions that affect its net position. The net result of the entity's operations will be calculated by deducting from the net cost of operations the financing for that net cost. The financing is provided by nonexchange revenues, appropriations used, and other financing sources. To arrive at the change in net position during the period, adjustments will be made for any prior period adjustments and changes in unused but available appropriations.

Statement of Changes in Net Position

Focuses on:
Financing sources for operations

Presents information about:
All flow transactions of the entity

Emphasizes:
The components of net results of operations and the change in net position

Statement of Budgetary Resources

11. The other financial statements do not provide information about the flow of budgetary resources on the budgetary basis of accounting. Information on that basis is used to control the obligation of budgetary resources and the outlays to liquidate those obligations. A Statement of Budgetary Resources will show this information and provide a reference point for the accrual-based financial statements. This Statement tracks the execution of the budget from the budgetary resources, to obligations of those budgetary resources, and finally to outlays (usually in cash) to satisfy obligations. Budgetary integrity will be enhanced because this Statement will be subject to audit.

Statement of Budgetary Resources

Focuses on:
Budgetary resources provided, the status of these resources, and outlays

Presents information about:
Budgetary data from budgetary resources, to obligation of funds, to outlays

Emphasizes:
Showing budget execution on a budget basis of accounting

Statement of Financing

12. Finally, a Statement of Financing will explain how the obligations incurred on a budget basis of accounting, together with nonbudgetary resources, finance the net cost of operations of the reporting entity. The Statement of Financing provides a reconciliation or "translation" from the budget to the financial statements. The Statement will help those who work with the budget to understand the financial statements and the cost information they provide.

Statement of Financing

Focuses on:
Reconciling budget obligations with net cost of operations

Presents information about:
Budgetary and nonbudgetary resources and the items which explain the differences between the budget basis and financial statement basis of accounting

Emphasizes:
Making financial information more comparable and useful

HOW FINANCIAL STATEMENTS HAVE BEEN CHANGED

13. Readers who know how Federal agencies have reported in the past may find it helpful to read this section, which illustrates how the new standards have changed reporting by Government component units.

Changes to the Statement of Operations

14. Past practice combined all costs, revenues, and other financing sources in a single Statement of Operations. Past practice did not recognize appropriations as a financing source when they were used to acquire assets, but it did accrue anticipated appropriations for incurred expenses. These practices often caused the bottom line in the old Statement of Operations to approximate zero.

15. The illustration on page 8 shows that applying the new standards will mean that the old Statement of Operations will be divided into separate statements. Costs and exchange revenues, on the one hand, will be shown in the new Statement of Net Cost, where they will determine the net cost of operations. Nonexchange revenue and other financing, on the other hand, will be shown in the new Statement of Changes in Net Position, where they will be deducted from the net cost of operations to determine the operating results. The operating results will be calculated in such a way that they will no longer often approximate zero as a matter of definition. This is because the appropriation will be recognized as used in the same period that budgetary accounting recognizes an expended appropriation. This will simplify accounting for appropriations. The Statement of Changes in Net Position will also show how the operating results and other adjustments determine the change in net position.

16. The figure on page 8 illustrates the changes described above, but does not show the interaction between the Statement of Custodial Activity and the Statement of Changes in Net Position (i.e., the flow of nonexchange revenues from the collecting entity's Statement of Custodial Activity to the recipient entity's Statement of Changes in Net Position).

STATEMENT OF OPERATIONS
(Old Format)

< Revenues

Appropriations used>

Less: Expenses>

Difference (often approximately 0)

STATEMENT OF NET COST
(New)

Cost of goods and services sold <

> Less: Exchange (earned) revenues

Net cost of exchange transactions

Other costs <

> Net cost of operations

STATEMENT OF CHANGES IN NET POSITION
(New)

> Net cost of operations

Appropriations used <

> Nonexchange revenues and other financing

Net result of operations

Prior period adjustments

Change in cumulative results of operations

Change in unexpended appropriations

Change in net position

Changes to the Balance Sheet

17. The old Balance Sheet will be simplified. The flow effects of current capital transactions will be shown in the Statement of Changes in Net Position as illustrated at the bottom of the preceding page, and certain capital balances will be consolidated in the Balance Sheet. Previously, donations and transfers-in of assets without reimbursement were reflected directly in the Balance Sheet as additions to capital (i.e., without being reflected in operations). Also, appropriations used to acquire capital assets were reflected in the Balance Sheet as invested capital. They were not reflected in operations until the assets were depreciated. As a result, the current period effects of these transactions and events were obscured: only accumulated balances (i.e., stocks rather than flows) at the end of the accounting period were shown.

18. New accounting standards will govern accounting for unreimbursed asset transfers between Government entities, for donations, and for appropriations used. These standards will require that flows from the related transactions and events be separately recognized in the Statement of Changes in Net Position. The results of these flows will be combined with the results of other operating flows in one capital account, "cumulative results of operations." This standard and SFFAS No. 1's requirement for separate disclosure of current liabilities that are not covered by budgetary resources eliminate the need for the capital account for future funding requirements. These standards, together with OMB's form and content requirement that the Balance Sheet separately report liabilities that are covered by budgetary resources and those that are not covered, eliminate the need separately to report future funding requirements as a negative item in net position in the Balance Sheet. The only other capital account on the current Balance Sheet, "unexpended appropriations," will remain unchanged. Entities with reason to do so may continue to report this information separately within cumulative results of operations or as a disclosure.

19. Eliminating separate balances showing the accumulated amounts of invested capital, donations, and transfers from other Government entities will omit some information from the Balance Sheet. That information, however, is not

ordinarily used and, in the case of future financing, is misleading. It is misleading because it only represents amounts that were expensed, not items that were capitalized (such as assets under capital lease). Hence, looking at the unfunded liabilities (rather than the negative capital account for future funding requirements) gives a truer picture of the future budgetary resources needed for assets and expenses recognized in the proprietary financial statements of the reporting period.

20. The figure on the next page shows how the Balance Sheet will be condensed and how flow information in the Statement of Changes in Net Position affects related Balance Sheet elements.

BALANCE SHEET
(Old Format)

Fund balance with Treasury
Other assets

Liabilities
Capital:
  Unexpended appropriations
< Transferred-in capital
< Donated capital
< Invested capital
< Future funding/financing requirements
  Cumulative results of operation
Net position

BALANCE SHEET
(New)

Fund balance with Treasury
Other assets

Liabilities
Capital
  Unexpended appropriations<
 >Cumulative results of operations <
Net position

STATEMENT OF CHANGES IN NET POSITION
(New)

Net cost of operations
Appropriations used
Nonexchange revenues (including donations)
Transfers (in and out)
Net result of operations
Prior period adjustments
Net change in cumulative results >
Change in unexpended appropriations >
Change in net position

New Statements of Budgetary Resources and Financing

21. These two new statements provide budgetary information on a budget basis and relate that information to the financial statements by reconciling budget obligations with the net cost of operations. The next illustration shows how these statements relate to each other and how certain elements relate to the Balance Sheet.

```
          STATEMENT OF BUDGETARY RESOURCES
                    (new)
  Budgetary resources
  Status of budgetary resources:
<   Obligations incurred
    Other
  Outlays


               STATEMENT OF FINANCING
                     (new)
 >Obligations incurred
  Less:  Spending authority from offsetting
    collections and adjustments
    Other financing sources (nonbudgetary)
    Total obligations, as adjusted, and
      nonbudgetary resources
  Reconciling items:
    Minus:  Resources that do not fund net
      cost of operations during the period>
   >Plus:  Costs that do not require current
      or future resources to be provided
    Plus:  Financing sources yet to be provided
  Net cost of operations


               CURRENT YEAR BALANCE SHEET <


             < PRIOR YEAR BALANCE SHEET
```

TERMINOLOGY AND THE EVOLVING FEDERAL REPORTING MODEL

22. "**Disclosure**" in this document indicates reporting information in notes or narrative regarded as an integral part of the basic financial statements. "**Supplementary**" indicates reporting information in schedules or narrative regarded as "Required Supplementary Information" (RSI) as that term is used by the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB) in accounting standards and by the General Accounting Office (GAO) and the American Institute of Certified Public Accountants (AICPA) in auditing standards. Government auditing standards (which incorporate the AICPA's standards by reference) require more limited auditing procedures for RSI than is required for basic information. "**Required Supplementary Stewardship Information**" (RSSI) is a new category unique to Federal Government accounting and auditing standards. It refers to certain information for which FASAB expects the GAO and OMB in collaboration to agree upon appropriate auditing procedures.[3] "**Other Accompanying Information**" (OAI) refers to unaudited information that accompanies the audited financial statements. These terms are intended to indicate the Board's expectations regarding the minimum auditor's responsibility for the information, not its placement in reports.

23. To provide a context for the new standard, the table on page 15 depicts the terms and categories used in accounting and auditing standards to define the auditor's normal degree of association and responsibility in connection with an examination of financial statements. The word "normal" acknowledges that the scope of any given engagement can be modified by the relevant authorities, e.g., by adding agreed-upon procedures to be performed on certain RSI or OAI.

24. Until such time as the GAO and OMB have defined the audit procedures for RSSI and Government Auditing Standards have been modified, the existing categories should be used. Operationally, similar field work results can be

[3] In its Statement of Recommended Accounting Standards, Supplementary Stewardship Reporting, FASAB recommends designating certain information as RSSI, with the expectation that OMB and GAO will in collaboration agree upon audit procedures appropriate to apply to this information.

achieved under the existing standards by defining information as RSI or OAI as appropriate, with any additional desired agreed upon audit procedures specified by OMB in its instructions regarding audit of these financial statements. As is illustrated in the table on page 15, different reporting standards would apply under the proposed standards.

25. The new standard calls for certain information to accompany the financial statements as other accompanying information. This includes information about the revenue gap, a perspective on the income tax burden, and estimates of revenue forgone as a result of not charging full cost or market price for transactions with the public. The standard also recognizes that reporting entities may wish to present other accompanying information about other subjects, including directed flows of resources and tax expenditures related to programs for which the entities are responsible. This will mean that the auditor will treat this information as other accompanying information that is provided by the statement preparer but not required by a standards setter. Except as otherwise directed by the authority engaging for audit, or as may be subsequently directed by future developments in auditing and/or accounting standards, the auditor is not responsible for auditing this information. The auditor merely notes any material inconsistency between this information and the audited financial statements.

CATEGORIES OF INFORMATION AND AUDITOR'S NORMAL ROLE IN CURRENT AND NEW STANDARDS

Basic Information	**Accompanying Information**	
Basic Financial Statements and Notes [highest level of audit work]	**Required Supplementary Information** (RSI) [limited audit procedures]	**Other Accompanying Information** (OAI) [not audited]
Fieldwork: The auditor examines the basic information and expresses an opinion whether it is fairly presented in accordance with relevant accounting standards. Each line in the statements, and each number in the statements and notes, is a separate "assertion" to be tested, but the auditor's tests are performed, and the auditor's opinion is expressed, in light of the auditor's judgment about materiality (whether a user's decision would be influenced). The judgment about materiality is influenced by the objectives of the financial statement or report and the uses contemplated for the information in it. **Reporting:** If basic information is missing or materially misstated the auditor expresses an adverse or "qualified" opinion (or, in some cases, disclaims an opinion).	**Fieldwork:** The auditor performs limited procedures specified by professional standards to review the RSI. These procedures are mainly inquiry and limited analytical procedures such as comparing information obtained for consistency with the auditor's knowledge and the evidence collected in connection with the examination of the basic information. **Reporting:** If RSI is missing or materially misstated, the auditor notes this, but may still express an unqualified opinion on the basic financial statements, if warranted.	**Fieldwork:** The auditor reads the other accompanying information to see whether it appears materially inconsistent with the financial statements, but does not audit the information. **Reporting:** The auditor notes any material inconsistency with the financial statements, but may still express an unqualified opinion on the basic financial statements, if warranted.
Required Supplementary Stewardship Information (RSSI): **Fieldwork:** to be defined by the GAO and OMB; varies for each item. **Reporting:** same as for "basic" information--i.e., auditor must qualify or disclaim if RSSI is missing or materially misstated.		

CHAPTER 2: NEW FINANCIAL STATEMENTS

STATEMENT OF NET COST

Rationale

26. The Statement of Net Cost is designed to explain and analyze the net cost of operations of an entity. The display of the information in this Statement reflects the thinking that underlies the standards in SFFAS No. 7 for distinguishing exchange revenue from nonexchange revenue and other financing sources, for recognizing exchange revenue, for matching exchange revenue with cost, and for assigning exchange revenue to the costs of earning it. The concept of this Statement is also discussed in SFFAC No. 2, *Entity and Display*.[4]

27. The illustration of the Statement of Net Cost on page 19 expands upon the illustration in SFFAC No. 2, *Entity and Display*. As explained in the introduction to this guide, the Statement of Net Cost shows separately the components of the net cost of the reporting entity's operations for the period. It consists of a display showing (1) the gross cost of the goods and services provided at a price, (2) the amount of related exchange revenue, (3) the resulting shortfall, or net cost,[5] (4) the gross cost of the goods, services, transfers, and grants not provided at a price (which comprise most of the Government's expenses), (5) the costs that cannot be assigned to specific outputs or programs, and (6) the exchange revenues that cannot be attributed to specific outputs or programs.

28. The costs in items (1), (4), and (5) of paragraph 0 are the gross costs of the reporting entity during the period and comprise all the costs recognized by the entity for a given period according to Federal accounting standards. The costs that cannot be assigned to outputs or programs consist of (a) high level general management and administrative support costs that cannot be directly traced, assigned on a cause-and effect-basis, or reasonably allocated to segments

[4]See pp. 31-34.

[5]The exchange revenue may be more than the gross cost, in which case the net cost is negative, i.e., the difference is a net revenue.

and their outputs and (b) those "non-production costs" that cannot be assigned to a particular program (non-production costs are costs that, under Federal accounting standards, are linked to events other than the production of goods and services).[6]

29. The total net cost of operations of the reporting entity will be the net cost of all its outputs, whether or not provided at a price, plus the costs (and minus the exchange revenues) that are not assigned to outputs. The elements of the display on the Statement of Net Cost will be related to each other in a way that shows how the net cost of operations is determined for the reporting entity as a whole and its sub-organizations and programs.

30. Suborganizations are generally equivalent to responsibility segments, for which cost accounting is performed to measure and report the costs of the segment's outputs.[7] More than one suborganization may incur costs for a single program, as in cases where other suborganizations provide supporting services or goods without charge to the program. Net program cost equals the net cost of outputs plus any non-production costs that can be assigned to the program but not to its outputs.

31. The following example of a Statement of Net Cost illustrates some of the basic relationships that might be displayed, depending on the nature of the entity.

- Program A produces outputs that are entirely sold to the public.

- Program B produces outputs all of which are also sold, but some to the public and the rest to other Government entities.

- Programs C and D produce outputs that are not sold. Program C provides goods, services, transfers, or grants to the public; program D provides services to both the public and

[6] See SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, especially pp. 37-38 and 42, paragraphs 92 and 104.

[7] See *ibid*., pp. 31-35. Also see SFFAC No. 2, *Entity and Display*, pp. 25-26, para. 75 and footnote 14.

other Government entities.

- o Program E produces two outputs for the public, of which one is sold and the other is not.

32. The net program cost is calculated separately for each program as gross costs less revenue earned, if any. Some of the programs illustrated in this Statement are carried out within a single suborganization, while others are not. If a program is carried out by more than one suborganization, the net program cost is calculated both for each of these suborganizations separately and for all suborganizations together that are responsible for that program. All three suborganizations in the illustration incur some general management and administrative support costs that cannot be assigned to programs and outputs and are thus reported as "costs not assigned to programs."[8] Suborganization C earns an insignificant amount of revenue that cannot be attributed to its outputs or programs and so is reported for the suborganization as a whole.

[8]SFFAS No. 4, ***Managerial Cost Accounting Concepts and Standards for the Federal Government,*** pp. 37-38, para. 92, defines such costs more fully and requires that they be reported in the entity's financial statements, such as the Statement of Net Cost, as costs not assigned to programs. Also see SFFAC No. 2, Entity and Display, pp. 33-34, para. 94-96.

Illustrative Statement of Net Cost

	Sub-organization A	Sub-organization B	Sub-organization C	Total
Costs:				
Program A:				
Public	..	$XX	$XX	$XX
Less earned revenues		..	X	..
Net program costs	..	XX	XX	XX
Program B:				
Intragovernmental	$XXX	..	..	XXX
Public	XXX	..	..	XXX
Total	XXX	..	..	XXX
Less earned revenues	XX	..	..	XX
Net program costs	XXX	..	..	XXX
Program C:				
Program costs, public	XXX	XXX	XXX	XXX
Program D:				
Intragovernmental	XXX	XXX	..	XXX
Public	XXX	XXX	..	XXX
Program costs	XXX	XXX	..	XXX
Program E:				
Output 1:				
Public	XX	..	..	XX
Less earned revenues	X	..	..	X
Net cost of output 1	XX	..	..	XX
Output 2:				
Public	XXX	..	..	XXX
Net program costs	XXX	..	..	XXX
Costs not assigned to programs	XX	XX	XX	XX
Less other earned revenues not attributed to programs	..	..	X	X
Net Cost of Operations	$XXX	$XXX	$XXX	$XXX

33. Other variations on the Statement of Net Cost will also be appropriate depending on the types of programs that the reporting entity carries out and OMB's guidance on the form and content of agency financial statements. For example, a program that makes transfer payments to the public might differentiate these payments from its administrative costs because the transfer payments

are a measure of the benefits provided by the program:

Program F:	
Public:	
Transfer payments	XXX
Administrative costs	X
Program costs	XXX

34. Stewardship investment might also be differentiated: costs incurred for Federally financed physical property that is owned by state and local governments, for certain education and training, and for research and development. These costs have a distinctive importance because they are investments to increase economic growth and provide benefits to the nation over an extended period of time:[9]

Program G:	
Public:	
Costs for stewardship investment	XXX
Administrative costs	X
Other costs	X
Program costs	XXX

35. As another example, a program might incur non-production costs, which are costs linked to events other than the production of goods and services in the period when the costs were recognized. For example, the cost of acquiring weapons systems and other Federal mission property, plant, and equipment (PP&E) is recognized as a cost on the Statement of Net Cost when acquired, rather than through depreciation over the Federal mission property's estimated useful life.[10] Federal cost accounting does not assign non-production costs such as this to the goods and services produced in the period when the cost is recognized. Non-production costs might usefully be differentiated from other costs on the Statement of Net Cost in order to show and analyze separately those costs that were incurred during the reporting period for producing outputs in that period. For this reason, SFFAS No. 6, Accounting for Property, Plant, and

[9] See FASAB's Statement of Recommended Accounting Standards, *Supplementary Stewardship Reporting* (May 1996), pp. 5 and 31-43.

[10] SFFAS No. 6, Accounting for Property, Plant, and Equipment, p. 16, para. 53.

Equipment, requires that the cost of Federal mission PP&E, heritage assets, and stewardship land be separately disclosed, either on the face of the Statement of Net Cost or in footnotes, depending on the materiality of the amounts and the need to distinguish them from other costs relating to outputs and outcomes. In the case of weapons systems purchases, the distinction might be shown as follows:[11]

Program H:	
Weapons system purchases	XXX
Other costs	XXX
Program costs	XXX

36. If a program produces several large and distinct outputs, regardless of whether it earns any revenue, it may be illuminating to display the costs of each. If such a program has material non-production costs, they may be displayed separately from the production costs of the outputs:

Program I:	
Public:	
Output 1	XX
Output 2	XX
Non-production costs	X
Program costs	XX

[11]For further analysis of accounting for non-production costs, see *SFFAS No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government*, especially para. 97, 103, and 104; and related discussion in SFFAS No. 4's Basis for Conclusions, para. 214-215. For the case of Federal mission PP&E, heritage assets, and stewardship land, see SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, para. 53, 61, and 69.

37. As illustrated by these diverse possibilities, the Statement of Net Cost will emphasize information about the cost of operations. By this means, it will help achieve the objectives of Federal financial reporting and managerial cost accounting. Managers responsible for programs can often obtain cost information they need from internal cost reports and in other ways. Other users, however, depend partially or wholly on general purpose financial reports for cost information. These users include higher-level management of the entity, high-level Executive Branch officials and their staffs, and the Congress. They may need to refer to general purpose financial reports not only for the information contained in them but also to help them interpret the cost information they receive directly from management and to relate it to other information and events. Budget or program analysts, academic researchers, and members of the specialized news media and interest groups may depend even more on the information provided in an entity's general purpose financial reports. Members of the general news media and the public who wish to consult Government financial reports may rely entirely on general purpose financial reports. Even for program managers, the emphasis on net cost in this Statement and its use by others may contribute to a greater understanding of the concept and routine use of this information.

38. Good information on gross and net cost, determined and analyzed in the manner of this Statement, is essential to the success of the Government Performance and Results Act of 1993 (GPRA)[12] in relating costs to accomplishments. GPRA requires setting performance goals for program activity and establishing performance indicators to measure outputs and outcomes of the program activity. Performance measurement under GPRA is to begin in FY 1999, and pilot projects started in FY 1994. Under OMB's plan to carry out GPRA, performance reports will show the results of what was actually accomplished (outputs and outcomes) with the resources used. The net cost of programs (as well as gross cost) should be a fundamental measure of these resources.

[12]Public Law 103-62.

39. Preparers should decide the exact classification of suborganizations and programs based on the nature of the entity, the missions and outputs for the entity's GPRA strategic and annual performance plans, the concepts in Entity and Display, Federal accounting standards, and OMB's bulletin prescribing the form and content of agency financial statements. OMB's guidance on the form and content of agency financial statements may require that the gross cost and net cost of operations be calculated by suborganization, program, and output, and reported separately in the Statement of Net Cost (or, if appropriate to reduce the complexity of the display, in footnotes to that Statement). Suborganizations are generally equivalent to responsibility segments as defined by the standards on managerial cost accounting.[13] Under the cost accounting standards, a responsibility segment must be able to assign full costs to the measurable outputs of its programs.[14] If reported on that basis, users of general purpose federal financial reports will be provided with the gross cost of the reporting entity's outputs (and outcomes).

40. When unit costs of outputs (and outcomes) are provided as performance indicators elsewhere in the report containing the financial statements, it may be useful to provide a reference to that information in the financial statements. A cross-reference in the financial statements does not change the level of audit otherwise specified for the performance information.

41. The information provided in the Statement of Net Cost generally will not be as detailed as the information needed by those who are responsible for budgeting and managing the costs of the Government, and by those who for other reasons have a special interest in the performance of a given program. The detailed information should be available through the managerial cost accounting system, cost analyses, and other studies used to provide the information reported in the Statement of Net Cost. However, the Statement of Net Cost

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[13] SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government,* pp. 31-35. Also see SFFAC No. 2, *Entity and Display*, pp. 25-26, para. 75 and footnote 14.

[14] SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, pp. 36-42 and 51-59.

provides important summary information to top management, the central agencies, Congress, and the public. The Statement of Net Cost also provides a link to the more detailed information that may be used by managers of the reporting entity to explain the results shown in the Statement of Net Cost.

Attributing revenue to the costs of earning it

42. A reporting entity may have several missions carried out by different suborganizations, all of them having component programs and outputs. For each of these, both gross cost and net cost are important in evaluating performance and managing cost. Furthermore, either an entity as a whole or its suborganizations and programs may have significant costs that are not incurred to earn revenue, as well as significant costs that are incurred for that purpose. Therefore, the revenue-earning and nonrevenue-earning components need to be separately evaluated in order to assess the net cost of particular activities. Additionally, various components may earn revenue but cover costs to different degrees.

43. In all these cases, the net cost of the reporting entity as a whole does not show the extent to which earned revenue covers the cost of providing particular outputs. This can only be calculated for the entity's components. Determining the net cost for components is therefore essential to achieve the goals of SFFAS No. 7: to match exchange revenue with the gross cost of outputs and to offset exchange revenue against that related gross cost.

44. Exchange revenue should be attributed to the costs of outputs unless it is not reasonably possible to do so. If that cannot be done, exchange revenue should be attributed to the costs of programs, or, if that also is not reasonably possible, to the costs of suborganizations. Attributing exchange revenue to the components of an entity in this way is more effective for performance evaluation, price setting, and other purposes than attributing it to the reporting entity as a whole.

45. The following principles help determine the degree to which exchange revenue can reasonably be

attributed to a component of a reporting entity, a suborganization, or a program. Application of these principles requires the exercise of managerial judgment to meet the goal of measuring net cost for the many Government reporting entities with their varied characteristics.

45.1. Exchange revenue may be earned by an entity or program that sells all its goods or services in exchange for revenue. Examples include the Postal Service and the Defense Business Operations Fund. If the entity's gross costs are divided among programs or suborganizations that all sell goods or services, the exchange revenue attributable to these programs or suborganizations should be offset against the respective gross costs. If the entity is not so divided, its exchange revenue should be offset against the gross cost of the entity as a whole.

45.2. Exchange revenue may be attributable to an organization (or a program) as a whole in carrying out a function that is inherently governmental. For example, SEC registration fees may be deemed attributable to the SEC as a whole rather than to a division or line of activity within the SEC that manages the registration process. Such exchange revenue should be offset against the gross cost of the organization as a whole rather than the costs of the line of activity.

45.3. Exchange revenue may be earned by the operations of the entity as a whole in selling goods or services. For example, the National Park Service charges admission fees to parks and incurs expenses for such activities as preserving wildlife, maintaining roads, and providing visitor facilities. The fees are not related to the costs of the visitors as opposed to the costs of maintaining the land as a national heritage. They should be offset against the gross cost of the National Park Service.

45.4. Exchange revenue may be earned by a particular component of a reporting entity, such as a program within a suborganization. Except in the cases specified above, such exchange revenue should be offset against the gross cost of that component to calculate its net cost. The net cost of that component should be added to the net costs of other components to calculate the net cost of the reporting entity as a whole.

45.5. Exchange revenue may be earned as a byproduct by some activities within a program or suborganization that are secondary to the main purpose of the program or suborganization. For example, the Geological Survey sells maps to the public as a byproduct of its surveys and other research. Such exchange revenue should be offset against the incremental costs incurred to produce that revenue, based on the assignment of costs according to the managerial cost accounting standards.[15] The other costs of the Geological Survey should be classified in other components of the organization.

45.6. Exchange revenue that is insignificant or cannot be associated with particular outputs may be deducted separately against the cost of the program, suborganization, or reporting entity as a whole.

46. Whether a particular revenue is offset against the cost of the reporting entity as a whole or against the cost of a component also depends on the level of aggregation of the reporting entity. As explained above, the admission fees of the National Park Service can reasonably be attributed to the National Park Service but not to its components. Therefore, in financial statements of the National Park Service, such revenue would most likely be offset against the gross cost of the reporting entity (the National Park Service) as a whole. However, the financial statements of the Department of the Interior might be divided by suborganization and include the National Park Service as one separate component. Because the admission fees would be reasonably attributed to the National Park Service, they would offset the gross cost of the component (the National Park Service) on the Department's Statement of Net Cost rather than the gross cost of the reporting entity (the Department) as a whole.

47. The effect of the level of aggregation could be even more pronounced where the exchange revenue is deducted from the gross costs of a program within a suborganization in the financial statements of the suborganization. In the

[15] For the standard on cost assignment, see ibid., pp. 51-59.

financial statements of the full organization, the programs of the suborganization might be consolidated and the exchange revenue deducted from the gross cost of the suborganization as a whole.

Implications for the display of special cases

48. **Exchange revenue collected for others**. Many entities that collect exchange revenue keep that revenue for their own use. Revolving funds keep the revenue they earn. By their nature, they are expected to finance at least a significant part of their cost by selling goods and services in a continuing cycle of business-type activity. Other collecting entities may also keep the revenue they earn. Sometimes, however, the exchange revenue is transferred to the General Fund or to other entities in whole or in part. For example, the Southeastern and Southwestern Power Administrations transfer the revenue they collect from the public to the General Fund of the Treasury. Similarly, the Western Area Power Administration, while retaining some of the revenue that it collects, transfers the rest to the General Fund and various special funds designated by law.

49. As a general rule, exchange revenue transferred to others must be offset against the collecting entity's gross cost to determine its net cost of operations. Exchange revenue reduces the net cost of operations incurred by the entity in producing outputs, regardless of whether the entity keeps the exchange revenue for its own use or transfers it to another operating entity or the General Fund. Likewise, exchange revenue reduces the net cost of the entity's operations to the taxpayer regardless of its disposition. Therefore, all exchange revenue related to the cost of operations must be deducted from gross cost in the Statement of Net Cost to determine the net cost of operations for the entity. The display in that Statement has no need to distinguish between exchange revenue retained or transferred to others.

50. Exchange revenue that is transferred to others does not, however, affect the collecting entity's operating results and net position. Therefore, as required by the standards in SFFAS No. 7 for other financing sources, such exchange revenue is

recognized as a transfer-out in calculating the entity's operating results in its Statement of Changes in Net Position.

51. The only exception to the general rule occurs when the entity recognizes virtually no cost in earning the exchange revenue, as explained in the following section.

52. **Exchange revenue unrelated to recognized cost.** In exceptional cases, an entity may recognize virtually no costs in connection with earning exchange revenue that it collects. A major example for many years has been the Minerals Management Service (MMS) of the Department of the Interior. It manages energy and other mineral resources on the Outer Continental Shelf (OCS) and collects rents, royalties, and bonuses due the Government and Indian tribes from minerals produced on the OCS and other Federal and Indian lands. The rents, royalties, and bonuses are exchange revenues, earned by sales in the market. If the value of natural resources were recognized as an asset by MMS, then depletion could be recognized as a cost according to the units of production method as minerals were extracted.[16] The revenue from rents, royalties, and bonuses could then be matched against MMS's gross cost, including depletion and minor other costs, to determine its net cost of operations.

53. MMS does not recognize a depletion cost for various reasons, including the fact that under present accounting standards the value of natural resources is not recognized as an asset. As a result, this exchange revenue cannot be matched against the economic cost of operations and bears little relationship to the recognized cost of MMS. Therefore, it should not be subtracted from MMS's gross cost in determining its net cost of operations in its Statement of Net Cost. If it were subtracted, the relationship between MMS's net cost of operations and its measures of performance would be distorted. The net cost of operations of the Department of the Interior would likewise be distorted.

[16]Methods of calculating depletion based on the economic cost of extraction, such as represented here, should be distinguished from depletion methods allowed under the Internal Revenue Code.

54. MMS collects this revenue acting as an agent for the recipients designated by law: the Treasury, certain entities within the Government to which amounts are earmarked, the states, and Indian tribes and allottees. Therefore, MMS should account for the exchange revenue as a custodial activity, which is an amount collected for others, in the same way as the Internal Revenue Service accounts for the nonexchange revenue that it collects. Because the revenue collected by MMS is exchange revenue, it should be recognized and measured under the exchange revenue standards when the rents, royalties, and bonuses are due pursuant to the contractual agreements. Custodial activity is reported in the entity's Statement of Custodial Activity.

55. The rents, royalties, and bonuses transferred to Treasury for the General Fund or to other Government reporting entities should be recognized similarly by these recipient entities. The revenue is exchange revenue and should be recognized and measured under the exchange revenue standards. However, although the revenue comes from exchange transactions, neither the Government as a whole nor the other recipient entities recognize the natural resources as an asset and depletion as a cost. Therefore, the revenue should not offset the cost of operations for the U.S. Government as a whole or for these entities and should not be included in their Statements of Net Cost. As in the case of MMS, offsetting cost by this revenue would distort the relationship between the net cost of operations and the measures of the performance of these entities. The exchange revenue should instead be a financing source in determining the operating results and changes in net position in their Statements of Changes in Net Position.

56. The Board is addressing the accounting for natural resources in a separate project. If it concludes that the value of mineral rights should be recognized as an asset and depletion as a cost, it would be appropriate to recognize the exchange revenue from rents, royalties, and bonuses in determining the net cost of operations.

57. Although MMS is the most prominent case of an entity collecting exchange revenue for which it recognizes virtually no cost, there can be other instances. The Federal Communications Commission

collects exchange revenue from the auction of the radio spectrum. Such revenue should be accounted for in the same way as the revenue collected by MMS.

STATEMENT OF CUSTODIAL ACTIVITY

Rationale

58. Entities that collect nonexchange revenue for the General Fund and other recipient entities do not recognize revenue as a result of collecting these resources. These entities are designated as "collecting entities" by SFFAS No. 7, which requires that the collection and disposition of nonexchange revenue be accounted for as custodial activity. The collection of exchange revenue is not a custodial activity, as a general rule, because exchange revenue should be deducted from gross cost in the Statement of Net Cost for the purpose of determining the net cost of operations. SFFAS No. 7 requires this accounting for exchange revenue regardless of whether the entity retains the exchange revenue for its own use or transfers it to others, except under exceptional circumstances stipulated in the standard and discussed in the previous section.

59. Collecting entities need to report their custodial activities in a way that highlights these important activities but does not obscure the entities' own operating costs. Therefore, significant transactions related to collecting revenue for others will be reported separately from the entity's reports on its own net cost and changes in net position. A statement designed to do that follows:

Illustrative Statement of Custodial Activity

Sources of Revenue:	
Cash Collections: (by type of tax or duty)	$XX
Refunds and Other Payments	(X)
Net Collections	XX
Accrual Adjustment	X
Total Revenue	XX
Disposition of Revenue:	
Transferred to others: (by recipient)	XX
Increase (decrease) in amounts to be transferred	X
Retained by the Entity	X
Total Disposition of Revenue	XX
Net Custodial Activity	$-0-

60. Collecting entities are to report both cash and accrual information for taxes and duties they collect. Most of the Government's nonexchange revenues are derived from taxes and duties. Components of cash collections, by type of tax or duty, transfers to recipient entities, and the related accrual adjustments should normally be reported as illustrated above. Collections of nonexchange revenue other than taxes and duties may also be reported on a cash basis and adjusted to an accrual basis, but only the accrual basis information is required. The sources and disposition of revenue should net to zero.

61. The increases (or decreases) in the amounts of revenue to be transferred to other entities affect the inter-entity balances between the collecting entities and the entities that receive and recognize the revenue. Amounts may be retained by the collecting entities if they are entitled to the revenue. The collecting entities report such amounts in their Statement of Net Cost as an

exchange revenue if it is retained as a reimbursement of the costs of collection.

62. Based on the revenue standards in SFFAS No. 7, the net change in revenue-related assets and liabilities of the collecting entities is a component of revenue. The net change is referred to as the accrual adjustment. The accrual adjustment consists of accounts receivable, the allowance for uncollectible amounts, and accounts payable for refunds. Revenue recognized by the recipient entities is composed of the cash transferred to them and the increase or decrease in the amount to be transferred to them as measured by applicable cash collections and the accrual adjustment.

STATEMENT OF CHANGES IN NET POSITION

63. The Statement of Changes in Net Position is designed to show results of operations for the period and other adjustments to net position. The term "net results of operations" describes the excess (or the deficit) of the "net cost of operations" over "financing sources." These terms designate the first three sections in the Statement, as illustrated below. The net result of operations is also the current period's change in the cumulative results of the entity's operations since its inception, except to the extent that there are prior period adjustments. Prior period adjustments include corrections of errors and all changes in accounting principles.[17]

64. The Statement also shows budgetary resources from two accounting perspectives. First is the amount of appropriations used during the period. Together with other financing sources, "appropriations used" is deducted from net cost to show the net result of the entity's operations for the period. From the budgetary standpoint, appropriations include dedicated tax receipts, such as Social Security taxes and Highway Trust Fund excise taxes. From a proprietary standpoint, on the other hand, unexpended appropriations do not include dedicated tax receipts because these

[17]In the private sector, prior period adjustments are limited to corrections of errors and a few types of accounting principle changes. In addition, if comparative statements are presented, statements of prior periods are restated to reflect the retroactive application of the adjustment.

receipts are accounted for as nonexchange revenue. Therefore, appropriations used would not include dedicated tax receipts, thus avoiding double counting of these amounts as financing sources.[18]

65. The second perspective on budgetary resources is the change in unexpended appropriations during the period. The Balance Sheet reports "unexpended appropriations" at the end of the current period as a separate element of net position. A simple illustration of the Statement of Changes in Net Position appears below. As was illustrated for the Statement of Net Cost, the Statement of Changes in Net Position might also be subdivided by suborganization.

Illustrative Statement of Changes in Net Position

Net Cost of Operations	$(XXX)	
Financing Sources (other than exchange revenue):		
Appropriations used	XXX	
Taxes (nonexchange revenue)	X	
Donations (nonexchange revenue)		X
Imputed financing	X	
Transfers-in	X	
Transfers-out	(X)	
Net Results of Operations	X	
Prior Period Adjustments		X
Net Change in Cumulative Results of Operations	X	
Increase (Decrease) in Unexpended Appropriations	X	
Change in Net Position	X	
Net Position-Beginning of Period	XX	
Net Position-End of Period	$ XX	

[18]For trust funds financed entirely by dedicated revenue and other dedicated financing sources, there are no "appropriations used."

Implications of the term "net results of operations"

66. Some of those who commented on FASAB's exposure draft Accounting for Revenue and Other Financing Sources expressed concern that some readers might infer the amount of "net results of operations" was a significant performance measure, even though this will not be the case for most Federal reporting entities. Some users might draw such an inference because, in the private sector, the term "net results of operations" is synonymous with net income and net income is the "bottom line" performance measure. The Statement of Operations used by Federal reporting entities prior to implementation of SFFAS No. 7 focused on a similar bottom line, net results of operations. This was the effect of showing the flow of all operating activities on a single statement. For most Federal entities, however, no single bottom line can accurately measure performance, and "net results of operations" normally provides little information on either the costs or the benefits of an entity's operations. Therefore, the Statement of Changes in Net Position is not a performance-related Statement, and using the term "net results of operations" in this context does not imply that it is a measure of performance.

67. The Board notes that, when OMB revises its form and content guidance, OMB may wish to consider whether any change is needed in the captions for lines on the Statement of Changes in Net Position that are now labelled "Net Results of Operations" and "Net Change in Cumulative Results of Operations."

STATEMENT OF BUDGETARY RESOURCES

Rationale

68. The Statement of Budgetary Resources and the related disclosures provide information about how budgetary resources were made available as well as their status at the end of the period. This information is based on budgetary accounting rules. Because it is a basic financial statement, it also makes budget execution subject to audit at the level of the reporting entity. Some people are concerned about the accuracy of budget execution data at the budget account level. SFFAS No. 7 calls for that information to be presented for major budget accounts as RSI, which normally is subject only to limited review by auditors. When appropriate, this information could be made subject to more extensive agreed-upon audit procedures or attestation by OMB (through its bulletin on audits of Federal financial statements) or by Inspectors General or others who arrange for audits. Finally, the Statement of Budgetary Resources reports the "obligations incurred," which is also reported in the Statement of Financing and is the reference point for the reconciliation to the accrual-basis financial statements. An illustration of this statement follows:

Illustrative Statement of Budgetary Resources

Budgetary resources:	
Budget authority (line 1)	$XXX
Unobligated balances-beginning of period (line 2A)	X
Spending authority from offsetting collections (line 3)	X
Adjustments (lines 4-6)	X
Total, budgetary resources	$XXX
Status of budgetary resources:	
Obligations incurred (line 8))	$XXX
Unobligated balances-end of period (line 9)	X
Unobligated balances-not available (line 10)	X
Total, status of budgetary resources (line 11)	$XXX
Outlays:	
Obligations incurred(line 8)	$XXX
Less: spending authority from offsetting collections and adjustments (lines 3A,B,D,&4A)	X
Obligated balance, net-begin. of period (line 12)	X
Obligated balance transferred, net (line 13)	X
Less: obligated balance, net-end of period (line 14)	X
Total, outlays (line 15)	$XXX

69. The terminology and definitions used in the Statement of Budgetary Resources are taken from the budget. OMB Circular A-34, Instructions on Budget Execution, dated December 26, 1995, defines the terms shown in this Statement. The above budgetary resources illustration differs from SFFAC No. 2, Entity and Display, to conform to the December 1995 revision of A-34. The revised SF-133 line item numbers are shown on the above illustration. If OMB concepts and definitions are revised in the future, the classification and recognition of the appropriate amounts should change accordingly. The U.S. Government Standard General Ledger (SGL) provides a crosswalk from the SGL accounts to reports on budget execution prepared for OMB. Those budget execution reports contain the information needed to prepare this Statement.

70. Disclosures are required if the information shown differs from that which is included in the "actual" column of the President's Budget. For

example, this disclosure would be needed in cases where the reporting entity in the financial statements is different than the reporting entity in the Budget.

71. Some users may be confused by budgetary terms being used in general purpose financial reports. As with all financial statements, footnotes are needed to make them understandable, especially when the financial statements use terms specific to a field of knowledge not necessarily known to a general user of the statements.

STATEMENT OF FINANCING

Rationale

72. A primary objective of the Board is that readers of the financial statements be able to understand the difference between obligations, as reported in the Federal budget and on the Statement of Budgetary Resources, and the net cost of operations reported in the Statement of Net Cost. Guidance prior to SFFAS No. 7 only reconciled expended authority with expenses. SFFAS No. 7 requires the more comprehensive reconciliation between obligations and net cost of operations.

73. "Net cost of operations" is the focal point of the Statement of Financing. The Board perceives information about gross and net cost to be the principal advantage that the financial statements offer both to those concerned with the budget and to those concerned with making performance measurement (as required under GPRA) successful. Therefore, budgetary obligations should be reconciled with net cost. By this comparison, financial reports can help those who make program authorization, modification, and discontinuation decisions.

74. Besides its value in reconciling budgetary and financial accounting, the Statement of Financing supplies information not shown elsewhere in the financial statements. It reports the net change in the amount of obligations for undelivered orders from the beginning to the end of the period, under the caption "Change in Amount of Goods, Services, and Benefits Ordered, but Not Yet Received or Provided." Under the caption "Financing Sources Yet to Be Provided," the Statement reports the

future budgetary funding requirements for transactions reflected in the net cost of operations for the period. Those amounts can be large, where substantial amounts of unfunded liabilities are recognized.

75. In addition to the information it provides, the Statement of Financing will provide additional assurance about the reliability of the system that produces the accounting and budgetary information. SFFAC No. 2, Entity and Display, does not illustrate the Statement of Financing but it is explained and illustrated in an amendment to SFFAC No. 2 published as part of SFFAS No. 7. An illustration follows:

Illustrative Statement of Financing

Obligations and Nonbudgetary Resources:	
Obligations incurred	$XXX
Less: Spending authority from offsetting collections and adjustments	X
Donations not in the budget	X
Financing imputed for cost subsidies	X
Transfers-in (out)	X
Exchange revenue not in the budget	(X)
Other	X
Obligations, as adjusted, and Nonbudgetary Resources	$XXX
Resources That Do Not Fund Net Cost of Operations:	
Change in amount of goods, services, and benefits ordered but not yet received or provided	(X)
Costs capitalized on the Balance Sheet	(X)
Financing sources that fund costs of prior periods	(X)
Other	(X)
Costs That Do Not Require Resources:	
Depreciation and amortization	X
Revaluations of assets and liabilities	X
Other	X
Financing Sources Yet to be Provided	X
Net Cost of Operations	$XXX

Preparing the Statement of Financing

76. This comprehensive reconciliation can be accomplished by presenting the following information:

Net resources: obligations, as adjusted, and nonbudgetary resources

Resources not used to fund net cost of operations

Costs that do not require resources

Financing sources yet to be provided

These sets of information can be combined to yield the net cost of operations and, thereby, explain the differences between obligations and net cost of operations as shown above. The information is discussed in more detail below and is illustrated for specific transactions in chapters 4 and 5.

Obligations and nonbudgetary resources

77. The obligations and nonbudgetary resources section reports the computation of "Obligations Incurred" and its related budgetary adjustments. It also shows the items that provide financing but that are not recognized in the entity's budget.

78. Obligations include orders for goods and services which have not yet been filled (referred to as "undelivered orders,") and the value of goods and services received from orders which have been filled (referred to as "expended authority"). Budgetary adjustments to obligations are required (1) to subtract spending authority from offsetting collections (i.e., earned reimbursements, increases (decreases) in unfilled customer orders for work to be performed by the Federal reporting entity, and transfers from trust funds) and (2) to subtract recoveries of prior year obligations.

79. The sum of obligations and the adjustments to it represents the value of net budgetary resources obligated which could finance the net cost of operations. Additional financing sources could also finance net cost of operations. These would include such items as assets transferred in or out without reimbursement, most donations other than cash, and financing sources imputed for cost

subsidies. They must be added to the amount of obligations because they are nonbudgetary resources and, therefore, are not included in obligations.

80. Also, there may be exchange revenues which are nonbudgetary, e.g., an increase in accounts receivable from the public. (Intra-governmental accounts receivable are normally considered a budgetary resource, whereas accounts receivable from the public are not.) Any non-budgetary exchange revenues must be subtracted from obligations. This is because they were subtracted in the computation for net cost of operations, but were not included in the computation for obligations, as adjusted. Thus, an increase in accounts receivable from the public would be subtracted in the computation for net resources; a decrease would be added. Note that the amount of collections from the public is budgetary resources; hence the adjustment required is only for the change in revenues accrued as a receivable from the public.

81. The result of the above paragraphs 0-0 would be the net resources available to fund net cost of operations. This would be arrayed as shown below:

Obligations Incurred

Less Adjustments

Plus Nonbudgetary Resources Other than Exchange Revenue

Less Nonbudgetary Exchange Revenues

Equals Obligations, as Adjusted, and Nonbudgetary Resources

Resources that do not fund net cost of operations

82. Resources that do not fund net cost of operations for a reporting period commonly arise from three sources. One source is the change in goods, services, and benefits ordered but not yet received or provided. Another source is any good or service capitalized on the Balance Sheet. The third source is any item treated as a financing source yet to be provided in a prior period that is being recognized as a budgetary resource in the current period.

83. The change in goods, services, and benefits ordered but not yet received or provided is the net change in undelivered orders from the beginning of the period to the end. The entity had to incur an obligation to place an order for goods or services, but accrual accounting does not recognize the transaction until the ordered goods, services, and benefits are actually received or provided. To reconcile obligations with the net cost of operations, net increases in undelivered orders should be subtracted from the net obligations and nonbudgetary resources; net decreases should be added. The entity's obligation to incur future costs is important information in and of itself, and therefore the total amount outstanding at the end of the reporting period is to be disclosed.

84. Goods and services received and capitalized as assets on the Balance Sheet should be subtracted from obligations and nonbudgetary resources. They require obligations but do not affect net cost. General property, plant, and equipment (PP&E) is the most obvious example. Other examples include loans made by liquidating funds under the Federal Credit Reform Act of 1990 (P.L. 101-508) and purchases of inventory.

85. An entity may receive budgetary resources in the current period that were previously reported as "financing sources yet to be provided," such as appropriations for credit subsidy reestimates recognized as expenses of the previous period, or for decreases in the liability for annual leave. Such amounts must be subtracted from obligations and nonbudgetary resources, because the current period budgetary financing funds costs (either expenses or capitalized items) that were recognized in previous periods.

Costs that do not require resources

86. Although there may be many expenses of this type, two of the most common are: (1) allocation of assets to expense, and (2) expenses related to revaluation of assets.

87. Cost is recognized in the Statement of Net Cost when cost of assets is allocated to expense. Depreciation of capitalized PP&E is an example of such allocation. Often the budgetary financing sources for the assets will have been recognized

during a prior period, when the capitalized items were acquired. Because the Statement of Financing is to report net cost of operations, the cost of assets allocated to expense must be added to obligations and nonbudgetary resources.

88. Changes during the accounting period in the valuation of assets (initially acquired by budgetary resources) may be made through accounting provisions or revaluations. When made, they are included in net cost of operations. Examples include:

- revaluation of PP&E due to obsolescence or damage, and
- revaluation of inventory for expected losses due to excess or unserviceable quantities, realization value lower than carrying value, etc.

89. It may not always be feasible to report separately the acquisition of certain assets, adjustments to them, and sales of them. For example, as a practical matter, a net decrease in inventory because of a combination of revaluations and sales that exceeded purchases may need to be aggregated in one amount under the caption, "Costs That Do Not Require Resources." This type of netting, though sometimes necessary, reduces the informative quality of the Statement of Financing.

Financing sources yet to be provided

90. The section of the Statement of Financing labeled "financing sources yet to be provided" reports the amount of obligations that will be made in future periods for costs recognized in the reporting period. It includes financing for all costs for which the Congress has not yet authorized the financing, or for which the Congress has authorized the financing but the amount has not yet been made available. This amount is added to the obligations and nonbudgetary resources of the reporting period because it represents a cost recognized in the Statement of Net Cost for the reporting period for which the financing sources will have to be provided in future periods. When financing is later made available, it is reported in the Statement of Financing as a subtraction from obligations and nonbudgetary resources in the

section entitled "resources that do not fund net cost of operations." It is also recognized as "appropriations used" and reported in the Statement of Changes in Net Position.

91. For agencies funded by appropriations, the most common example is the cost of increases in unused annual leave. Cost for this leave is incurred in the reporting period, but it is normally funded through salary and expense appropriations in subsequent years. The amount related to this increase in unused annual leave is reported as a financing source yet to be provided.

92. A further prominent example is the cost of subsidy reestimates for program funds under the Credit Reform Act. For financial reporting, subsidy reestimates are usually made as of the end of a fiscal year, and any increase in subsidy cost is recognized as an expense of that year. However, the reestimate cannot be calculated until after the end of the year, so the funding of that expense is not available until the following year. Thus, although the Congress has provided a permanent indefinite appropriation, it cannot be used until after the end of the fiscal year to which the reestimate applies.

93. In some instances, such as annual leave, funding for previously recognized costs may not be separately identifiable. Therefore, only the period change can be accounted for in the Statement of Financing. An increase in the unfunded liability would be shown as a financing source yet to be provided and a decrease would be shown as resources that do not fund net cost.

REPORTING REVENUE

94. The previous sections explained the different ways in which revenues are reported, depending on whether the revenue is exchange or nonexchange and on whether the collecting entity keeps the revenue or transfers it to others. The revenue may be reported on the Statement of Net Cost, the Statement of Custodial Activity, or the Statement of Changes in Net Position.

95. The following chart summarizes which statements to use. Note that exchange revenue, except for a few cases as noted earlier (see paragraphs 0-0), is always reported on the

Statement of Net Cost and deducted from gross cost in calculating the entity's net cost of operations. If such revenue is transferred to others, it is also reported as a transfer-out in the Statement of Changes in Net Position.

REVENUE REPORTING SUMMARY

DISPOSITION OF REVENUE	EXCHANGE REVENUE[19]	NONEXCHANGE REVENUE
Collecting entity keeps all	Statement of Net Cost	Statement of Changes in Net Position
Collecting entity transfers all to others	Full amount reported on Statement of Net Cost and also reported as a transfer-out on the Statement of Changes in Net Position	Full amounts collected and accrued, and their disposition, reported on Statement of Custodial Activity
Collecting entity keeps some and transfers some to others	Full amount reported on Statement of Net Cost and the amount transferred out reported on the Statement of Changes in Net Position	Full amounts collected and accrued, and their disposition (including amounts retained), reported on the Statement of Custodial Activity. Amounts retained also reported on Statement of Changes in Net Position unless they reimburse the collection function; then they are reported on the Statement of Net Cost as exchange revenue.

[19]See para. 0 - 0 for discussion of exceptional cases where exchange revenue is unrelated to recognized cost.

CHAPTER 3: COMPARISON BETWEEN ACCOUNTING AND BUDGETARY CLASSIFICATIONS OF TRANSACTIONS

INTRODUCTION

96. This chapter compares the classification of transactions for financial accounting in SFFAS No. 7 with the classification of transactions used in the budget. The classification systems are very similar for transactions with the public, though significantly different in some respects for intragovernmental transactions. This chapter also compares the merits of having separate and common classification systems.

TRANSACTIONS WITH THE PUBLIC

97. **General comparison.** The distinction between nonexchange and exchange revenue is similar but not identical to the distinction in the budget between governmental receipts and offsetting collections from the public.[20] Governmental receipts are shown as the "receipts" in the budget and compared with outlays to calculate the deficit; whereas offsetting collections are subtracted from gross disbursements to determine the "outlays."[21] Nonexchange revenue generally corresponds to governmental receipts, and exchange revenue generally corresponds to offsetting collections. As a result, the

[20]The foundation of budget concepts for the distinction between governmental receipts and offsetting collections is the Report of the President's Commission on Budget Concepts (Washington, D.C.: U.S. Government Printing Office, October 1967), pp. 64-72.

[21]Offsetting collections are divided between two major categories: "offsetting collections credited to expenditure accounts," which are deducted in calculating the net outlays of the expenditure accounts in the budget to which they are credited; and "offsetting receipts," which are deposited in receipt accounts and in most cases are deducted in calculating net outlays at the agency level. (In a few cases, they are deducted in calculating government-wide net outlays.) In either case, they are an offset to total budget outlays. The difference between them, which is determined by law, is not germane to the issues in this chapter.

budgetary classification and the accounting classification in SFFAS No. 7 are compatible with a few exceptions: gains and losses, budgetary inflows not recognized as revenue (such as exchanges of assets at book value), and inflows of resources recognized in financial accounting but not in the budget (such as non-cash donations). Also, there are a few instances where a particular inflow that is classified as a governmental receipt in the budget is classified as an exchange revenue in the financial accounting and hence subtracted from gross cost in the Statement of Net Cost.

98. The distinction in budgetary concepts between governmental receipts and offsetting collections is based on the difference in the method of allocating resources: collective decision making for governmental receipts and the market for offsetting collections. Governmental receipts are those collections derived from the exercise of the Government's sovereign powers, particularly its sovereign power to compel payment through taxation; whereas offsetting collections from the public are derived from business-type activities. The purpose of this system of classification is to measure the size of the Government, its agencies, and its functions in terms of the amount of resources allocated through collective political choice rather than through the principle that the provision of service requires the payment of a price. Under this classification system, the budget totals--total outlays and total receipts--measure what the U.S. Government does collectively in its role as a government, which is its predominant role, rather than what it does in its secondary role as a business.

99. Since nonexchange transactions, such as income tax receipts, would rarely occur except as a result of the Government's sovereign power, they are all governmental receipts in the budget. Exchange transactions are more varied. Exchange transactions with the public, such as the sale of maps and electricity, generally do not depend on sovereign power, so most are offsetting collections in the budget. However, there are three types of exceptions.

o Federal employee contributions to

retirement plans are exchange transactions because they are part of a broader exchange transaction--selling labor services in return for compensation--in which each party receives and sacrifices something of value. They are governmental receipts in the budget, however, because the budget classification deems them to be akin to compulsory social insurance taxes.

- o Some transactions with the public that arise from the Government's sovereign power to regulate, such as passport fees and the SEC registration fee, are classified as exchange transactions for financial reporting. The entity's operations produce the revenue in conjunction with the expense; identifiable beneficiaries pay fees for the special services provided, or identifiable non-Federal entities pay fees to compensate the Government for the costs that were incurred in regulating them for the benefit of the general public; and the fees in general are closely related to the cost of providing service or regulation. Nevertheless, since the collections depend on the Government's sovereign power rather than being the result of voluntary transactions, these regulatory user fees are governmental receipts under budget concepts.

- o Exchange transactions may produce a cash inflow all of which is included in the offsetting collections of the budget but only part of which is recognized in the financial accounting statements as an inflow of resources. Some exchange transactions produce gains or losses for the difference between cash inflow and book value instead of producing revenue for the whole amount of the cash inflow (such as the sale of property, plant, and equipment that has been capitalized). The entire amount of the cash collected is an offsetting collection in the budget, but only the gain or loss is recognized in the Statement of Net Cost. Other exchange transactions, such as the repayment of pre-1992 direct loans and other receivables at book value, are not included in revenue or other financing sources at all, although (except for post-1991 direct loans) the entire amount of cash collected is an offsetting collection in the budget.[22]

100. **User charges.**[23] The term "user charge" designates payments that are based to a degree on related benefits or damages. Many are exchange transactions in the accounting classification of SFFAS No. 7 and are offsetting collections in the budget. Some, the regulatory user charges discussed above, are exchange transactions in the classification of SFFAS No. 7 but in concept are governmental receipts in the budget.

101. Still other user charges are benefit taxes or taxes related to the cause of some damage. Benefit taxes are levied on bases that are related to the use of publicly provided goods and services or the public provision of other benefits, such as the gasoline excise tax, which is largely dedicated to the highway trust fund. Taxes may also be levied on bases related to the cause of some damage and dedicated to pay for that damage, such as the tax on domestically mined coal, which is dedicated to the black lung disability trust fund. Because these are taxes, which depend on the Government's sovereign power to compel payment, they are governmental receipts in the budget. Because the relationship between the tax and the benefit received by an identifiable recipient is so indirect and disproportionate, these taxes are nonexchange transactions in the financial accounting.

102. The budget classification of user charges and other transactions is not clear-cut in every case. The nature of transactions may be mixed and contain elements of both voluntary exchange and sovereign power. For example,

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[22]These repayments, however, may lead to an increase or decrease in expense if they are the occasion for reestimating the subsidy cost of post-1991 direct loans or for adjusting the allowance for uncollectible amounts of other receivables.

[23]User charges are discussed in a CBO study that has a broader scope than indicated by its title. See The Growth of Federal User Charges (August 1993). The data in that study have been updated in CBO Memorandum, The Growth of Federal User Charges: An Update (October 1995).

individuals under Medicare may choose to pay premiums for Supplemental Medical Insurance (SMI). At the same time, however, the Government, through its sovereign powers, pays for about three-quarters of the cost of SMI, which is such a strong incentive that almost all eligible persons participate. As a result, the premiums might reasonably be classified as either governmental receipts or offsetting collections. They were classified as governmental receipts when the program began but for some years have been classified as offsetting collections.

103. Furthermore, the budget classification of various user charges does not follow the conceptual principles in every instance. Statutory requirements and other public policies have increasingly classified regulatory user charges as offsetting collections in recent years even though they arise from the exercise of the Government's sovereign power.[24] The budget classification of receipts now has a formal category of "offsetting governmental receipts" that includes a number of transactions that are deemed to arise from sovereign power but are classified as offsetting receipts; and the budget identifies as "governmental" those offsetting collections credited to expenditure accounts that arise from sovereign power.[25]

[24]CBO, The Growth of Federal User Charges (August 1993), pp. 35-36.

[25]Governmental offsetting collections credited to an expenditure account are identified as such and shown on a separate line in the account's program and financing schedule.

INTRAGOVERNMENTAL TRANSACTIONS

104. The relationship between budgetary and financial accounting transactions is not nearly as close for intragovernmental transactions as it is for transactions with the public. All intragovernmental collections recorded in the budget are offsetting collections. This is necessary in order that the receipt and outlay totals of the budget reflect only transactions with the public. However, as explained in Appendix B of SFFAS No. 7, some of these offsetting collections are exchange revenues in the new financial accounting, a few are nonexchange revenues, while a number of others are classified as other financing sources. Furthermore, the financial accounting recognizes some inflows of resources that are not transactions in the budget.

105. Intragovernmental exchange transactions consist of all payments for goods and services provided, such as the sale of services by DBOF (Defense Business Operations Fund) to another entity within the Department of Defense. Intragovernmental nonexchange transactions are those transactions where the inflow of resources is akin to a corresponding nonexchange transaction with the public (such as an employer entity's contributions to Social Security and Medicare for its employees) or derives directly from past nonexchange transactions with the public (such as interest paid to trust funds on their investments in Treasury securities that they purchased from previous tax receipts).

106. Other intragovernmental financing sources are more varied. They include many inflows of resources that are not recorded as transactions in the budget. The most important of these is appropriations, which are recognized as an other financing source to the entity when used but are not recorded in the calculation of budget outlays and receipts. The budget records appropriations, of course, but appropriations provide the authority to enter into obligations that will result in outlays rather than being offsets in calculating the amount of outlays. Recording appropriations as offsetting collections would make outlays approximately zero when appropriations were subtracted from

the outlays for which they provided the authority. Further examples of other financing sources are the transfer of capitalized assets without reimbursement, and imputed financing when the full cost of goods or services is recognized but is not charged to the entity that receives them. The other intragovernmental financing sources all have the same basic characteristic: they are not produced by the operations of the entity that receives the inflow and therefore should not be deducted from its gross cost in determining its net cost of operations.

CHOICE OF CLASSIFICATION SYSTEM

107. Because financial and budgetary accounting are related, it may be asked whether financial accounting should follow the budgetary classification of transactions. For intra-governmental transactions, the differences are so large and fundamental between budgetary accounting and the principles in SFFAS No. 7 that the two classifications could not reasonably be made the same.

- o The accounting principles of SFFAS No. 7 require that exchange revenue be recognized separately from nonexchange revenue and other financing sources and offset against gross cost in order to calculate net cost. Nonexchange revenue and other financing sources do not affect net cost but do contribute to net position. The budget classification of intragovernmental offsetting collections does not make this distinction and must offset all intragovernmental transactions against gross outlays in order for the budget totals to measure transactions with the public.

- o The inflows of resources classified by financial accounting as other financing sources--such as appropriations--could not be classified as offsetting collections in the budget without making the related budget outlays approximately zero as a matter of definition. However, they are necessary in financial accounting to determine the change in net position.

108. For transactions with the public, on the other hand, the differences between the principles of SFFAS No. 7 and the budgetary classification are relatively small. There are about $5 billion of employee contributions to Federal retirement systems that are classified as exchange transactions for financial accounting but are governmental receipts in the budget, and there are around $2 billion of regulatory user fees that are classified in the same way. There are also sales of property, plant, and equipment, which are recognized in financial accounting only to the extent of a gain or loss but are measured by cash inflow in the budget. These and similar transactions are relatively small compared to the $1,570 billion of governmental receipts plus offsetting collections (from the public) recorded in the budget for 1995.

109. Financial accounting could follow the budget in classifying the type of transaction with the public by matching exchange revenue with offsetting collections and nonexchange revenue with governmental receipts. The arguments are fourfold. First, one classification system is simpler to use and understand than two systems and would avoid confusion. Second, the two classifications generally overlap, as discussed above, so the aggregate loss from misclassification in terms of the financial reporting criteria could not be large. Third, in some cases the transactions for which the two classifications differ are borderline decisions under both classifications, especially in the area of regulatory user charges. And fourth, a separate classification system would need its own method of ensuring compliance.

110. The underlying argument in favor of separate classifications is that different classification systems are needed for different purposes. The primary purpose of the classification system for revenue and other financing sources is to help measure the net cost of an entity's operations. To achieve this result, it is necessary to offset the entity's costs by the revenue that it earns from the provision of goods and services.

111. The net cost of operations is important information. For all entities, the net cost (and the gross cost) should be compared with outputs and outcomes in assessing the effectiveness with which resources are used to achieve results. For an entity that provides goods and services to the taxpayer, net cost is needed in order to calculate the extent to which the cost of the activity is borne by the taxpayer rather than by identifiable recipients of special benefits or by identifiable parties that are being regulated. This information can help decision makers evaluate the extent to which the entity's exchange activities were justified in terms of the public's willingness to pay. Both the comparison of costs with outputs and outcomes, and the information about the public's willingness to pay, can be used by management, the President, and the Congress in making decisions about the allocation of resources. And for all entities that provide goods and services, whether to the public or to other Federal entities, the net cost of operations is needed in evaluating and establishing the entity's pricing policy. The extent to which expense is covered by user charges can be a critical factor in setting user changes that are efficient and fair.

112. Although a separate classification system for transactions with the public would make little difference to the aggregate amounts in the consolidated financial statements of the U.S. Government, it would enable these particular goals to be much better met for a number of specific entities and activities: instances where the budget does not offset program outlays by the collections earned by the program's provision of goods and services, or where the budget records an offsetting collection that exceeds the gain/loss or adjustment to expense. Furthermore, as long as the financial accounting standards measure some transactions in terms of the difference between the cash inflow and the book value of the assets that are given up, the dollar amounts of a few types of transactions cannot be the same. The financial accounting standards, moreover, recognize a few transactions with the public that are not recorded in the budget. Nor can the financial accounting classification be compatible in all cases with both budget concepts and budget practice. Finally, the classification of intragovernmental transactions would remain very different, so the two systems would still not be identical.

113. Because the purposes of financial accounting and the budget are different, although related, it is reasonable to expect that the classification systems appropriate for each purpose would also be related but not identical. This would be similar to the relationship between the Federal budget and the Federal sector in the national income and product accounts. Their principal purposes differ, and as a result their classifications have important differences even while being similar in many respects.[26] Accordingly, the

[26]The difference between the classifications in the budget and the national income and product accounts prior to the comprehensive revision of these accounts in January 1996 is discussed in "National Income and Product Accounts," chapter 19 of Analytical Perspectives, Budget of the United States Government, Fiscal Year 1996, pp. 267-70. For a more detailed reconciliation table, see Bureau of Economic Analysis, National Income and Product Accounts of the United States, vol. 2, 1959-88 (Washington: Government Printing Office, 1992), table 3.18B.

Board decided to recommend that financial accounting use a separate classification system from the budget.

CHAPTER 4: CASE STUDY AND ILLUSTRATIONS

114. This is a case study to illustrate the application of the new standard on accounting for revenue and other financing sources. The case provides a set of budgetary and proprietary journal entries and related proprietary financial statements for three Federal entities that have transactions with each other and with the public. The entities are:

a. a *collecting entity*, which receives an annual appropriation and collects tax revenues earmarked for a trust fund;

b. a *credit program entity*, which makes loans, provides reimbursable services to the trust fund, and procures services from the public;

c. a *trust fund*, which consolidates the cash and investing activities of Treasury's Financial Management Service with the activities of the program agency administering the trust fund's operations.

115. The case illustrates the following transactions in the appropriate entities:

a. collection, accrual, and transfer of taxes;

b. ordering goods or services to be received or provided;

c. issuance and receipt of appropriations and borrowings from Treasury;

d. interagency borrowing from Treasury;

e. receipt or provision of goods, services, and benefits, including making loans to the public;

f. collection of loan principal and interest;

g. interagency purchase, issuance, and redemption of Treasury securities;

h. accrual, payment, and receipt of interest on the Treasury securities;

i. imputation of revenue and expense for services provided at less than cost;

j. depreciation of equipment and accrual of annual leave;

k. temporary accrual of financing sources for expenses to be funded from future financing sources;

l. closing entries.

116. Both pre- and post-closing trial balances are shown for the budgetary and proprietary accounts for each entity. From these, the following financial statements are illustrated based on the requirements of the new standard:

a. Statement of Custodial Activity;

b. Statement of Net Cost;

c. Statement of Changes in Net Position;

d. Balance Sheet;

e. Statement of Budgetary Resources; and

f. Statement of Financing.

117. Only the line items necessary to complete the statements are shown. Crosswalks to account balances from which the figures are obtained are presented on the face of the statement for illustrative purposes.

118. There are a number of caveats in using the case.

a. The case entities do not reflect any particular Federal agencies or programs. Although there are counterparts to the illustrated transactions in real Federal agencies and programs, the case entities and their transactions are fictitious. Dollar amounts used in transactions are assumed for purposes of illustration. Particularly, regarding the credit agency, in an actual situation the amounts relating to the subsidy and its amortization would be computed using present value methodologies, which are beyond the scope of this implementation guide. Information on present value computations for direct loan and loan guarantee programs is provided in the reference set forth in paragraph 119(h). Additional information is also found in Appendix B, "Technical Explanations and Illustrations," of SFFAS No. 2, Accounting for Direct Loans and Loan Guarantees (August 23, 1993).

b. The transactions are illustrative, but not comprehensive. Federal agencies engage in many transactions in addition to those shown, such as the use and recognition of contract authority and sales of assets, decreases in the liability for annual leave, accrual of exchange revenue from the public, etc. A comprehensive case would mask the benefit of the illustrations by requiring voluminous technical and explanatory information about specific programs and transactions. Similarly, the reports and crosswalks illustrated are condensed and simplified to highlight application of key concepts and requirements of the revenue standard. Authoritative guidance for agency financial statements that are prepared pursuant to the Chief Financial Officers Act (as amended) is contained in OMB's bulletin on form and content. Guidance for budgetary reports is contained in OMB Circulars A-11 and A-34. Agencies may sometimes develop alternative crosswalks which provide the same information.

c. The journal entries and trial balances for the collecting agency and trust fund utilize accounts provided in the U. S. Government Standard General Ledger, and the illustrated reports include crosswalks to those accounts. Account names are often abbreviated to fit within available space. At this writing, the SGL Board is revising the illustrative transactions in the SGL, and journal entries are subject to change.

d. Accounts which would be subaccounts of an SGL account are shown with the master account number. For example, account number 6100, "Operating/Program Expenses," is used for the subaccount "Depreciation Expense - Equipment." Subaccount titles and numbers are the purview of agencies.

e. Line items which would be reported based on data elements being captured with accounts are indicated with a "D." For example, account 6100, "Operating Expenses," would require data elements for each expense to indicate whether the expense was exchange- or nonexchange-related.

f. Accounts not presently in the SGL are marked "XXXX" in place of a number, and the issues involved have been referred to the SGL Board for resolution.

g. Crosswalks are those for SGL accounts used in the case only. They do not include the entire SGL chart of accounts.

h. Beginning account balances are assumed to be zero for purposes of illustration.

i. For simplicity, all appropriations are classified as "other," SGL account 4119, rather than as specific types of appropriations. In an actual situation, specific types of appropriations, with different SGL account numbers, would be designated as applicable. Budgetary authority for the collecting and credit agencies is assumed to expire at year-end; authority for the trust fund is assumed to be available for obligation in the succeeding year. Additionally, apportionment of resources is assumed and not illustrated. The status of resources is shown beginning with their allotment by agencies for commitment and obligation. Commitment accounting, which does not add to the value of the case, is not illustrated.

j. In most cases, revenues and expenses are not broken out beyond the designation "exchange" and "nonexchange." This is for illustrative purposes only and is designed to avoid cluttering the statements with specific items which do not add to the value of the concepts presented. Note, however, that in an actual situation, revenues and expenses must be broken out by source of revenue and nature of expense as prescribed by OMB's form and content guidance.

k. The trust fund transactions provide for transfers of collections to it in the amount collected. In practice, transfers are made during the year based on estimates, and any amount collected but not yet transferred at year-end is accrued as a receivable and a revenue by the trust fund.

l. In addition to activities for the entities illustrated, the Department of the Treasury would maintain records on the Government's cash position and debt. Related information would be reported in the Consolidated Financial Statements of the U. S. Government.

m. The illustrative Balance Sheets are designed solely to highlight the new, simplified capital structure which would result from application of the revenue standard. Assets and liabilities are not segregated by entity and non-entity to avoid complicating the example with items not related to the revenue standard. Agency Balance Sheets would be prepared in accordance with SFFAS No. 1 and the form and content guidance published by OMB, which prescribes the entity and non-entity designations.

119. More detailed information on Federal accounting can be found in such references as:

a. *Accounting for Basic Operating Appropriations and Reimbursables*, U. S. General Accounting Office (AFMD-PPM-2.1, September 1990)

b. *Accounting for Expired Appropriation Authority Under the Requirements of P.L. 101-110*, U. S. Standard General Ledger Board (October 1991)

c. Illustrative Cases in *Accounting Under the Credit Reform Act of 1990*, U. S. Financial Management Service (cases 2b, 3b, 4, and 5b, with various dates through 1994)

d. *Budgetary Accounting in the Federal Government*, U. S. Financial Management Service (September 30, 1994)

e. *Treasury Financial Manual*, issued by the U.S. Financial Management Service. (See esp. I TFM 2-4200 and supplements and transmittal letters setting forth and updating the ***U. S.*** *Government Standard General Ledger*.)

f. OMB Circulars A-11 (Budget Preparation), A-34 (Budget Execution), and A-127 (Financial Management Systems)

g. OMB Bulletin 94-01, *Form and Content of Agency Financial Statements* (November 1993, or as subsequently amended)

h. <u>Accounting for the Present Value of Direct Loan and Loan Guarantee Programs Under the Federal Credit Reform Act of 1990 (P.L. 101-508)</u>, U.S. Financial Management Service (September 16, 1993).

120. The transactions and journal entries for the case begin on the next page.

ILLUSTRATIVE CASE TRANSACTIONS, JOURNAL ENTRIES, AND TRIAL BALANCES

(In the following illustrations, "N/A" means "not applicable.")

Transactions	Collecting Agency	Credit Agency	Trust Fund
1. The collecting and credit agencies received appropriations, which were fully apportioned and allotted. Warrants were issued.	Budgetary entry 4119 Other Appropriations Realized 1000 4610 Allotments - Realized Resources 1000 Proprietary entry 1010 Fund Balance with Treasury 1000 3100 Appropriated Capital 1000	Budgetary entry 4119 Other Appropriations Realized 1500 4610 Allotments - Realized Resources 1500 Proprietary entry 1010 Fund Balance with Treasury 1500 3100 Appropriated Capital 1500	Budgetary entry None Proprietary entry None
2. The collecting agency collected taxes for the trust fund and deposited them to the Treasury.	Budgetary entry None Proprietary entries 1010 Fund Balance with Treasury 5000 5800 Tax Revenue 5000 - & - 5990 Contra Revenue - Collected for Others 5000 2990 Custodial Liability (D) 5000	N/A	N/A
3. Treasury transferred collections to the Trust Fund. A warrant was issued and the funds were allotted. (The trust fund recognizes this as an appropriation. It is not subject to the apportionment process.)	Budgetary entry None Proprietary entry 2990 Custodial Liability (D) 5000 1010 Fund Balance with Treasury 5000	N/A	Budgetary entry 4119 Other Appropriations Realized 5000 4620 Other Funds Available for Commit/Oblig 5000 Proprietary entry 1010 Fund Balance with Treasury 5000 5800 Tax Revenues 5000
4. Goods, services, and benefits ordered to be received or provided were recorded. Borrowing authority was recorded for loans to be made and was apportioned and allotted.	Budgetary entry 4610 Allotments - Realized Resources 750 4800 Undel Orders 750 Proprietary entry None	Budgetary entry 4142 CY Borr Auth Realized 200 4610 Allotments - Rlzd Resour 700 4800 Undel Orders 900 Proprietary entry None	Budgetary entry 4620 Other Funds Available for Commit/Oblig 4500 4800 Undel Orders 4500 Proprietary entry None
5. The entities received goods and services for use in operations and	Budgetary entry 4800 Undel Orders 750	Budgetary entries 4148 Resour Realzd from BA 200	Budgetary entry 4800 Undel Orders 4200

Transactions	Collecting Agency	Credit Agency	Trust Fund
provided benefits to participants in programs they operate. These included items accounted for as operating expenses in all three entities; capitalized equipment in the credit agency and trust fund; and loans the credit agency made to credit program participants. To make the loans, the credit agency borrowed money from the Treasury and used funds appropriated for loan subsidies, as provided under the Credit Reform Act of 1990 (P.L. 101-508). The entities paid for some items during the year; the remainder were still payable at year-end.	4900 Expended Authority 750 Proprietary entries 6100 Operating/Program Expense - Nonexch (D) 750 1010 Fund Balance with Treasury 750 - & - 3100 Appropriated Capital 750 5700 Appr Capital Used 750	4145 BA Converted to Cash 200 - & - 4800 Undel Orders 500 4900 Expended Authority 500 Proprietary entries 1010 Fund Balance with Treasury 200 2510 Prin Pay to Treasury 200 - & - 1350 Loans Receivable 250 1750 Equipment 100 6100 Operating/Program Expense - Exch (D) 150 6100 Subsidy Expense- other than re-est. (D) 50 1010 Fund Balance with Treasury 375 1399 Allowance for Subsidy 50 2110 Accounts payable 125 - & - 3100 Appropriated Capital 300 5700 Appr Capital Used 300	4900 Expended Authority 4200 Proprietary entry 1750 Equipment 1000 6100 Operating/Program Expense - Nonexch (D) 3200 1010 Fund Balance with Treasury 3000 2110 Accounts Payable 1200
6. Trust fund monies were invested in Treasury securities.	N/A	N/A	Budgetary entry None Proprietary entry 1610 Securities at Par 800 1010 Fund Balance with Treasury 800
7. Interest on the Treasury securities was collected.	N/A	N/A	Budgetary entry 4119 Other Appro. Realized 10 4620 Other Funds Avail for Commit/Oblig 10 Proprietary entry 1010 Fund Balance with Treasury 10 5300 Interest Revenue 10
8. Collections for loan principal and interest made in transaction #5 were received. The monies were used to pay interest and reduce principal on the borrowing from Treasury.	N/A	Budgetary entries 4262 Act Coll - Loan Principal Collected 40 4263 Act Coll - Loan Interest Collected 10 4147 Payments to Treasury 35* 4900 Expended Authority 15* *The $35 is principal and the $15 is interest on the loan from Treasury Proprietary entries 1010 Fund Balance with Treasury 50 1350 Loans Receivable 40 5300 Interest Inc. - Borrowers (D) 10 - & - 2510 Prin Payable to Treasury 35 6310 Interest Expense-Treasury 15 1010 Fund Balance with	N/A

Transactions	Collecting Agency	Credit Agency	Trust Fund
		Treasury 50 - & - 3100 Appropriated Capital 15 5700 Appropriated Capital Used 15	
9. The credit agency provided services for, and collected a fee from, the trust fund. (see related transaction 12)	N/A	Budgetary entry 4250 Reimbursements & Other Income Earned 100 4610 Allotments - Rlzd Resour 100 Proprietary entry 1010 Fund Balance with Treasury 100 5200 Service Revenue 100	Budgetary entries 4620 Other Funds Available for Commit/Oblig 100 4900 Expended Authority 100 Proprietary entries 6100 Operating/Program Expenses - Nonexchange (D)100 1010 Fund Balance with Treasury 100
10. Treasury redeemed a portion of trust fund investments at par plus accrued interest.	N/A	N/A	Budgetary entry 4119 Other Appropriations Realized 11 4620 Other Funds Avail. for Commit/Oblig 11 Proprietary entry 1010 Fund Balance with Treasury 261 1610 Securities 250 5300 Interest Revenue 11
11. The trust fund accrued interest on the remaining Treasury investments.	N/A	N/A	Budgetary entry None Proprietary entry 1340 Interest Receivable 25 5300 Interest Revenue 25
12. The trust fund was informed that the amount charged for services provided by the credit agency was less than the credit agency's cost (see transaction 9). The applicable standard for that cost required the trust fund to recognize an imputed cost for the difference. An imputed financing source was also recognized to offset the imputed cost.	N/A	N/A	Budgetary entry None Proprietary entry XXXX Imputed Expenses 15 5900 Imputed Financing Sources (D) 15
13. Depreciation on equipment was recorded.	N/A	Budgetary entry None Proprietary entry 6100 Depr Exp - Equip (D) 20 1759 Accum Depr - Equip 20	Budgetary entry None Proprietary entry 6100 Depr Exp - Equip (D) 200 1759 Accum Depr - Equip 200
14. The annual leave liability was accrued. Entries to indicate that financing sources are needed are made as a convenience to automated systems	Budgetary entry None Proprietary entries	Budgetary entry None Proprietary entries	Budgetary entry None Proprietary entry

Transactions	Collecting Agency	Credit Agency	Trust Fund
preparing the Statement of Financing, which requires that figure.	6100 Annual Leave Expense (D) 25 2220 Annual Leave Liab 25 - & - 3501 Future Funding Requir 25 XXXX Fin Sources - Unfunded 25	6100 Annual Leave Expense (D) 30 2220 Annual Leave Liab 30 - & - 3501 Future Funding Requir 30 XXXX Fin Sources - Unfunded 30	6100 Annual Leave Expense (D) 20 2220 Annual Leave Liab 20 [Note: Assumes annual leave is a funded expense for the trust fund. If not, an unfunded Financing Source would have to be recorded, as was done for the Collecting and Credit Agencies.]
15. Tax revenues to be collected were accrued.	Budgetary entry None Proprietary entries 1310 Taxes Receivable (D) 400 5800 Tax Revenues 400 - & - 5990 Contra Revenue for Others 400 2190 Liab for Tax Accrual (D) 400	N/A	N/A
16. A reestimate of the subsidy at year end indicated that $8 additional subsidy and $1 interest on the reestimate should be recorded. After the reestimate the subsidy was amortized and the future financing source for the unfunded subsidy reestimate (which will be received in the following year) was recorded. The entry to indicate that a financing source is needed is made as a convenience to automated systems preparing the Statement of Financing, which requires that figure.	N/A	Budgetary entry None Proprietary entries 6100 Subsidy Exp. Re-est (D) 8 6330 Int Expense - Re-est. (D) 1 1399 Allowance for Subsidy 8 5300 Interest Income - Re-est (D) 1 - & - 1399 Allowance for Subsidy 5 5300 Interest Inc - Subs. (D) 5 - & - 3501 Future Funding Requir 9 XXXX Fin Source - Unfunded 9	N/A
Preclosing Trial Balance	Budgetary 4119 Other Appro Realized 1000 4610 Allotments Rlzd Resour 250 4900 Expended Authority 750 1000 1000 Proprietary XXXX Fin Sources - Unfunded 25 1010 Fund Balance with Treasury 250 1310 Taxes Receivable (D) 400 2190 Liability for Tax Accrual (D) 400 2220 Annual Leave Liab 25 3100 Appropriated Capital 250 3501 Future Funding Requir 25 5700 Appr Capital Used 750 5800 Tax Revenues 5400 5990 Contra Revenue Collected for Others 5400 6100 Annual Leave Expense (D) 25	Budgetary 4119 Other Appr Realized 1500 4142 CY Budget Auth Rlzd 200 4145 BA Converted to Cash 200 4148 Resour Realzd from BA 200 4610 Allotments - Rlzd Resour 900 4250 Reimbursements & Other Income Earned 100 4262 Act Coll - Loan Principal 40 4263 Act Coll - Loan Interest 10 4147 Actual Pmts to Treasury 35 4800 Undelivered Orders 400 4900 Expended Authority 515 2050 2050 Proprietary XXXX Fin Sources - Unfunded 39 1010 Fund Balance with Treasury 1425 1350 Loans Receivable 210 1399 Allowance for Subsidy 53	Budgetary 4119 Other Appro Realized 5021 4620 Other Funds Available for Commit/Oblig 421 4800 Undelivered Orders 300 4900 Expended Authority 4300 5021 5021 Proprietary 1010 Fund Balance with Treasury 1371 1340 Interest Receivable 25 1610 Securities 550 1750 Equipment 1000 1759 Accum Depr - Equip 200 2110 Accounts Payable 1200 2220 Annual Leave Liab 20 5300 Interest Revenue 46 5800 Tax Revenue 5000

Transactions	Collecting Agency	Credit Agency	Trust Fund
	6100 Operating/Program Expense - NonExch (D) 750 6850 6850	1750 Equipment 100 1759 Accum Depr - Equip 20 2110 Accounts Payable 125 2220 Annual Leave Liab 30 2510 Prin Payable to Treasury 165 3100 Appropriated Capital 1185 3501 Future Funding Requir 39 5200 Service Revenue 100 5300 Interest Revenue 16 5700 Appr Capital Used 315 6100 Annual Leave Expense (D) 30 6100 Subsidy Expense other than re-est. (D) 50 6100 Subsidy Exp.-re-est. 8 6100 Depreciation Expense - Equip (D) 20 6100 Operating/Program Expense - Exchange (D) 150 6310 Interest Expense-Treasury 15 6330 Interest Expense--Re-est. 1 2048 2048	5900 Imputed Financing Sources (D) 15 6100 Depreciation Expense - Equip (D) 200 6100 Annual Leave Expense (D) 20 XXXX Imputed Expenses 15 6100 Operating/Program Expense - Nonexch (D) 3300 6481 6481
Closing Entries: (Note that the closing entry for unfunded financing sources reverses the entry which created the accounts in transaction #14.)	Budgetary entries 4201 Total Actual Resources 1000 4119 Other Appro Realized 1000 - & - 4610 Allotments Rlzd Resour 250 4650 Allotments - Expired Authority 250 - & - 4900 Expended Authority 750 4201 Total Actual Resources 750 Proprietary entries 3310 Cum Result of Oper. 25 5700 Appr Capital Used 750 5800 Tax Revenues 5400 5990 Contra Revenue Collected for Others 5400 6100 Annual Leave Expense (D) 25 6100 Operating/Program Expense - NonExch (D) 750 - & - XXXX Fin Sources - Unfunded 25 3501 Future Funding Requir 25	Budgetary entries 4145 BA Converted to Cash 200 4147 Actual Pmts to Treasury 35 4201 Total Actual Resources 1815 4119 Other Appro Realized 1500 4142 CY Borrow. Auth. Rlzd. 200 4148 Resour Realzd from BA 200 4250 Reimbursement & Other Income Earned 100 4262 Act Coll - Loan Principal 40 4263 Act Coll - Loan Interest 10 - & - 4610 Allotments - Realized Resources 900 4650 Allotments - Expired Authority 900 - & - 4900 Expended Authority 515 4201 Total Actual Resources 515 Proprietary entries 5200 Service Revenue 100 5300 Interest Revenue 16 5700 Appr Capital Used 315 3310 Cumulative Results of Operations 157 6100 Subsidy Expense (D) 58 6100 Annual Leave Expense (D) 30 6100 Depreciation Expense - Equip (D) 20 6100 Operating/Program Expense - Exchange (D) 150	Budgetary entries 4201 Total Actual Resources 5021 4119 Other Appro Realized 5021 - & - 4900 Expended Authority 4300 4201 Total Actual Resources 4300 Proprietary entries 5300 Interest Revenue 46 5800 Tax Revenue 5000 5900 Imputed Financing Sources (D) 15 3310 Cumulative Results of Operations 1526 6100 Depreciation Expense - Equip (D) 200 XXXX Imputed Expenses 15 6100 Annual Leave Expense (D) 20 6100 Operating/Program Expense - Nonexch (D) 3300

Transactions	Collecting Agency	Credit Agency	Trust Fund
		6310 Int Expense--Treasury 15 6330 Int Expense--Re-est 1 - & - XXXX Financing Sources - Unfunded 39 3501 Future Funding Requir 39	
Post Closing Trial Balance	Budgetary 4201 Total Actual Resources 250 4650 Allotments - Expired Authority 250 250 250 Proprietary 1010 Fund Balance with Treasury 250 1310 Taxes Receivable (D) 400 2220 Annual Leave Liability 25 2990 Custodial Liab. (D) 400 3100 Appropriated Capital 250 3310 Cum Results of Oper. 25 675 675	Budgetary 4201 Total Actual Resources 1300 4650 Allotments - Expired Authority 900 4800 Undelivered Orders 400 1300 1300 Proprietary 1010 Fund Balance with Treasury 1425 1350 Loans Receivable 210 1399 Allowance for Subsidy 53 1750 Equipment 100 1759 Accum Depr - Equip 20 2110 Accounts Payable 125 2220 Annual Leave Liab 30 2510 Prin Payable to Treasury 165 3100 Appropriated Capital 1185 3310 Cumulative Results of Operations 157 1735 1735	Budgetary 4201 Total Actual Resources 721 4620 Other Funds Avail. for Commit/Oblig 421 4800 Undelivered Orders 300 721 721 Proprietary 1010 Fund Balance with Treasury 1371 1340 Interest Receivable 25 1610 Securities 550 1750 Equipment 1000 1759 Accum Depr - Equip 200 2110 Accounts Payable 1200 2220 Annual Leave Liab 20 3310 Cumulative Results of Operations 1526 2946 2946

121. a. The following pages present financial statements for the three entities involved. The matrix below identifies the statements prepared for each entity.

ILLUSTRATIVE FINANCIAL STATEMENTS PREPARED FOR CASE STUDY ENTITIES

Statement	Collecting Agency	Credit Agency	Trust Fund
Custodial Activity	Figure 1	N/A	N/A
Net Cost	Figure 2	Figure 7	Figure 12
Changes in Net Position	Figure 3	Figure 8	Figure 13
Balance Sheet	Figure 4	Figure 9	Figure 14
Budgetary Resources	Figure 5	Figure 10	Figure 15
Financing	Figure 6	Figure 11	Figure 16

b. The legend for the various statements is as follows:

1. [ ] designates accounts and arithmetic
2. XXXX designates an account not in the SGL
3. B = beginning account balance
4. E = ending account balance
5. No B or E = adjusted (preclosing) account balance
6. Pub = public (outside the Government)
7. Fed = Federal (within the Government)

Figure 1

Illustrative Collecting Agency
Statement of Custodial Activity
For Year Ended September 30, ____

Sources of Revenue

Collected [5800 Tax Revenue + 1310 Tax Rec(B)-(E)]	$5,000
Increase in Net Receivables [1310 Tax Rec(E) - (B)]	400
Total Revenues	$5,400

Disposition of Revenue

Transferred to Others [5990 Rev. Collected for Others- 2190 Liab. for Tax Accrual (E-B)]	$5,000
Increase in Amounts to be Transferred [2190 Liab. for Tax Accrual (E)-(B)]	400
Total Disposition of Revenues	($5,400)
NET CUSTODIAL ACTIVITY	-0-

Figure 2

Illustrative Collecting Agency
Statement of Net Cost
For Year Ended September 30, ____

Costs (not related to earned revenue)

Annual Leave Expense [6100]	$ 25
Other Expenses [6100]	750
NET COST OF OPERATIONS	$775

Figure 3

Illustrative Collecting Agency
Statement of Changes in Net Position
For Year Ended September 30, ____

Net Cost of Operations	$775
Financing Sources (Other than Earned Revenues) that Affect Net Position:	
Appropriations Used to acquire goods, services, and benefits [5700]	750
Net Results of Operations	$(25)
Increase in Unexpended Appropriations [3100 (E-B)]	250
Increase in Net Position	$225
Net Position, October 1	0
NET POSITION, SEPTEMBER 30 [MUST = 3100(E) + 3310(E)]	$225

Figure 4

Illustrative Collecting Agency
Balance Sheet
For Year Ended September 30, ____

Assets	
Fund Balance with Treasury [1010]	$ 250
Taxes Receivable [1310]	400
TOTAL ASSETS	$ 650
Liabilities and Net Position	
Liabilities	
Custodial Liability [2990]	$ 400
Annual Leave Liability [2220]	25
Total Liabilities	$ 425
Net Position	
Unexpended Appropriations [3100]	$ 250
Cumulative Results of Operations [3310]	(25)
Total Net Position	$ 225
TOTAL LIABILITIES AND NET POSITION	$ 650

Figure 5

Illustrative Collecting Agency
Statement of Budgetary Resources
For Year Ended September 30, ____

Budgetary Resources	
Current Appropriations [4119(B)]	$1,000
Status of Budgetary Resources	
Obligations incurred [4800 (E-B) + 4900]	$ 750
Unobligated balance not available [4650 (E)]	250
Total, status of budgetary resources	$1,000
Outlays	
Obligations incurred [4800 (E-B) + 4900]	$ 750
Add obligated fund balance, net October 1	0
Deduct obligated fund balance, net September 30	0
Total, outlays	$ 750

Figure 6

Illustrative Collecting Agency
Statement of Financing
For Year Ended September 30, ____

Obligations and Nonbudgetary Resources	
Obligations incurred [4800 (E-B) + 4900]	$750
Other	0
Obligations and Nonbudgetary Resources	750
Financing Sources Yet to be Provided	
[XXXX Future Fin Source or 2220 (E-B)]	25
NET COST OF OPERATIONS	$775

Figure 7

Illustrative Credit Agency
Statement of Net Cost
For Year Ended September 30, ____

Costs to Produce Exchange Revenue	
Interest Expense [6310 + 6330]	$16
Depreciation Expense [6100]	20
Annual Leave Expense [6100]	30
Subsidy Expense [6100]	58
Other Expense [6100 + XXXX imputed expenses]	150
	$274
Less Earned Revenue	
Intragovernmental [5200 Fed.]	$100
Interest Income [5300]	16
	$(116)
NET COST OF OPERATIONS	$158

Figure 8

Illustrative Credit Agency
Statement of Changes in Net Position
For Year Ended September 30, ____

Net Cost of Operations	$158
Financing Sources (Other than Earned Revenues) that Affect Net Position:	
Appropriations Used [5700]	315
Net Results of Operations	$157
Net Position, October 1, ____	0
NET POSITION, SEPTEMBER 30, ____[must = 3100 (E) + 3310 (E)]	$157

Figure 9

Illustrative Credit Agency
Balance Sheet
For Year Ended September 30, ____

Assets		
Fund Balance with Treasury [1010]		$1,425
Loans Receivable [1350]	$210	
Less Allowance for Subsidy [1399]	(53)	157
Equipment [1750]	$100	
Less: Accumulated Depreciation [1759]	(20)	80
TOTAL ASSETS		$1,662
Liabilities and Net Position		
Liabilities		
Accounts Payable [2110]		$125
Annual Leave Liability [2220]		30
Prin. Pay. to Treasury [2510]		165
Total Liabilities		$320
Net Position		
Unexpended Appropriations [3100]		$1,185
Cumulative Results of Operations [3310]		157
Total Net Position		$1,342
TOTAL LIABILITIES AND NET POSITION		$1,662

Figure 10

Illustrative Credit Agency
Statement of Budgetary Resources
For Year Ended September 30, ____

Budgetary Resources	
Current Appropriations [4119]	$1,500
Borrowing Authority [4142]	200
Collection of Loan Principal and Int. [4262 + 4263]	50
Reimbursements for Services [4250]	100
Less Principal Repaid to Treasury [4147]	(35)
Total, budgetary resources	$1,815
Status of Budgetary Resources	
Obligations incurred [4800 (E-B) + 4900]	915
Unobligated balance not available [4650 (E)]	900
Total, status of budgetary resources	$1,815
Outlays	
Obligations incurred[4800 (E-B) + 4900]	$915
Spending authority from offsetting collections and adjustment [4250 + 4262 + 4263]	(150)
Add obligated fund balance, net October 1	0
Deduct obligated fund balance, net September 30 [4800(E) + 2110(E)]	(525)
Total, outlays	$ 240

Figure 11

Illustrative Credit Agency
Statement of Financing
For Year Ended September 30, ____

Obligations and Nonbudgetary Resources	
Obligations incurred [4800 (E-B) + 4900]	$915
Less spending authority from offsetting collections [4250 + 4262 + 4263]	(150)
Less exchange revenue not in the budget:	
Interest Income--Subsidy [5300 Int. Inc.--Subsidy (D)]	(5)
Interest Income--Reestimate [5300 Int. Inc.--Re-est. (D)]	(1)
Obligations and Nonbudgetary resources	$759
Resources That Do Not Fund Net Cost of Operations	
Changes in Goods, Services, and Benefits Ordered But Not Yet Received or Provided [4800 (E-B)]	(400)
Costs Capitalized on the Balance Sheet [1750 Equipment (E-B) + 4800 Obligations for Loans Made (D) - 4262 Collections of Loan Principal - 6100 Subsidy Expense other than for reestimates (D)]	(260)
Costs That Do Not Require Resources	
Depreciation [6100 Depr]	20
Financing Sources Yet to be Provided	
[XXXX Future Fin Sources or 2220 (E-B) + 6100 Subsidy Reestimates]	39
NET COST OF OPERATIONS	$158

Figure 12

Illustrative Trust Fund
Statement of Net Cost
For Year Ended September 30, ____

Costs Not Related to Producing Exchange Revenue	
Depreciation [6100]	$ 200
Annual Leave [6100]	20
Imputed [XXXX]	15
Other [6100]	3,300
NET COST OF OPERATIONS	$3,535

Figure 13

Illustrative Trust Fund
Statement of Changes in Net Position
For Year Ended September 30, ____

Net Cost of Operations		$3,535
Financing Sources (Other than Earned Revenues) that Affect Net Position		
Tax Revenues [5800]	$5,000	
Interest Revenue from Treasury [5300 (D)]	46	
Imputed Financing Sources [5900 (D)]	15	
		5,061
Net Results of Operations		$1,526
Net Position, October 1, _____		0
NET POSITION, SEPTEMBER 30, ____		$1,526

Figure 14

Illustrative Trust Fund
Balance Sheet
For Year Ended September 30, ____

Assets		
Fund Balance with Treasury [1010]		$1,371
Interest Receivable [1340]		25
Securities [1610]	$800	
Less Unamortized Discount [1611]	(250)	550
Equipment [1750]	$1,000	
Less: Accumulated Depreciation [1759]	(200)	800
TOTAL ASSETS		$2,746
Liabilities and Net Position		
Liabilities		
Accounts Payable [2110]		$1,200
Annual Leave Liability [2220]		20
Total Liabilities		$1,220
Net Position		
Cumulative Results of Operations [3310]		1,526
TOTAL LIABILITIES AND NET POSITION		$2,746

Figure 15

Illustrative Trust Fund
Statement of Budgetary Resources
For Year Ended September 30, ____

Budgetary Resources	
Appropriations of Tax Collections [5800]	$5,000
Appropriations of Interest Collected [5300 - 1340 (E)]	21
Total, budgetary resources	$5,021
Status of Budgetary Resources	
Obligations incurred [4800 (E-B) + 4900]	$4,600
Unobligated balance available for obligation [4260]	421
Total, status of budgetary resources	$5,021
Outlays	
Obligations incurred [4800 (E-B) + 4900]	$4,600
Add obligated fund balance, net October 1 [4800 (B) + 2110 (B)]	0
Deduct obligated fund balance, net September 30 [4800 (E) + 2110 (E)]	1,500
Total, outlays	$3,100

Figure 16

Illustrative Trust Fund
Statement of Financing
For Year Ended September 30, ____

Obligations and Nonbudgetary Resources	
Obligations incurred[4800 (E-B) + 4900]	$4,600
Imputed financing sources [5900 imputed]	15
Obligations, as Adjusted, and Nonbudgetary Resources	$4,615
Resources That Do Not Fund Net Cost of Operations	
Change in Goods, Services, and Benefits Ordered But Not Yet Received or Provided [4800 (E-B)]	(300)
Costs Capitalized on the Balance Sheet [1750 Equipment (E-B)]	(1,000)
Costs That Do Not Require Resources	
Depreciation [6100 Depr]	200
Annual Leave Expense [6100 Annual lv]	20
NET COST OF OPERATIONS	$3,535

CHAPTER 5: ADDITIONAL GUIDANCE FOR PREPARING THE STATEMENT OF FINANCING

INTRODUCTION

122. Chapter 4 illustrated the results of numerous typical transactions for the financial statements in SFFAC No. 2, Entity and Display, as amended by SFFAS No. 7 to include the Statement of Financing. It was not feasible to include every possible transaction or to illustrate every possible circumstance.

123. Most of the financial statements in Entity and Display are based on concepts for the same financial statements that existed previously. Even the Statement of Budgetary Resources was based on the SF-133, "Report on Budget Execution," required of agencies by OMB. However, the Statement of Financing, introduced in SFFAS No. 7, is relatively new. While reconciliations between expended authority and expenses have been required before, there has not been a requirement to reconcile gross obligations with net cost of operations.

124. Because of the newness of the Statement, this chapter provides additional information about the Statement of Financing by showing how certain additional transactions should be reported. They include:

a. a decrease in the annual leave liability from the beginning to the end of the year;

b. acquisition of assets under capital leases;

c. transfer of assets in and out without reimbursement;

d. sale of property, plant, and equipment at a gain, loss, or neither;

e. accrual of revenue which is not recognized as a budgetary resource;

f. special topics related to discretionary direct loan and loan guarantee programs.

125. Whereas chapter 4 presented journal entries and trial balances for the results of the transactions covered, this chapter deals with individual transactions only. Journal entries and trial balances leading to the transaction are not included. The U.S. Government Standard General Ledger illustrates transactions for agencies and includes crosswalks to reports, and the Standard General Ledger Board provides a forum for discussing issues related to recording and reporting.

126. For each of the five transaction types, this chapter describes the transactions and illustrates reporting on the Statement of Financing. The transactions are not intended to be comprehensive, but rather are particular issues raised during a pilot test of the Statement of Financing and in other comments from agencies. As with chapter 4, small dollar amounts are used for simplicity. Also, as with chapter 4, this chapter presents condensed, simplified financial statements designed to illustrate only the basic concepts and information presented. The illustrations are non-authoritative and shall not be viewed as criteria against which to audit. Authoritative guidance for display of financial statements prepared pursuant to the CFO Act (as amended) is provided by OMB in its bulletin on form and content.

DECREASE IN THE ANNUAL LEAVE LIABILITY

127. Chapter 4 illustrated reporting an increase in the unfunded liability for annual leave. This has been the situation most agencies have encountered as their staffs or budgets have grown. However, as the Government has recently begun downsizing, agencies are beginning to encounter situations in which the annual leave liability decreases rather than increases.

128. For appropriated entities, when the annual leave liability *increases*, it is shown on the Statement of Financing as a reconciling item under the caption “financing sources yet to be provided.” This is because the budget does not recognize an increase in annual leave as an obligation, but financial accounting recognizes it as an expense. Obligations are recorded in the year the leave is paid. Hence, as shown in chapter 4, any increase in an unfunded annual leave liability creates a situation in which obligations are less than net cost of operations, and the difference is reconciled by adding the increase in annual leave as financing sources yet to be provided.

129. When the annual leave liability *decreases*, the expense for annual leave decreases accordingly, and the net cost of operations is less as a result. Reporting is not symmetrical to that for increases in the annual leave liability. Assume, for example, the following situation:

Annual Leave Liability, October 1	$ 40
Annual Leave Accrued for the Year	600
Annual Leave Paid During the Year	(605)
Annual Leave Liability, September 30	$ 35

130. In this instance, obligations of $605 would have been recorded for the leave paid. However, net cost of operations would be increased by only $600 for annual leave, the expense of leave accrued. The $5 decrease in the annual leave liability is a reconciling item which must be subtracted from obligations to yield net cost of operations. Because that $5 of the $605 in obligations did not fund the net cost of operations, which was only $600, it is subtracted under the caption "resources that do not fund net cost of operations."

131. An abbreviated Statement of Financing for the situation is shown below. Note that, based solely on the transaction described above, obligations are $605 and net cost of operations is $600.

Obligations Incurred	$605
Resources That Do Not Fund Net Cost of Operations	
Decrease in Annual Leave Liability	(5)
Net Cost of Operations	$600

ASSETS ACQUIRED BY CAPITAL LEASE

132. The Government may enter into an agreement to lease the use of assets in such a way that the benefits and risks of ownership are substantially transferred from the lessor to the Government. In such cases, the economic substance of the transactions is that the assets are effectively purchased. These agreements are called "capital leases" in financial accounting. The standards for accounting for leases are prescribed in SFFAS No. 5, Accounting for Liabilities of the Federal Government, pp. 14-15, and SFFAS No. 6, Accounting for Property, Plant, and Equipment, pp. 5, 6 and 10.

133. Such leases have been treated distinctively in the budget for new leases since FY 1991, when guidance relating to the leases was phased in over a two-year period. The budgetary rules have many similarities in substance with the financial accounting standards, though there are differences in terminology. The budget classifies these leases as "lease-purchases without substantial private risk," "lease purchases with substantial private risk," and "capital leases." These categories cover approximately the same leases that financial accounting terms "capital leases." The budgetary rules and terminology are prescribed in OMB's Circular A-11, Preparation and Submission of Budget Estimates (1995), Appendix B.

134. The budgetary requirements for obligating what the budget calls capital leases and lease purchases are the same. They are discussed together here. There are differences in how the outlays related to these lease types are determined for purposes of budgetary reporting, but this does not affect the Statement of Financing. Because OMB's guidance grandfathers budgetary accounting practice for leases entered into prior to the current guidance, this section

discusses preparing the Statement of Financing under both the current guidance and prior practice. The more generic financial accounting term, "capital leases," is used in the discussion and illustrations that follow.

135. **Current Guidance.** When an asset is purchased under a capital lease arrangement, the budget is obligated in the amount of the present value of the lease payments. The difference between the present value of the lease and the total of the lease payments represents interest expense and is amortized over the term of the lease using present value techniques. The interest expense determined for each year is recognized as an obligation in the budget for that year. Depreciation expense is not recognized in the budget. Financial accounting treats the present value of the lease payments as an asset when acquired, recognizes interest expense over the term of the lease, and reports depreciation expense over the useful life of the asset. Accordingly, the difference between obligations incurred and net cost of operations is the amount of the present value of the lease in the year of acquisition and the amounts of depreciation expense over the life of the asset.

136. Assume, for example, that a 3-year lease is entered into that calls for payments of $100 in each year. The present value of the lease payments is $250; interest expense amortized is $25, $15, and $10 for years 1, 2, and 3 respectively; and depreciation expense is $30, $30, and $30 for years 1, 2, and 3, respectively. (Note that depreciation is charged over the life of the asset, which may be different from the term of the lease.) Thus, obligations incurred are $275 (the $250 present value of the lease payments plus the first year interest of $25) in Year 1, and $15 and $10 for years 2 and 3, respectively--the amount of the interest expense for those years. The net cost of operations for each year is the sum of the interest and depreciation expenses. The resulting Statements of Financing for the three years are shown below.

	Year 1	Year 2	Year 3
Obligations Incurred	$275	$ 15	$ 10
Resources That Do Not Fund Net Cost of Operations:			
Capitalized assets acquired	(250)	0	0
Costs That Do Not Require Resources:			
Depreciation expense	30	30	30
Net Cost of Operations	$ 55	$ 45	$ 40

137. Note that this presentation has the same reconciling items as would be the case for an asset acquired by direct purchase. This is because the resulting interest expense on the capital lease, which is the principal difference between an asset acquired by capital lease and an asset acquired by direct purchase, is recognized as an obligation by the budget and as an expense in the cost of operations.

138. **Prior Practice.** For capital leases entered into prior to the current guidance, the budget is obligated in the amount of the annual lease payments and the interest expense is not recognized as an obligation. This is the same as for operating leases in financial accounting. Under prior practice, the budget often did not distinguish between capital and operating leases, but rather treated them all like operating leases. Depreciation expense, not recognized in the budget under current guidance, was also not recognized on assets acquired through leases reported in the budget under prior practice. The financial accounting treatment for capital leases is the same whether they fall under current budgetary reporting guidance or prior practice. Thus, the items required to reconcile obligations incurred with net cost of operations are the annual lease payments, interest expense, and depreciation expense.

139. Assume, for example, that there are three

$100 payments remaining on a capital lease entered into prior to FY 1991. Interest expense on the capital lease for financial accounting purposes is $25, $15, and $10 and depreciation expense is $30, $30, and $30, respectively, for the three years. (Again, note that depreciation is charged over the life of the asset, which may be different from the term of the lease.) The net cost of operations is the sum of the depreciation and interest expense. The Statement of Financing for those years would appear as shown below.

	Year 1	Year 2	Year 3
Obligations Incurred	$100	$100	$100
Resources That Do Not Fund Net Cost of Operations:			
Payments on capital leases	(100)	(100)	(100)
Costs That Do Not Require Resources:			
Depreciation expense	30	30	30
Interest expense	25	15	10
Net Cost of Operations	$ 55	$ 45	$ 40

TRANSFERS OF ASSETS IN AND OUT WITHOUT REIMBURSEMENT

140. Assets are sometimes transferred from one agency to another without reimbursement. In such cases, the donating agency reports the transaction as a transfer-out (a negative financing source) in its Statement of Changes in Net Position, which reduces its cumulative results of operations and total net position. The receiving agency reports the transaction as a transfer-in (a positive financing source that increases its cumulative results of operations and total net position) on its Statement of Changes in Net Position. Treatment on the Statement of Financing is described below:

(a) Obligations are not affected for either agency, but the donating agency reports a decrease in its nonbudgetary resources and a decrease in its costs capitalized on the Balance Sheet in the amount of the book value of the asset transferred on its Statement of Financing. The transaction has no effect on net cost of operations of the donating agency. The receiving agency reports an increase in its nonbudgetary resources in the amount of the book value of the asset, if known, or for the fair market value of the asset, if not. Whether adjustments to obligations, as adjusted, and nonbudgetary resources are required on the receiving agency's Statement of Financing depends on whether the receiving agency capitalizes the asset or expenses it on receipt.

(b) If the receiving agency capitalizes the asset on receipt, the amount capitalized is subtracted from obligations, as adjusted, and nonbudgetary resources under the caption "resources that do not fund net cost of operations." The transaction does not affect net cost of operations.

(c) If the asset is expensed on receipt, no adjustment to obligations, as adjusted, and nonbudgetary resources is required, since the amount of the expense would be part of net cost of operations. In this case, the net cost of operations would be financed by the transfer-in of the assets without reimbursement.

141. Assume, for example, that a donating agency gives an asset with a book value of $5,000 to a receiving agency, which knows the book value. The transaction would be reported on the Statements of Financing for the agencies as shown below under the following scenarios: (a) the receiving agency capitalizes the asset, and (b) the receiving agency expenses the asset. Note that the reporting is the same under both scenarios for the donating agency, but it differs for the receiving agency.

a. If the receiving agency capitalizes the asset on receipt, the Statements of Financing would be prepared in this manner:

	Receiving Agency	Donating Agency

Obligations Incurred	$ 0	$ 0
Nonbudgetary Resources:		
Transfers of Assets from (to) Others without Reimbursement	5,000	(5,000)
Obligations, as adjusted, and Nonbudgetary Resources	5,000	(5,000)
Resources That Do Not Fund Net Cost of Operations		
Costs capitalized on the Balance Sheet	(5,000)	N/A
Capitalized costs removed from the Balance Sheet	N/A	5,000
Net Cost of Operations	$ 0	$ 0

b. If the receiving agency expenses the asset on receipt, the Statements of Financing would be prepared in this manner:

	Receiving Agency	Donating Agency
Obligations Incurred	$ 0	$ 0
Nonbudgetary Resources:		
Transfers of assets from (to) others without reimbursement	5,000	(5,000)
Obligations, as adjusted, and Nonbudgetary Resources	5,000	(5,000)
Resources That Do Not Fund Net Cost of Operations		
Costs capitalized on the Balance Sheet	0	N/A
Capitalized costs removed from the Balance Sheet	N/A	5,000
Net Cost of Operations	$5,000	$ 0

SALE OF CAPITALIZED ASSETS

142. An agency may sell its capitalized assets at a gain, a loss, or for book value (which would result in no gain or loss). The budget would recognize the amounts collected from the sale, regardless of whether they resulted in gains and losses, and would subtract those amounts as adjustments to yield obligations, as adjusted. Thus, the reconciling factor for each instance would be the book value of the capitalized assets sold.

143. Assume, for example, three scenarios in which an agency has a piece of equipment with a book value of $25 and sells it for (a) $30, (b) $15, and (c) $25. Obligations would be -$30, -$15, and -$25, and net cost of operations would be -$5, +$10, and $0 for each of the scenarios, respectively. The Statements of Financing are illustrated as follows.

Scenarios:	(A)	(B)	(C)
Obligations Incurred	$ 0	$ 0	$ 0
Spending authority from offsetting collections	(30)	(15)	(25)
Obligations, as adjusted, and Nonbudgetary Resources	($30)	($15)	($25)
Resources That Do Not Fund Net Cost of Operations			
Capitalized costs removed from the Balance Sheet	25	25	25
Net Cost of Operations	($5)	$10	$ 0

144. Note in this example that the capitalized costs removed from the Balance Sheet were added to obligations. Costs capitalized on the Balance Sheet are subtracted from obligations, because those obligations do not fund costs (see the illustrations in chapter 4). When capitalized costs are removed, they must be treated in the opposite manner and added back in the reconciliation between obligations and net cost of

operations.

145. The present illustration provides a line item for "capitalized costs removed from the Balance Sheet." An alternative display might net those costs removed against the costs of assets acquired and capitalized on the Balance Sheet. If the costs removed are not material, it might present the net as a single line item entitled "net costs capitalized on the Balance Sheet."

EXCHANGE REVENUE FROM THE PUBLIC

146. OMB Circular A-34 provides that when an agency performs reimbursable services for others, receivables from work performed are normally considered budgetary resources if the work is performed for another Government agency. If the work is performed for the public, however, budgetary resources are recognized only to the extent receivables are collected. Financial accounting recognizes revenue accrued from both intragovernmental and public receivables. Thus, the change in accrued receivables relating to exchange revenue from the public is a reconciling item between obligations and net cost of operations.

147. Assume, for example, that at the beginning of Year 1, receivables were zero. During Year 1, $100 was collected from the public for services performed and $15 additional was billed but not yet collected at year-end. In Year 2, $125 was collected, including the $15 owed at the beginning of the year, and an additional $10 was accrued.

148. The collections of $100 and $125 are subtracted from obligations incurred on the Statement of Financing for Years 1 and 2, respectively. However, the amounts subtracted from expenses on the Statement of Net Cost are $115 for Year 1 and $120 for Year 2. This is because financial accounting, on which the Statement of Net Cost is based, essentially recognizes revenue when it is earned by providing goods or services regardless of when collections are made.

149. The $15 of receivables from the public at the end of Year 1 is part of the revenue recognized for financial accounting purposes. Thus, the Year 1 revenue reported on the Statement of Net Cost is the sum of the collections, $100, and the $15 receivable from the public at year-end: $115. In Year 2, only $110 of the $125 in collections is recognized as revenue for financial accounting purposes, because the $15 collected for receivables from the public as of the end of Year 1 was already counted as revenue in Year 1. The $10 of receivables from the public accrued at the end of Year 2 is also recognized as revenue for financial accounting purposes. The $110 and $10 together equal $120: the Year 2 revenue reported on the Statement of Net Cost.

150. The Statements of Financing reconciling the differences between obligations and net cost of operations are illustrated and explained below:

	Year 1	Year 2
Obligations Incurred	$ 0	$ 0
Spending Authority from Offsetting Collections	(100)	(125)
(Increase) Decrease in Exchange Revenue Receivable From the Public	(15)	5
Obligations, as adjusted, and Nonbudgetary Resources	($115)	($120)
Net Cost of Operations	($115)	$(120)

151. Note that in Year 1, collections were $100, which was recognized as spending authority from offsetting collections in the budget. This is subtracted from obligations incurred. However, the net cost of operations is -$115 (indicating an excess of exchange revenue over expenses). The $15 difference is explained by the $15 increase in accounts receivable from the public. This is not considered to be spending authority for budgetary purposes, but is recognized and accrued as revenue on the Statement of Net Cost. It was not included in spending authority from offsetting collections, but it was subtracted from expenses to yield net cost of operations. Hence, to reconcile

obligations incurred with net cost of operations, it must be subtracted in the reconciliation on the line for exchange revenue accrued from the public.

152. In Year 2, collections were $125 and were recognized as spending authority from offsetting collections in the budget. However, the net cost of operations is -$120, indicating an excess of revenue over expenses. In this case the difference is explained by two factors. First, for the same reasons as explained for Year 1, the ending $10 in accounts receivable from the public must be subtracted in the reconciliation. Second, the collections would have included the $15 of receivables accrued at the end of Year 1. This is considered spending authority from offsetting collections, but it is not recognized as revenue on the Statement of Net Cost in Year 2 because it was already recognized there in Year 1. Because it was subtracted in the line for spending authority from offsetting collections but was not subtracted from expenses to yield net cost, it must be added back in the reconciliation. The difference between the $10 subtraction and $15 addition is reflected in the $5 addition on the line for exchange revenue accrued from the public.

SPECIAL TOPICS RELATED TO DISCRETIONARY DIRECT LOAN AND LOAN GUARANTEE PROGRAMS

Introduction

153. Reporting loans made subsequent to the Credit Reform Act of 1990 on the Statement of Financing is illustrated in chapter 4. The following paragraphs set forth some important observations about the illustrations and information regarding these and additional transactions related to credit reform and pre-credit reform loans. The transactions are applicable to direct loans and loan guarantees in programs operated under both credit reform and pre-credit reform authority unless otherwise specified. They include:

- o making direct loans;

- o collecting loan principal for direct loans and for defaulted guaranteed loans assumed by the Government for direct collection;

- making upward and downward subsidy re-estimates for direct loan and loan guarantee programs (credit reform only)

- writing off defaulted loans; and

- accruing bad debts expense (pre-credit reform only).

154. The transactions discussed in the following sections are only for normal situations applicable to the program, financing, and liquidating funds of discretionary credit programs under the Credit Reform Act, which constitute most credit programs. Mandatory credit programs have different accounting requirements for some transactions, which would be reported differently on the Statement of Financing. In addition, some credit programs may operate in part under separate legislation which also has different accounting and reporting requirements. Authoritative information on credit program terminology and related accounting and reporting is found in SFFAS No. 2, Accounting for Direct Loans and Loan Guarantees, in Section 12 of OMB Circular A-34, Instructions on Budget Execution (December 1995), in Section 33 of OMB Circular A-11, Preparation and Submission of Budget Estimates, and in OMB Bulletin 94-01, Form and Content of Agency Financial Statements (or its successor).

Reconciliations and the chapter 4 case

155. The results of budgetary and proprietary accounting for direct loans require several factors on the Statement of Financing to reconcile between obligations and net cost of operations. Three reconciling factors are (1) loans made, (2) subsidy expense other than for reestimates, and (3) collections of loan principal. The reason for these reconciling factors is that, for budgetary purposes, loans made are obligations, and collections of loan principal are offsetting collections which are subtracted from obligations to obtain obligations, as adjusted. On the other hand, for financial (proprietary) accounting purposes, loans made are considered increases in assets (specifically, loans receivable),

collections of loan principal are considered decreases in assets, and a subsidy expense is recognized for the amount of the loans financed by the subsidy (not including reestimates, which are discussed later).

156. Thus, the reconciliation requires that the loans made, less the subsidy expense (other than for reestimates), be subtracted from obligations, since this is the amount of loans made that has not been recognized as an expense and, therefore, does not affect net cost of operations. The reconciliation also requires that collections of loan principal must be added back in reconciling net cost of operations to obligations. This is because these collections are subtracted from obligations in calculating "obligations, as adjusted," as explained above, but do not enter into the computation of the net cost of operations for financial accounting purposes (although they reduce the asset "loans receivable"). The same reconciliation is also needed for collections of the loan principal of guaranteed loans assumed for direct collection by the Government when the lender declares them in default. These three reconciling factors are types of "resources that do not fund net cost of operations" in the Statement of Financing. They explain the crosswalk regarding loans provided in figure 11 of the chapter 4 case illustration: "4800 Obligations for Loans Made (D) minus 4262 Collections of Loan Principal minus 6100 Subsidy Expense other than for reestimates (D)."

157. The fourth reconciling factor between obligations incurred and net cost of operations for direct loans is interest income from amortization of the allowance for subsidy. The reconciliation is required because the interest is recognized as an exchange revenue for financial accounting purposes and reduces net cost of operations, but it is not included in obligations for purposes of the budget. The interest is reported on the Statement of Financing as a subtraction under "exchange revenue not in the budget" in the section on obligations and nonbudgetary resources. The reporting is illustrated in figure 11 of chapter 4 (the $5 of "Interest Income--Subsidy Amortization"). The same reconciliation is needed for the amortization of subsidy related to loans under loan guarantee programs assumed for direct collection by the Government when the lender declares them in default.

158. The chapter 4 case also illustrated proprietary accounting for an upward reestimate of the subsidy as of the end of the year and an accompanying accrual of interest expense and interest income on the reestimate amount. The budget did not recognize these transactions in the year of accrual, and other reconciling factors between obligations and net cost of operations arose as a result. Of course, downward reestimates can also occur, with similar need for reconciliation. Reporting upward and downward subsidy reestimates and related interest on the Statement of Financing for the year of accrual and the succeeding year is discussed in the next sub-section, which deals with subsidy reestimates (see page 99).

159. The chapter 4 case covered loans made under the Credit Reform Act. However, agencies still operate liquidating funds for programs authorized under legislation prior to that Act. Because the proprietary rules for recognizing expenses are different for loans made under pre-credit reform authority, the reconciliation between obligations incurred and net cost of operations is different. This is discussed in more detail in the subsection on pre-credit reform loans (see page 104).

160. The chapter 4 case did not illustrate writeoffs of defaulted loan principal. Such

writeoffs--under both the Credit Reform Act and authority prior to the Act--do not enter into the reconciliation between obligations incurred and net cost of operations. This is because they do not affect obligations, nor are they recognized in the Statement of Net Cost. For financial accounting purposes, they reduce both loans receivable and (for Credit Reform Act loans) the related allowance for subsidy account, which are offset in the assets section of the Balance Sheet, as shown in figure 9 of chapter 4. For loans made prior to the Credit Reform Act, the related allowance account is termed "allowance for uncollectible accounts" (or an equivalent title) rather than "allowance for subsidy." Although an allowance for uncollectible accounts is computed differently than an allowance for subsidy, the nature of the reporting display is the same--it is offset against loans receivable. The same reconciliation is needed for the writeoff of guaranteed loans assumed for direct collection by the Government when the lender declares them in default.

Subsidy reestimates

161. When an upward subsidy reestimate for credit reform loans is made as of the end of the year, it is accrued in the program fund as additional subsidy expense payable to the financing fund, along with interest expense on the subsidy, which is also payable to the financing fund. The financing fund accrues a related receivable for the total of the reestimate and interest, recognizes an increase in the allowance for subsidy in the amount of the re-estimate, and recognizes an exchange revenue for the interest on the subsidy. The payable in the program fund is eliminated against the receivable in the financing fund before proprietary financial statements are prepared. Although monies will come from a permanent indefinite appropriation in the following year, the amount is not apportioned in the year of accrual, and, accordingly, no receivable from the appropriation may be accrued. For budgetary purposes, the obligation for the subsidy reestimate and interest is recognized in the succeeding year. The table below summarizes this information:

	Current Year	Succeeding Year
Budgetary Accounting		
Recognition of obligations	No	Yes
Proprietary Accounting		
Recognition of expenses	Yes	No
Recognition of exchange revenue	Yes	No

162. Because of this difference in timing, the reconciliation between obligations incurred and net cost of operations for an upward revision of subsidy is different both for the year of accrual, in which the subsidy and interest expense and related interest revenue are recognized for financial accounting purposes, and for the subsequent year, in which the related obligations are recognized for budgetary purposes. Using the information in chapter 4, assume, for example, that in Year 1, an upward subsidy reestimate of $8, with interest of $1, is recorded as of the end of the year. Because the budget does not recognize this until the following year, obligations are zero in Year 1 and $9 in Year 2. Net Cost of Operations will be $8 in Year 1 ($9 in expenses less $1 of interest income) and zero in Year 2. The Statement of Financing reconciliation for this is shown below. Note that the additional interest income to offset interest expense on the subsidy reestimate is recognized in the financing fund, which is nonbudgetary. Accordingly, it is shown under the caption "exchange revenue not in the budget."

	Year 1	Year 2
Obligations and Nonbudgetary Resources		
Obligations Incurred	$ 0	$ 9
Less Exchange Revenue Not in the Budget: Interest Income on Subsidy Reestimate	(1)	N/A
Obligations, as adjusted, and Nonbudgetary Resources	(1)	9
Resources That Do Not Fund Net Cost of Operations		
Financing Sources That Fund Costs of Prior Periods	N/A	(9)
Financing Sources Yet to Be Provided	9	N/A
Net Cost of Operations	$ 8	$ 0

163. When a recomputation of the subsidy as of the end of the year results in a smaller amount than previously recognized, the reestimate is downward. For proprietary accounting purposes, three adjustments are required for this. They are recognized in the year for which the reestimate is made. First, the excess subsidy and interest on that excess must be paid to a special receipt account of the Treasury. Second, more allowance for subsidy must be amortized to interest income. Amortization is based on the amount of interest expense from all sources less interest expense other than the reestimate. Had the subsidy initially been calculated correctly, it would have been less, and correspondingly more would have been borrowed from Treasury. This would have caused interest expense on the borrowing to be greater, and more would have been amortized from the subsidy as a result. However, because the subsidy was greater than it should have been, less was borrowed from Treasury, and less was amortized from the allowance for subsidy account. Hence, the allowance for subsidy is overstated and must be further amortized to interest income in the amount of interest expense from the reestimate--just as it would have been had more been borrowed from Treasury in the first place and more interest expense had been incurred. Third, both subsidy

expense and the related financing source "appropriations used" must be reduced by the amount of the excess subsidy received.

164. The result of the adjustments discussed above which affect the Statement of Financing is that net cost of operations is reduced by the amount of the excess subsidy. This is because of the following effects of the adjustments. First, interest expense is recognized in the amount of the actual interest incurred on the borrowing from Treasury plus the amount of the interest on the reestimate. This provides for the same amount of interest expense as would be the case if the subsidy had initially been estimated correctly, the borrowing from Treasury greater, and the interest on that borrowing greater. The interest is divided into two parts--interest expense on the borrowing from Treasury and interest expense on the downward reestimate. Second, the adjustments provide for the same amount of interest income that would have been amortized from the allowance for subsidy if the interest expense had been based on a greater borrowing from Treasury. That interest income is also divided into two parts--interest income from the basic amortization and interest income from the reestimate. The total interest expense and total interest income (which would also include interest income from borrowers), both of which appear on the Statement of Net Cost, will be the same. Hence, the net cost of operations is unaffected by interest.

165. Third, the allowance for subsidy is reduced by the amount to be paid to the special receipt account, and that amount is shown as a liability. Neither the allowance for subsidy nor the liability to Treasury appears on the Statement of Net Cost, and, again, the net cost of operations is unaffected. Finally, both subsidy expense and appropriations used are reduced in the amount of the excess subsidy. The reduction in subsidy expense appears on the Statement of Net Cost. However, the reduction in appropriations used, which is not an expense or an exchange revenue, does not. Thus, the net cost of operations is reduced by the amount of the excess subsidy received. (Net <u>results</u> of operations, which includes appropriations used and additional financing sources other than exchange revenue, is unchanged by the transactions, as is net position. This is appropriate, because the adverse effects

on cash flows from returning the excess subsidy and interest should be offset by increased cash inflows from other sources over the life of the loans. These sources might include a lower default rate on loans than originally estimated or other items which were factors in reestimating the subsidy.)

166. Under budgetary accounting rules, an obligation for the excess subsidy and interest would be recorded in the year following the reestimate rather than in the year the reestimate was made. In the year following the reestimate, the amount of the obligation, which is paid to a special receipt account of the Treasury, is also reported in the budget as an offsetting receipt (which does not adjust obligations) rather than as an offsetting collection credited to an expenditure account (which does). Hence, the factors necessary to reconcile obligations with net cost of operations involve (1) the timing of the recognition of obligations for budgetary purposes and of expenses and revenues for proprietary purposes, (2) the additional interest income to offset interest expense on the reestimate, and (3) the decrease in subsidy expense from the reestimate. Assuming the same facts as in paragraph 0, except that the reestimate is downward rather than upward, net cost of operations would be -$8 in Year 1 (the $1 of interest expense less the $8 reduction in subsidy expense and less the $1 of interest income) and zero in Year 2. Obligations would be zero in Year 1 and $9 Year 2. The credit agency's Statement of Financing for the two years would be as shown below. Note that the interest income appears under the caption "exchange revenue not in the budget."[27]

[27]For purposes of the Statement of Financing, exchange revenues categorized in the budget as offsetting receipts, which do not provide spending authority from offsetting collections credited to an expenditure account, are treated as nonbudgetary exchange revenues.

	Year 1	Year 2
Obligations and Nonbudgetary Resources		
Obligations Incurred	$ 0	$ 9
Less Exchange Revenue Not in the Budget: Interest Income on Subsidy Reestimate	(1)	N/A
Other Nonbudgetary Resources: Reduction in Subsidy Expense from Downward Reestimate	(8)	N/A
Obligations, as adjusted, and Nonbudgetary Resources	(9)	9
Resources That Do Not Fund Net Cost of Operations		
Obligations for payment of excess subsidy and interest	N/A	(9)
Costs That Do Not Require Resources		
Interest Expense-Downward Reestimate	1	N/A
Net Cost of Operations	$ (8)	$ 0

167. The observations and illustrations in paragraphs 0-0 would also be applicable to subsidy reestimates for loan guarantee programs, except that the loan guarantee liability rather than the allowance for subsidy would be involved in the journal entries and computations, and direct loans would not be made. If the Government assumes defaulted guaranteed loans for direct collection, both the loan guarantee liability and the allowance for subsidy would be involved.

Pre-credit reform loans

168. There are many similarities in accounting for loans under credit reform and pre-credit reform rules. For budgetary accounting purposes, the making of pre-credit reform loans also results in an obligation, albeit the obligation is against different budget authority. Collection of loan principal is also recorded as an offsetting collection. There is no subsidy appropriation connected with pre-credit reform loans, however, and no obligation is recognized for defaults when they occur. For

financial accounting purposes, loans issued under pre-credit reform authority are accounted for as assets, and collections of loan principal are recorded as decreases in those assets. However, instead of a subsidy expense, a bad debts expense for defaults is recognized.

169. Accordingly, for pre-credit reform loans, the reconciliation between obligations and net cost of operations requires that bad debts expense be added to obligations, as adjusted. Assume, for example, that during a year $500 of pre-credit reform loans are made; $30 of principal is collected; and $100 of bad debts expense is recognized. In this case, obligations, as adjusted, are $470 ($500 in loans made less $30 in principal collections), and the net cost of operations is $100 (the amount of the bad debts expense). The resulting reconciliation on the Statement of Financing is shown in the pre-credit reform column below. Loans made, less collections of principal, are subtracted from obligations, as adjusted, under the caption "resources that do not fund net cost of operations"--the same reconciliation adjustment as for credit reform loans; and bad debt expenses are added under "costs that do not require resources." The next column contrasts that with the reconciliation for credit reform loans (assuming for sake of illustration a subsidy expense of $100 rather than a bad debts expense of $100).

	Pre-Credit Reform	Credit Reform
Obligations Incurred	$500	$500
Spending Authority from Offsetting Collections	(30)	(30)
Obligations, as adjusted, and Nonbudgetary Resources	$470	$470
Resources That Do Not Fund Net Cost of Operations		
Loans Made	(500)	(500)
Less: Subsidy Expense	N/A	100
Collections of Loan Principal	30	30
Costs That Do Not Require Resources		
Bad Debts Expense	100	N/A
Net Cost of Operations	$100	$100

170. The lines for spending authority from offsetting collections and for collections of loan principal in the illustration above would also be applicable to both credit reform and pre-credit reform guaranteed loans assumed for direct collection by the Government when the lender declares them in default. Note that the negative $30 and the positive $30 for those two lines would cancel and result in zero net cost of operations under both credit reform and pre-credit reform programs. Net cost of operations from this transaction is zero because, as explained above, the collection of loans does not affect net cost of operations.

171. The line for bad debts expense would also apply to the recognition of the expense related to pre-credit reform defaulted guaranteed loans that have been assumed. Considering only the bad debts expense in the illustration above, net cost of operations would be $100, but, because the budget does not recognize bad debts expense as an obligation, obligations would be zero. The reconciling factor would be the $100 of bad debts expense, as shown in the pre-credit reform column of the illustration.

172. Bad debts expense is not applicable to programs operating under authority of the Credit Reform Act.

Subsidy expense for defaulted guaranteed loans: credit reform

173. Subsidy expense related to defaulted guaranteed loans assumed for direct collection by the Government would not be a reconciling item between obligations and net cost of operations, as it is for loans made in a direct loan program under the Act. This is because the only accounting requirement for subsidy relating to the assumed loans in the guarantee program is that a portion of the loan guarantee liability be reclassified as "allowance for subsidy," which is subtracted from the asset "loans receivable" on the Balance Sheet. Such a reclassification does not involve expenses or exchange revenue and, accordingly, would not affect net cost of operations. The reclassification is also not recognized as an obligation under budgetary accounting rules. Since neither net cost of operations nor obligations is affected, no reconciliation is required.

APPENDIX: CIRCULAR A-134

FASAB TASKFORCE ON REVENUE AND OTHER FINANCING SOURCES

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Individual members of the task force do not necessarily agree with all aspects of the Board's recommendations.

This is the original Implementation Guide to SFFAS 7 and was replaced by the Revised Implementation Guide at http://www.fasab.gov/pdffiles/impguid7200204.pdf. Neither guide has been updated for subsequent changes to SFFAS 7; please check for the most recent SFFAS 7 file in the FASAB Handbook at www.fasab.gov/pdffiles/handbook_sffas_7.pdf.

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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The Board communicates its recommendations by publishing recommended accounting standards after considering the financial and budgetary information needs of Congress, executive branch agencies, and other users of Federal financial information. The Board also considers comments from the public on its proposed recommendations, which are published for comment as "exposure drafts." The Board's sponsors, i.e., the officials who established the Board, then decide whether to adopt the recommendations. If they do, the standard is published by OMB and the GAO and then becomes effective.

Additional background information is available from the FASAB, including: (1) the "Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board" and (2) the "Mission Statement of the Federal Accounting Standards Advisory Board."

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