# FASAB News

Special Edition 1, Aug. 1998

Federal Accounting Standards Advisory Board • 441 G Street, NW, Suite 3B18, Washington, DC 20548 • 202-512-7350 • http://www.financenet.gov/fasab.htm

## *FLASH!!! SPECIAL EDITION!!! UPDATED VERSION!!!*

**FASAB has decided to publish special editions of the *FASAB News* from time to time with articles of interest to our readers. This is the first such special edition of the newsletter. It is devoted entirely to the Statement of Financing (readers should consult the most recent editions of the *FASAB News* for discussions and issues surrounding the Statement). This special edition article was written by J. Thomas Luter, one of the principal authors of Statement of Federal Financial Accounting Standards 7 (SFFAS 7) and the Statement of Financing. It is intended to provide additional information and illustrations to assist Federal agencies as they prepare the Statement of Financing for the fiscal year 1998 financial reports. It represents non-authoritative guidance. Views expressed are those of the author and not necessarily those of the Board or its staff. UPDATED VERSION-3/99.**

## *The Statement of Financing*

*by J. Thomas Luter*

The Statement of Financing and the Statement of Budgetary Resources are two new financial statements that must be prepared and audited by Federal agencies per Office of Management and Budget Bulletin 97-01, *Form and Content of Agency Financial Statements*.[1] This special edition of ***FASAB News*** is devoted entirely to the Statement of Financing. It discusses the purpose, background, and nature of the Statement and provides a more comprehensive illustration of it than available previously. It also discusses the major sections of the Statement and provides illustrations of reporting for selected transactions.

[1] Office of Management and Budget Bulletin 97-01, *Form and Content of Agency Financial Statements*, prescribes six statements. The other four include (1) the balance sheet and (2) three statements that contain the various pieces of, and take the place of, the previously-required Statement of Operations and Changes in Net Position. The four statements have some new aspects required.

### Purpose of the Statement

The Statement of Financing provides information on the total resources used by an agency--both those received through the budget and those received through other venues--during the reporting period. It then explains how they were used in agency operations to finance orders for goods and services not yet delivered, to acquire assets and liabilities, and to fund the entity's net cost of operations (expenses less exchange, or earned, revenues from providing goods and services). Importantly, it also demonstrates that an agency's financial management systems can generate budgetary data on resources and status of resources and proprietary data on assets, liabilities, and net position that are commensurate with each other.

### Background

The Statement of Financing was first discussed by the Board in the spring of 1994. The first formal presentation on the Statement of Financing outside the Board was made to the Issues Resolution Committee of the Standard General Ledger Board in August 1994. Its structure has remained virtually unchanged since that time.

Its genesis is set forth in Statement of Federal Financial Accounting Standards 7 (SFFAS 7), *Accounting for Revenue and Other Financing Sources*. During the drafting of SFFAS 7, the Statement of Financing was tested with live agency data. The Federal Bureau of Investigation used information from a program with $2.1 billion in obligations and was able to reconcile its resources and net cost of operations to within less than half of one percent by its first presentation to FASAB. This was done well before the formal guidance was officially published.

SFFAS 7 was issued on May 10, 1996 following an extensive exposure period that included respondents providing written and oral comments and testifying at a public hearing. FASAB also issued an accompanying illustrative guide to SFFAS 7 that discussed and illustrated the Statement of Financing, provided a case study, and included an entire chapter of explanation and illustration of situations not covered in the case study.

After SFFAS 7 was issued, Office of Management and Budget Bulletin 97-01, which incorporates SFFAS 7 by reference, provided the nature, explanation, and illustration of the Statement. Office of Management and Budget Bulletin 97-01 also required agencies to prepare and receive an audit on the Statement of Financing beginning with financial statements prepared for fiscal year 1998, which began October 1, 1997.

Subsequent to the issuance of SFFAS 7 and Office and Management and Budget Bulletin 97-01, the Standard General Ledger Board (SGL) published crosswalks to the lines on the Statement of Financing from U.S. Government SGL accounts (as illustrated in those publications and at the SGL web site, **http://www.fms.treas.gov/uss gl/sglfy98.html)** common to all agencies. It also has provided a forum for discussion of the Statement and how transactions should be reported. Additionally, the Financial Management Service, Department of the Treasury, included seminars devoted exclusively to the Statement of Financing in its 1995, 1996, and 1997 Annual Financial Management Conferences. The 1996 and 1997 conferences included two sessions–an introductory and an advanced one–for interested participants. Other organizations, such as the Association of Government Accountants, have presented information on the Statement of Financing in forums they have conducted. Recently, the Treasury Department's Center for Applied Financial Management has developed an intensive "hands-on" workshop covering the Statements of Financing and Budgetary Resources.[2]

[2]At this writing, the Center for Applied Financial Management is investigating offering summer/fall sessions of the wo rkshop. For information, please call Ms. Erika Mathis at (202) 874-9542.

This article was prepared to assist agencies in locating all the training and literature available, and to assist them in meeting the current requirements for preparing the Statement of Financing.

**Nature of the Statement**

This article presents a possible format for the Statement of Financing. Readers may note that, unlike the other required statements where information must be displayed by program, the Statement of Financing need be prepared only for the reporting entity as a whole. Of course, the entity may prepare the Statement by program, if desired.

The illustration in this article is more comprehensive than previous illustrations. It does not change the requirements for the Statement, its nature or purpose, or the theory and arithmetic that underlie it. It contains subtotals not in prior illustrations; consolidates some sections and enhances others; and uses headings and line captions perhaps more intuitively understood. This illustration, as well as prior illustrations, are simply that, however–illustrations. They provide examples of how the Statement might appear, but agencies have flexibility to present statements using other captions and lines as long as they meet the authoritative requirements in SFFAS 7 and Office of Management and Budget Bulletin 97-01. Illustrations in SFFAS 7 and its implementation guide and in Office of Management and Budget Bulletin 97-01, along with others agencies might find more appropriate to their situations, provide additional possibilities and are not superseded by the illustration in this article.

The three sections to the Statement will be discussed in detail. They are:

- *Resources used to fund activities*. This section lists the resources, both budgetary and non-budgetary, which were used by the reporting entity.

- *Resources used to fund items not part of the net cost of operations.* This section denotes resources used to fund orders for goods and services not yet delivered, to acquire assets or meet liabilities for the reporting entity, and to compensate for adjustments in the computation of net resources that do not affect net cost of operations. These items do not fund expenses or generate exchange revenue during the reporting period.

● *Components of net cost of operations that do not require or generate resources during the reporting period.* This section sets forth (a) expenses that did not use resources during the reporting period because resources were not required or because they will be required in the future and (b) exchange revenue that did not result in the recognition of either budgetary or non-budgetary resources.

By subtracting the second section from the first, one obtains the resources used to fund the net cost of operations. This does not equal the net cost of operations because of the items in the third section, the components of net cost of operations not involving the use or generation of resources during the reporting period. When the items in the third section are added to the difference between the first two sections, the result is the net cost of operations.

Budgetary resources are detailed in the Statement of Budgetary Resources; non-budgetary resources are detailed in the Statement of Changes in Net Position; the net cost of operations is detailed in the Statement of Net Costs. The computations, arithmetic, and presentation of items in the Statement of Financing demonstrate that the budgetary and proprietary information in an agency's financial management system are commensurate. In addition to detailing the nature and use of resources, the Statement of Financing increases the reliance auditors and readers of the financial statements may place on the system and related controls.

### *Section 1: Resources Used to Finance Activities*

#### Nature of the First Section

An illustration of a possible construction for the first section of the Statement of Financing– resources used to finance activities–is shown on the following page. It is designed to facilitate information on what resources are used by an agency in its activities. The activities relate, in part, to those evidenced by the net cost of operations, which is defined as "expenses less exchange revenues," as defined in SFFAS 7, *Accounting for Revenue and Other Financing Sources*. They also relate to other purposes that do not impact the net cost of operations, such as the ordering of goods and services not received as of the end of the reporting period and the acquisition of assets during that period, neither of which is recorded as expenses or exchange revenues.

For most agencies, the great bulk of their resources comes through the budgetary process, which provides authority in various forms, such as appropriations, borrowings from the Treasury Department, and collections from various sources, to acquire goods and services or to provide benefits. Some agencies also derive substantial resources from processes outside the budget, such as through donations of art and other properties by the public or through forfeiture of assets from those engaged in criminal activities. Whether substantial or not, many agencies have some non-budgetary resources.

The remainder of this part of the article is divided into a discussion of budgetary and non-budgetary resources, as itemized in the illustration. Agencies may have other resources than provided for in the lines of this illustration, and may not have all the transactions that are provided for. The lines are numbered for convenience of reference.

| **Resources used to finance activities:** | | | | |
|---|---|---|---|---|
| *Budgetary* | | | | |
| 1. Budgetary resources obligated for orders and delivery of goods and services to be received or benefits to be provided to others | | xx | | |
| 2. Less offsetting collections, recoveries of prior-year authority, and changes in unfilled customer orders | | (xx) | | |
| 3. Net budgetary resources used to finance activities [1 - 2] | | | xx | |
| *Non-budgetary* | | | | |
| 4a. Property received from others without reimbursement | | xx | | |
| 4b. Property given to others without reimbursement | | (xx) | | |
| 5. Costs incurred by others for the entity without reimbursement | | xx | | |
| 6. Other non-budgetary resources | ±xx | | | |
| 7. Net non-budgetary resources used to finance activities [4a-4b+5±6] | | xx | | |
| 8. TOTAL RESOURCES USED TO FINANCE ACTIVITIES [3 + 7] | | | | xx |

### Budgetary Resources

The entire section on budgetary resources is taken from information provided on or for the Statement of Budgetary Resources; no new information or calculations are required to present that information on the Statement of Financing. Though there is some repetition of detail, the Board believes it is important to show two of the key budgetary figures, termed "gross" and "net obligations" for this article, on the Statement of Financing.

The first section of the Statement of Budgetary Resources lists all the resources available to the agency through the budget process. This includes appropriations, borrowing authority from Treasury or other Federal financing entities, contract authority, reimbursements for goods and services provided for a fee, and other collections. It is not necessary to expound on the intricacies of these resources, but readers may refer to Office of Management and Budget Circulars A-11, *Instructions on Budget Formulation* and A-34, *Instructions on Budget Execution*, for more information.

#### Line 1: Budgetary resources obligated for orders and delivery of goods and services to be received or benefits to be provided to others

The important point to note in considering this line, which contains the gross amount of budgetary resources used, is that the mere availability of resources does not constitute their use in agency activities. This is because some were not used during the reporting period. To obtain the resources which *are* used in agency activities, it is necessary to look to the second part of the Statement of Budgetary Resources, which shows “obligations” against the resources. “Obligation” is a budgetary term which means that goods and services to be received, or benefits to be provided, have either (1) been ordered by a reporting entity, but not yet received by the entity or provided by the entity to others, or (2) *have* been received or provided. (Benefits provided, as used here, constitute goods, services, or money provided to the public or other Federal agencies through entitlement, discretionary, or reimbursable programs.) To the extent budgetary resources have been "obligated" for these purposes, they have been "used" to finance agency activities. The amount of resources obligated, as shown on line 1 of the illustrative Statement of Financing presented here, must equal the amount reported for obligations on the Statement of Budgetary Resources. This is the gross amount of budgetary resources used to finance activities of the reporting entity.

Agencies record transactions related to the realization and obligation of budgetary resources and should be using accounts provided by the U.S. Government Standard General Ledger (SGL). The SGL contains a section of crosswalks which shows the accounts that track to items of information on the statements of budgetary resources and of financing. Particularly related to the first line in the illustrative Statement of Financing here, the accounts which comprise "obligations" are indicated in the crosswalks.

**Line 2: Less offsetting collections, recoverie s of prior-year authority, and changes in unfilled customer orders.**

The net cost of operations, to which total resources are related on the Statement of Financing, is computed by subtracting exchange revenue from expenses. There is a partially corresponding concept of "net obligated resources," or "net obligations" (also called "obligations, as adjusted") in reporting on the Statement of Budgetary Resources, a concept governing the reporting of that information to the Office of Management and Budget via its own forms in more detail than prescribed for the Statement of Budgetary Resources. The adjustments necessary to reduce gross obligations, or gross obligated resources, on line 1 of the illustration are placed on to line 2, which is labeled for the primary components of these adjustments: offsetting collections, recoveries of authority, and changes in unfilled customer orders. There are others, involving trust funds, which will not be discussed here but which may be learned from Office of Management and Budget Circular A-34.

The information on these adjustments is computed in the third, or "outlays," section of the Statement of Budgetary Resources, which relates obligations to net outlays (disbursements less receipts, as defined by the Office of Management and Budget). Thus, we have three "net" concepts in the set of Federal financial statements: net cost of operations, net obligations, and net outlays. Since net obligations are related to net outlays on the Statement of Budgetary Resources and to net cost of operations on the Statement of Financing, it is important that the same concept of "net obligations" be used on both. Hence, the Board provided for that to be shown on what is line 2 of the illustration. The amount shown there must equal that same amount on the Statement of Budgetary Resources. Again, the SGL provides crosswalks from SGL accounts to financial statements.

The first of the three basic adjustments, offsetting collections, is simply an amalgamation of collections from the public and Federal agencies for various activities in which the reporting entity engages. The Treasury Department may pay interest on uninvested monies in certain programs; agencies may provide services to each other and to the public for a fee; repayments of principal and related interest from the public may be collected; and so on. These collections are defined in the Office of Management and Budget criteria cited previously.

The second general item of adjustments is for recoveries of prior-year authority. Transactions occur all during the year, and agencies usually obligate resources to order goods and services, or benefits to be provided, in one year but do not receive the goods and services, or provide the benefits, until a subsequent year. In some cases, the actual amount of bills for the goods and services in a year turns out to be less than the amount of the obligations placed based on estimates when ordered in a preceding year. In other cases, orders placed in a preceding year are canceled before goods and services are received in the current year. And there are still other instances of such cross-year types of transactions. In these cases, the prior-year authority is said to be "recovered."

The Office of Management and Budget requires agencies to report prior-year recovery of authority as a separate resource if it does not involve a collection of money (a collection would result from a refund of an overpayment made in a prior year and received in a subsequent reporting year, which would be part of the adjustment for collections discussed previously). When relating obligations to net outlays, the recoveries of authority provide no money, but rather reduce prior-year obligations and may themselves be obligated. Hence, to reduce prior-year obligations and avoid double-counting, they must be subtracted in the arithmetic to determine outlays. Because the Board has established that the Statement of Financing must use the same methodology to obtain net obligations, even though it will be related there to the net cost of operations rather than to net outlays, the recoveries also must be a part of line 2 on the illustrative Statement of Financing.

Assume, for example, that at the end of Year 1 there were $100 of undelivered orders submitted to a vendor without an advance. Assume further that the undelivered orders were canceled in Year 2 before anything was received and that $80 was reobligated and paid for. Thus, obligations are $180 ($100 in Year 1 and $80 in Year 2), and outlays are $80 for the two years. The reconciling factor is the $100 of recovered authority, which must be subtracted from obligations to yield the correct amount of outlays.

Finally, the change in unfilled customer orders is a third component in the computation of net obligations. Unfilled customer orders are orders from Federal and non-federal entities or people to provide goods or service. The Federal Bureau of Investigation provides fingerprint checks for state and local authorities for a fee; the General Accounting Office provides administrative contracting, payroll, and other services to FASAB for a fee; and the Government Printing Office provides publications to both Federal and non-federal requesters based on selling prices of the publications, for example. The Office of Management and Budget provides that orders for these services be considered budgetary resources at the time of the order (there are certain requirements for such orders from the public to be accompanied by an advance; this does not affect the point made here).

Because collections also are a resource, it is necessary to subtract the change in unfilled customer orders from the beginning to the end of the reporting period to avoid a double-counting when relating net obligations to net outlays. Assume, for example, a simple situation in which $100 of customer orders were received during the year and that $95 was collected of that amount. Obligations of $100 were placed against the orders (unobligated customer orders at year-end would either expire and require new authority by the ordering entity to fill or have to be reauthorized using existing authority by the ordering entity in the next year). Based solely on this information, resources reported at year-end would be $100 ($95 in collections and $5 in unfilled customer orders), and net outlays would be zero ($95 in payments less $95 in collections).

Under the formula we have learned, the $100 of obligations would be reduced by the $95 in collections in relating obligations to net outlays. However, the net outlays were zero, and including only collections in the computations would yield $5. To explain this difference, the change in unfilled customer orders, in this case an increase of $5, must be taken into account. It also must be subtracted in the computation. Hence, it is included on the Statement of Budgetary Resources and also on line 2 of the illustrative Statement of Financing.

Readers may note that the relationship between obligations and net outlays is not necessarily the same as the relationship between obligations and net cost of operations. This will cause certain further adjustments, discussed later, to be made in another section of the Statement of Financing.

**Line 3: Net budgetary resources used to finance activities**

When the adjustment items on line 2 are subtracted from the gross obligated resources on line 1, line 3--net budgetary resources used to finance activities--is obtained. This must be the same amount as for that figure on the Statement of Budgetary Resources.

**Nonbudgetary Resources**

Agencies often will have resources financing their activities not provided through the budget process. These are described, line by line, in this section. They should appear on the Statement of Changes in Net Position and the Statement of Financing.

**Line 4a: Property received from others without reimbursement**

This line is used to report non-cash items of property that are donated or forfeited by the public or transferred in from other Federal entities without charge to the reporting entity. This would include non-cash bequests to the entity, forfeiture of non-cash assets seized from criminal activities, or equipment or other property received free of charge from another Federal entity that no longer needed it. Note that receipt of cash would be included in budgetary resources under Office of Management and Budget budget guidelines.

If it is significant to agencies, the sources of property could be detailed on the face of the Statement of Financing or in notes. That the illustration provides only one line should not be taken as an authoritative restriction on the presentation of information. Regardless of the amount of detail reported, the total amount shown for non-cash items donated and transferred in without reimbursement must equal the amount of non-cash donations revenue and transfers-in included on the Statement of Changes in Net Position.

**Line 4b: Property given to others without reimbursement**

Just as agencies may receive non-cash items of property without having to pay for them, so too may they transfer their own non-cash items to others without being reimbursed from those others. Such "transfers-out" are subtracted, because they reduce resources available to finance agency activities. As with line 4a, the amount of detail provided on the source and nature of the transfers-out rests with the reporting entity.

Additionally, agencies may find that the amounts on lines 4a or 4b are not material enough to warrant separate lines. If so, the two lines could be netted to provide a single figure. The two lines also could be shown separately, as was done in the example, and a subtotal with the net figure provided as well.

**Line 5: Costs incurred by others without reimbursement**

SFFAS 7 and SFFAS 4, *Cost Accounting*, require that agencies recognize in their expenses costs that are absorbed by other entities at no charge to the reporting entity. In other words, the reporting entity's activities are being subsidized. The absorption of the cost by the entity doing so is an "imputed financing source" to the benefitting (reporting) entity in the terminology of SFFAS 7, and is thus a resource to the reporting entity.

There are two basic sources of imputed costs and related financing sources. One is government-wide, and one of the best examples of that is in the amount of retirement costs the Government incurs. Agencies contribute amounts specified in legislation to Federal retirement funds, but the actual cost of those retirement funds is greater than both the agency contribution and any employee contribution combined. The administering agency, the U.S. Office of Personnel Management in most cases, must obtain monies from the general fund of the Treasury to finance the full cost of retirement. The additional share that is being obtained from the general fund is a subsidy to the reporting entity, which would have had to pay its portion of it had the general fund not done so. This subsidy must be recognized as an expense on the Statement of Net Cost and as an imputed financing source on the Statement of Financing.

The other basic source of imputed financing is "agency-specific" and occurs when one agency does something for another agency and does not charge the receiving agency for the full cost of providing the good or service involved. To the extent that the providing agency has thus subsidized the receiving agency, the receiving agency must report the amount of the subsidy as an expense on its Statement of Net Cost and as an imputed financing source on its

Statement of Financing. This "agency-specific" situation can be difficult to determine, and SFFAS 4 has rules for when it is considered to have occurred and must be reported. Suffice it to say here that when it must be reported, the financing source is shown as a non-budgetary resource on the Statement of Financing.

Although only one line is shown for these imputed financing sources, agencies may provide as much detail in the body of the Statement of Financing or in notes as they may deem appropriate.

**Line 6: Other non-budgetary resources**

It is prudent to provide one or more "other" lines in illustrations to provide for situations that specific lines do not contemplate. Although the common types of non-budgetary resources have been provided for by specific lines, some agencies may have still more non-budgetary resources. They would be set forth and detailed as the agencies believed appropriate. Additionally, if something on a specific line or set of lines was not material, it might appropriately be classified as "other." For example, if property received from and given to others without reimbursement was not material, it might just appear as "other nonbudgetary resources" on the Statement of Financing.

**Line 7: Net non-budgetary resources used t o finance activities**

Line 7 is simply an arithmetic computation combining lines 4a, 4b, 5, and 6. Because some lines may be subtraction items, the caption for line 7 in the illustration includes the word "net." If all items in the section for non-budgetary resources served to increase non-budgetary resources, the word "net" might be replaced with "total," and some agencies may decide to use the word total regardless. These are not matters of standards; rather they are matters of preference, and the illustration shown should not be interpreted otherwise.

**Section Total**

The total of the net budgetary resources on line 3 of the illustration and of the net non-budgetary resources on line 7 are combined to yield the total resources used to finance activities. The word "net" could be substituted for "total" without harm to the presentation. Again, those sorts of decisions are matters of preference rather than of standards.

### *Section 2: Resources Used to Fund Items Other Than the Net Cost of Operations*

**Nature of the Second Section**

An illustration of a possible construction for the second section of the Statement of Financing is shown on the following page. It is designed to facilitate information on the extent to which resources set forth in the first section were not used to finance expenses or produce exchange revenue. The section also allows for corrections related to adjustments on line 2 of the illustration to compute net resources obligated to finance activities that do not affect the net cost of operations. These items were discussed earlier in this article.

Some resources clearly finance expenses. For example, an obligation placed for cleaning services received in the period relates to an expense for the service. The obligation would be reflected on line 1 of the Statement of Financing illustrated in this article, and also would appear in the net cost of operations. Hence, no reconciliation between the two is required. Similarly, some collections clearly generate exchange revenue. A collection of fees for sales of Government publications during the reporting period relates to an exchange revenue for the sale. The collection would be subtracted from obligations on line 2 of the Statement of Financing illustrated, and also would be subtracted in the computation of net cost of operations. Again, no reconciliation between the two is required. And a bequest of property from the public that is of too small a value to capitalize would be reflected as a non-budgetary resource and as an expense, again requiring no reconciliation.

**Relationship of total resources to the net cost of operations:**

*Deduct Resources used to fund items not part of the net cost of operations:*

| | | | | |
|---|---|---|---|---|
| 9. | Increase or (decrease) in budgetary resources obligated to order goods and services not yet received or benefits not yet provided | ±xx | | |
| 10. | Budgetary offsetting collections that do not increase exchange revenue or decrease expenses: | | | |
| 10a. | Decrease or (increase) in revenue collected in advance | ±xx | | |
| 10b. | Collections that decrease assets unrelated to exchange revenue | (xx) | | |
| 10c. | Credit program collections that increase liabilities for loan guarantees or allowances for subsidy | (xx) | | |
| 10d. | Other | ±xx | | |
| 11. | Adjustments other than collections made to compute net budgetary resources that do not affect net cost of operations | | | |
| 11a. | Recoveries of prior-year authority | (xx) | | |
| 11b. | Decrease or (increase) in unfilled customer orders | ±xx | | |
| 11c. | Other | ±xx | | |
| 12. | Resources that fund expenses recognized in prior periods | xx | | |
| 13. | Resources that finance the acquisition of assets or liquidation of liabilities | xx | | |
| 14. | Other resources used to fund items not part of the net cost of operations | ±xx | | |
| 15. | TOTAL RESOURCES USED TO FUND ITEMS NOT PART OF THE NET COST OF OPERATIONS [(±9±10a-10b-10c±10d-11a±11b±11c+12+13±14)] | | ±xx | |
| 16. | RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS [8 ± 15] | | | xx |

However, not all budgetary resources, adjustments to budgetary resources to yield net budgetary resources, or non-budgetary resources finance expenses or result in exchange revenue. The second section of the Statement addresses where there is a difference--where the resources are used to fund items not part of the net cost of operations.

The remainder of this article discusses those instances line by line. Agencies may have other situations than provided for in the lines of this illustration, and may not have all the transactions that are provided for. The lines are numbered for convenience of reference.

**Line 9: Increase or (decrease) in budgetary resources obligated to order goods and services not yet received or benefits not yet provided**

Sometimes goods and services to be received, or benefits to be provided, are ordered but have not been received or provided as of the end of the reporting period. These items, called "undelivered orders," are included in obligated resources on line 1 of the Statement of Financing. However, there has been no recognition of expenses–or any other proprietary item,–because nothing has been received. The mere ordering of something does not trigger the recording of an asset or an expense. Rather, some good or service has to have actually been received or provided. Line 9 is used to record the subtraction required to properly relate obligated resources on line 1 with the net cost of operations.

Assume, for example, that appropriations were obligated in the amount of $100 for new staplers for an office (small amounts will be used for illustration throughout the article, and are to be considered material), but the staplers, which will be expensed on receipt, were not received as of the end of the reporting period. In that case, resources obligated on line 1 amount to $100, as obligations includes orders for, as well as receipt of, goods and services. Because nothing has been received, net cost of operations related to the transaction is zero. Accordingly, $100, representing the change in undelivered orders, must be entered on line 9 and will be subtracted to yield zero for net cost of operations.

Then, assume that in the next year, the staplers are received. Upon receipt, an expense of $100 is recognized, and the net cost of operations for the transaction is $100. No additional resources were obligated; rather, only the form of the obligation, from undelivered orders to "delivered" orders (called "expended authority" in budgetary jargon), was changed. Thus, in that next year, obligated resources are zero, but net cost of operations is $100. The explanation is once again the change in undelivered orders. Because undelivered orders decreased by $100 this time, a negative amount is placed on line 9. As the arithmetic for the total of the second section of the Statement requires it to be subtracted, the negative $100 amount on line 9 becomes a positive amount [-(-100) = +100)]. Resources obligated on line 1 would be zero; the amount on line 9 would translate to an addition of $100; and the sum of the zero + $100 would be the $100 of net cost of operations.

**Line 10: Budgetary offsetting collections tha t do not increase exchange r evenue or decrease expenses**

Some collections that are part of line 2 of the Statement of Financing do not affect the net cost of operations. This is because they do not result in exchange revenue being recognized or expenses being reduced. Four line items are provided in the illustration used for this article. These are discussed in the following subsections.

**Line 10a: Decrease or (increase) in revenu e collected in advance**

In some cases, monies are collected for services to be performed in the future. When this occurs, obligated resources are decreased by the collections on line 2, but no exchange revenue is recognized, because no service has been performed. Thus, the collection does not affect net cost of operations.

Assume, for example, that $10 was collected at the end of Year 1 for service to be performed in Year 2. Assume that in Year 2, $100 was collected, which included $8 for services not yet performed at the end of Year 2. In this case, for Year 1 adjustments to obligated resources would be $10 on line 2, and line 3, reporting net obligated resources, would be -$10, as would line 8, which is the total of both budgetary and non-budgetary resources. Net cost of operations would be zero, because no service was performed. The explanation of the difference between the -$10 and zero is provided by line 10a, which provides for increases in revenue collected in advance to be subtracted on the line. Since the section under which the line falls is subtracted in the arithmetic, the -$10 becomes added on line 15, which is the total line for the section [-(-10) = + 10], and the sum of the -$10 on line 8 and the +$10 on line 15 cancel to zero.

In the second year, $102 of exchange revenue would have been recognized ($10 + $100 - $8), but collections were only $100. Lines 3 and 8 of the Statement of Financing would thus be -$100, but the net cost of operations would be -$102. The explanation is once again provided by the change in revenues collected in advance. This time the amount decreased $2, from $10 to $8. This would appear as $2 on line 10a and -$2 on line 15. The sum of the -$100 on line 8 and the -$2 on line 15 would equal the net cost of operations, $-102.

Care must be taken to avoid double-counting the change in revenue collected in advance and the change in unfilled customer orders. In the adjustment to determine net resources obligated, which is reported on line 2 of the Statement of Financing, unfilled customer orders is a separate component from offsetting collections, and the illustrative statement in this article provides for that component to be adjusted on line 11b, discussed later. Note, however, that unfilled customer orders can be received with or without advances, and the amount with advances would generally constitute revenue collected in advance. The change in unfilled customer orders with advance cannot be entered both on line 10a and line 11b, or the adjustment would be counted twice and the relationship between resources and net cost of operations would not be properly explained.

It is the intent of this illustration to use line 10a only for revenue collected in advance that is not recognized in budgetary accounting as unfilled customer orders and to include both unfilled customer orders with and without advances on line 11b. Agencies could, if they wished, include the change in revenue received in advance from unfilled customer orders on line 10a and include on line 11b only unfilled customer orders *without* advances. In that case, the heading for line 10, which indicates "offsetting collections," would need to be modified to include untilled customer orders *with* advances.

**Line 10b: Collections that decrease assets unrelated to exchange revenue**

This line is to record the collection of receivables that did not result in exchange revenue when accrued. A common situation here would be the collection of principal on direct loans made or guaranteed loans assumed for direct collection. Assume that in a reporting period, $100 of loan principal was collected. Collections on line 2 of the Statement of Financing would be -$100, and net budgetary resources obligated on line 3 and total resources on line 8 would be -$100. However, net cost of operations is unaffected, because the loans are unrelated to exchange revenue. The explanation of the difference between the -$100 of obligated resources and zero net cost of operations is the collection of assets unrelated to exchange revenue. The collection would be reported as -$100 on line 10b and +$100 on line 15, and the sum of the -$100 on line 8 and + $100 on line 15 would equal the zero net cost of operations.

**Line 10c: Credit program collections that increase liabilities for loan guarantees or allowances for subsidy**

This line refers only to credit program direct loans and loan guarantees obligated on or after October 1, 1991,when the Credit Reform Act of 1990 (P.L. 101-508) went into effect. SFFAS 2, *Accounting for Direct Loans and Loan Guarantees* provided accounting to implement the law in which collections of certain fees and other items that would be recorded as exchange revenues for direct loans and loan guarantees obligated before that time are recorded as increases to related loan guarantee liabilities (for loan guarantees) or to the allowance for subsidy (for direct loans and guaranteed loans assumed for direct collection). To the extent that collections result in increases to either of these accounts, the collections do not affect the net cost of operations.

Assume that $100 was collected during the reporting period for fees related to a loan guarantee program. This would be reported as -$100 on lines 2, 3, and 8 of the Statement of Financing. Net cost of operations is unaffected. The explanation for the difference is provided by the collection of fees that increased the loan guarantee liability. Accordingly, line 10c would show -$100 and line 15 +$100. The -$100 on line 8 combined with the +$100 on line 15 would yield the zero net cost of operations.

**Line 10d: Other collections not affecting net cost of operations**

It is prudent to provide one or more “other” lines in illustrations to provide for situations that specific lines do not contemplate. Although the common types of collections not affecting net cost of operations have been provided for by specific lines, some agencies may have still more scenarios. They would be set forth and detailed as the agencies believed appropriate. Additionally, if something on a specific line or set of lines was not material, it might appropriately be classified as "other" instead of having a separate descriptive line. And further, agencies could of course provide a subtotal for the items shown on sub-lines under 10 in the illustration if they wished.

**Line 11: Adjustments other than collections made to compute net budgetary resources that do not affect net cost of operations**

Recall from prior discussion that FASAB chose to make the same adjustments on line 2 to reduce gross resources obligated to net resources obligated as was made to adjust gross obligations on the Statement of Budgetary Resources to net obligations so that there would not be a separate definition for net obligations for both statements. This was to facilitate the explanation of the relation between gross obligations and net outlays (disbursements minus receipts, as defined by the Office of Management and Budget), as explained in prior discussion but the Statement of Financing explains the relationship of gross resources obligated (which is the same as obligations) to the net cost of operations (expenses less exchange revenues).

The amount of line 2 on the Statement of Financing related to collections is applicable both to net outlays and net cost of operations, except for the items under line 10, which were just discussed. However, the amounts related to recoveries of prior-year authority and changes in unfilled customer orders, which were explained in previous discussion, are not. Accordingly, it is necessary to "cancel" the effects of those adjustments in order to provide a proper relation of total resources to net cost of operations.

Assume, for example, a simple situation in which obligations were $100, and all were for items that were expensed in the period. Then assume that there had been $5 in recoveries of prior-year authority. The $100 would appear on line 1, and the $5 would be subtracted from it on line 2, yielding $95 on both lines 3 and 8. But the net cost of operations was $100. Using the same definition for net obligations (net resources obligated) on both the statements of budgetary resources and financing caused this anomaly. Accordingly, the effect of the $5 adjustment on line 2 must be reversed, and in the illustration, line 11a provides for this.

The rationale for line 11b is the same, except that the item to be reversed is the effect of the change in unfilled customer orders. As discussed in the narrative for line 10a, care must be taken not to double-count the change in unfilled customer orders by including unfilled customer orders with advances both as revenue received in advance on line 10a and unfilled customer orders on line 11b. It is the intent for the Statement of Financing illustrated for this article to include the change in all unfilled customer orders, whether with advances or not, in line 11b. However, agencies may wish to include revenue received in advance for items that are classified as unfilled customer orders in budgetary accounting on line 10a, in which case 11b would contain only the change in unfilled customer orders *without* advances.

Line 11c, "other," is supplied for some similar situation not contemplated on line 11a or 11b. As with other lines that have sub-lines, a subtotal for lines 11a, b, and c could be provided if the reporting entity wished.

**Line 12: Resources that fund expenses recognized in prior periods**

In some cases, expenses are recognized in one year, but the resources are not provided until the following year. Lines for the recognition of expenses are provided in the third section of the Statement of Financing and will discussed later in this article. Line 12 is for the provision of the resources in the following year.

Assume that a $10 expense for an upward re-estimate of subsidy under a credit program was recognized in Year 1. Under the Credit Reform Act alluded to earlier, the funding for that expense will not be made available until Year 2. In Year 2, resources obligated to finance activities will be $10, but since the expense was recognized in year 1, the net cost of operations will be zero. Lines 1, 3, and 8 will be $10. The reconciling factor is the $10 for resources funding expenses recognized in prior periods. This is shown as $10 on line 12 and -$10 on line 15. The sum of lines 8, +$10, and line 15, -$10, combine to yield the zero net cost of operations.

**Line 13: Resources that finance the acquisition of assets or liquidation of liabilities**

When agencies acquire assets, either budgetary or non-budgetary resources are used. Budgetary resources may be obligated for the acquisition of equipment, for example, or a transfer-in of the equipment from another Federal entity without reimbursement or a donation from the public might be the financing source. Although resources are used, there is no effect on the net cost of operations, because the acquisition of property does not result in an expense or exchange revenue.

Assume, for example, that an agency obligated budgetary resources to acquire $100 of equipment. In that case, lines 1, 3, and 8 of the Statement of Financing would be $100, but the net cost of operations would be zero. The factor that explains the difference is the use of the resources to acquire assets. The $100 would appear as a positive amount on line 13 and a negative amount on line 15. The $100 on line 8 plus the -$100 on line 15 would sum to the zero net cost of operations.

In addition, the opposite situation described for line 10c could occur. As explained for that line, certain credit program collections that increase loan guarantee liabilities or allowances for subsidy do not affect the net cost of operations and are a reconciliation factor on line 10c. Similarly, certain obligations of resources may be made that decrease loan guarantee liabilities or allowances for subsidy and also do not affect net cost of operations.

Assume, for example, that a Federal credit agency uses budgetary resources to pay third-party lenders money in order to buy down interest rates for a target group of people. Under SFFAS 2, that transaction decreases the loan guarantee liability rather than being recognized as an expense. Hence, if the buy-down cost $100, then lines 1, 3, and 8 of the Statement of Financing would be $100 and net cost of operations would be zero. The factor that explains this is the interest supplement payments, which would be shown as a positive amount on line 13 and a negative amount on line 15. The $100 on line 8 plus the -$100 on line 15 would sum to the zero net cost of operations.

To the extent that material amounts of different transactions occur, agencies might find it appropriate to detail the different transactions on sub-lines or otherwise.

**Line 14: Other resources used to fund items not part of the net cost of operations**

As with all "other" lines, this is provided for any situations not considered in specific lines.

**Lines 15 and 16: Computations**

Line 15 is the simply the sum of the lines in the section, using appropriate signs, and is the total resources used to fund items not part of the net cost of operations. Line 16 is the difference between the total budgetary and non-budgetary resources on line 8 and the resources that do not fund the net cost of operations on line 15–in other words, the resources that DO fund the net cost of operations.

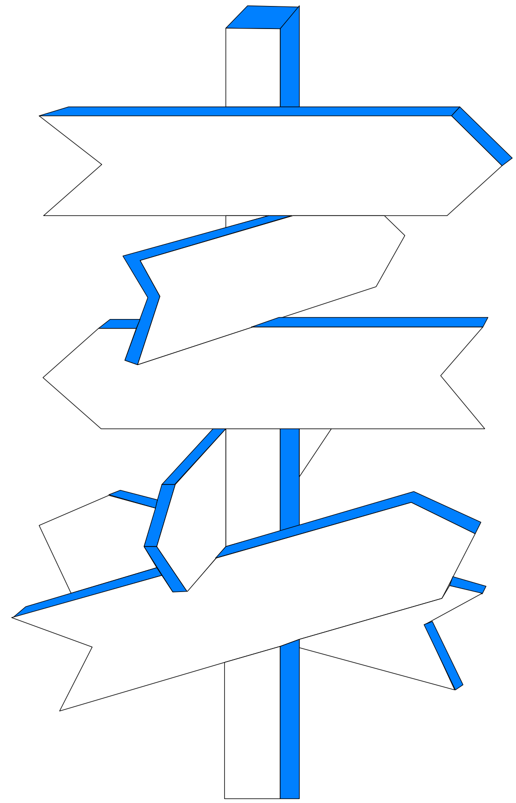
As will be seen in the next section, the resources used to finance the net cost of operations is not equal to the net cost of operations because of some items contained in the net cost of operations that do not require or generate resources in the reporting period.

***Section 3: Components of Net Cost of Operations That Do Not Require or Generate***

### *Resources During the Reporting Period*

## Nature of the Third Section

In prior discussion, the nature of resources used to finance activities of the reporting entity was discussed; resources that were not used to finance net cost of operations were set forth; and the difference between the two, resources that *were* used to finance the net cost of operations, was computed. That does not equal the net cost of operations, however, because not all components of the net cost of operations require or generate resources. The differences between the total of resources used to finance the net cost of operation and the amount of the net cost of operations are displayed in section 3 of the Statement of Financing.



An illustration of a possible display for section 3 is shown on the next page. It provides for two basic types of items that explain the difference between resources financing the net cost of operations and the net cost of operations itself. The first, on line 17 and its related sub-lines, reports expenses that never require financing sources and exchange revenues that never generate resources. The second, on line 18 and its sub-lines, reports expenses that do require resources to finance them, but for which the resources will be received in subsequent periods.

*Components of net cost of operations that do not require or generate resources during the reporting period:*

| | | | | | |
|---|---|---|---|---|---|
| 17. | Expenses or exchange revenue related to the disposition of assets or liabilities, or allocation of their costs over time: | | | | |
| 17a. | Expenses related to use of assets | xx | | | |
| 17b. | Losses or (gains) from revaluation of assets and liabilities | ±xx | | | |
| 17c. | Decrease or (increase) in exchange revenue receivable from the public | ±xx | | | |
| 17d. | Interest revenue from amortization of credit program allowance for subsidy | ±xx | | | |
| 17e. | Other | ±xx | | | |
| 17f. | Subtotal [17a±17b±17c±17d±17e] | | xx | | |
| 18. | Expenses that will be financed with budgetary resources recognized in future periods: | | | | |
| 18a. | Annual Leave expense from increase in annual leave liability | xx | | | |
| 18b. | Credit program subsidy expense from upward subsidy re-estimates | xx | | | |
| 18c. | Other | xx | | | |
| 18d. | Subtotal [18a+18b+18c] | | xx | | |
| 19. | Other net cost components that do not require or generate resources during the reporting period | | ±xx | | |
| 20. | TOTAL COMPONENTS OF NET COST OF OPERATIONS That DO NOT REQUIRE OR GENERATE RESOURCES DURING THE REPORTING PERIOD [±17f+18d±19] | | | ±xx | |
| 21. | Net cost of operations [16 ± 20] | | | | xx |

The remainder of this article discusses those situations line by line. Agencies may have other situations than provided for in the lines of this illustration, and may not have all the transactions provided for. The lines are numbered for convenience of reference. Both the items under lines 17 and 18 are subtotaled in the illustration.

**Line 17: Expenses or exchange revenue related to the disposition of assets or liabilities, or allocation of their costs over time**

There are transactions resulting in expenses that do not require resources. Because these expenses are included in the net cost of operations but are not present in resources used to finance net cost of operations, they must be added to the resources used to finance net cost of operations to explain the difference. Similarly, there are exchange revenues that decrease the net cost of operations, but do not generate resources. Since they decrease the net cost of operations but are not included in the computation for resources that finance the net cost of operations, they must be subtracted from resources that finance the net cost of operations to explain the difference. Line 17 is designed to detail these differences.

**Line 17a: Expenses related to the use of assets**

This line is used to report expenses related to consumption of assets in the course of operations. Common expenses of this type are depreciation, supplies used, and cost of goods sold. The example below is for depreciation. The concepts and arithmetic regarding supplies used, cost of goods sold, and other similar expenses would be the same.

When assets are depreciated, depreciation expense is recognized, and net cost of operations is increased by this amount. However, there are neither budgetary nor non-budgetary resources that finance depreciation. Rather, the resources financed *acquisition* of assets. Subsequent depreciation allocates the cost of assets already acquired over their useful lives; it does not require resources. Line 17a is used to report that depreciation.

Assume, for example, that $10 of depreciation expense has been recorded. The net cost of operations would be $10, and the amount of resources financing net cost of operations, reported on line 16, is 0. The factor that explains this difference is depreciation, and it is placed on line 17a and on the total for line 17, which is on 17f. When line 16, which is zero, and line 17f, which is $10, are combined, the $10 net cost of operations is the result.

**Line 17b: Losses or (gains) from revaluation of assets and liabilities**

In some cases, assets and liabilities are revalued. If the revaluation results in a smaller asset value or a larger liability, a loss is recorded. If the revaluation results in a larger asset value or a smaller liability, a gain is recorded.

Revaluation may take place for a number of reasons. Property may be lost through a flood or from theft; a loan guarantee liability for loans guaranteed prior to October 1, 1991, the effective date for the Credit Reform Act of 1990 (P.L. 101-508) may be reassessed upward or downward; a receivable from the public may be adjudicated by a court upward or downward; and so on.

When revaluations take place, a loss will increase the net cost of operations, but will not affect resources. Lost property may be replaced using resources, but the amount of the loss recorded is not financed by budgetary or non-budgetary resources.

Assume, for example, that the Government had a claim against a vendor for $100 of overpayments on expenses. The vendor fought the claim in court, and the court ruled that the claim was only $90, which was then paid. A $10 loss on revaluation of the receivable (or other related expense) would be recorded as a result. The net cost of operations would be $10, and the amount of resources that finance net cost of operations, reported on line 16, would be 0. The factor that explains this difference is the loss, and it is placed on lines 17b and 17f. When line 16, which is zero, and line 17f, which is $10, are combined, the $10 net cost of operations is the result.

Similarly, a gain on a revaluation will produce an exchange revenue, but that revenue produces no resources. Assume that a pre-credit-reform loan guarantee liability is reduced from $100 to $75 because favorable economic circumstances of borrowers have reduced defaults. In this case, rather than a gain being recorded, the expense for anticipated losses from defaults would probably be decreased, which has the same effect of reducing net cost of operations. Since no resources were generated by this revaluation, line 16 of the Statement of Financing would be zero, and the net cost of operations would be -$25. The difference is explained by the revaluation, which would be entered as a negative amount on line 17b and 17f. Combining line 16, which is zero, with line 17f, which is -$25, yields the correct net cost of operations.

The illustration of section 3 provides only a single line for losses or gains from revaluation of assets and liabilities. Agencies may wish to separate revaluations of assets from revaluations from liabilities, or gains from losses in the body of the Statement or in the notes if items are material and the detail would enhance understanding of the activities involved.

**17c: Decrease or (increase) in exchang e revenue receivable from the public**

Office of Management and Budget guidance provides that receivables from the public are not considered budgetary resources until collected. For that reason, advances are generally required when the public orders goods or services from the Government.

However, there are instances where public receivables are recorded and exchange revenue is recognized even though no budgetary resources may be recognized.

A common situation of that nature is the accrual of interest on receivables from the public. Assume, for example, that in Year 1 the Government obtained a judgment from a court that resulted in a public receivable of $100. The terms of the judgment provided for interest to be paid by the debtor, and $5 of interest was accrued at the end of Year 1. Assume further that in Year 2, the debtor paid $5 of interest, and that $3 more was accrued at the end of year 2 (this presumes that some amount was paid on the debt, which does not impact our illustration). That $5 and $3 are exchange revenues, and the net cost of operations would thus be -$5 in Year 1 and -$3 in Year 2. There would be a related "interest receivable from the public" in the same amounts. However, no budgetary resources would be recognized in Year 1, and only the $5 actually collected would be recognized in Year 2.

For Year 1, line 16 of the Statement of Financing would be zero, and the net cost of operations would be -$5. The factor that explains this difference is the change in the public receivable for interest from 0 at the beginning of the year to $5 at the end of the year. The increase would be shown as a subtraction on lines 17c and 17f; combining line 16, zero, with line 17f, -$5, would yield the -$5 net cost of operations.

In Year 2, line 16 would be -$5 (recall from previous discussion that the receipt of interest would be an "offsetting collection" that would be shown as a negative amount on line 2 and eventually work its way through the arithmetic to line 16), but the net cost of operations is -$3. Once again, the factor that explains this difference is the change in the public receivable for interest. Note that the receivable decreased from $5 to $3. The $2 difference would be placed as a positive amount on lines 17c and 17f. Combining line 16, -$5, and line 17f, +$2, yields the net cost of operations for Year 2, -$3.

The general situation to which line 17c applies also is discussed and illustrated on pp. 90-93 of the *Implementation Guide to SFFAS 7*.

**17d. Interest revenue from amortization of credit program allowance for subsidy**

In most cases, when a direct loan credit program for loans made after October 1, 1991, receives a subsidy related to the amount of certain costs it expects to sustain over the life of the loan, it recognizes a contra asset called "allowance for subsidy," which is subtracted from the related loans receivable. The allowance account is decreased for a number of transactions, one of which is the amount of the difference between interest charged the borrower and interest the Government pays on its debt. Each year, the amount of that difference is recognized by reducing the allowance for subsidy and recording interest revenue. This process is what is meant by "amortization" in the title of the line.

The interest revenue is exchange revenue, and its recognition decreases the net cost of operations. However, the amortization transaction does not generate any resources. Accordingly, line 16, resources used to finance net cost of operations, would be zero.

Assume that $10 of such amortization is recognized during a reporting period. The net cost of operations is -$10, and line 16 is 0. The factor that explains this is the amortization, and it would be placed on line 17d and 17f as a negative amount. Combining line 16, zero, and line 17f, -$10, yields the amount of the net cost of operations, -$10.

Though far less common, it is possible that the Government could charge borrowers an interest rate higher than the amount it pays on its own debt. In such cases, the amortization *decreases* interest revenue and *increases* the allowance for subsidy. Because the situation is rare, an example is not provided, but it can be seen intuitively that the same sort of reconciliation, with signs reversed, is required, and that line 17d would be used to provide the reconciling item. Agencies that have both positive and negative subsidy amortizations could net them on line 17d or set them forth separately, as appropriate.

**Line 17e: Other**

This line is provided for any situations under line 17 that have not been covered by lines 17a through 17d. Agencies may have such additional transactions, and may or may not have all of the transactions for which lines 17a-17d provide. If some items being reported are small, it may be appropriate to group them on an "other" line rather than reporting them separately. The decision to do so rests with agencies.

**Line 18: Expenses that will be financed with budgetary resources recognized in future periods**

Line 17 dealt, in part, with expenses that will *never* require either budgetary or non-budgetary resources. Line 18 is used to report expenses that *will* require budgetary resources but for which the resources will not be received until subsequent reporting periods. (Note that SFFAS 7 specifically precludes the accrual of these budgetary resources before they are made available.) Because the expenses here are recognized in one year and the resources in the next or later years, a difference between resources and net cost of operations occurs and must be explained.

It should be noted that when resources are provided in subsequent reporting periods, they fund expenses that were already reported, and hence appear on line 12 of the Statement of Financing, "resources that fund expenses recognized in prior periods." Line 12 was discussed earlier in this article.

**Line 18a: Annual leave expense from increase in annual leave liability**

Under accrual accounting concepts, the expense for annual leave is recognized based on when it is earned. However, the Congress provides appropriations to pay for the leave when it is taken. To the extent that leave is accrued, it is not financed in the year of accrual, but the accrual of leave expense increases the net cost of operations. Hence, an explanation for the difference is required.

Assume, for example, that in a new agency, the following situations with respect to annual leave occurred:

| | Year 1 | Year 2 |
|---|---|---|
| Beginning annual leave liability | $ 0 | $ 10 |
| Accruals of leave | 100 | 120 |
| Leave taken | 90 | 105 |
| Ending annual leave liability | 10 | 25 |

In this situation, the expense for annual leave, based on the accruals, is $100 in Year 1 and $120 in Year 2. However, resources were used only to fund the leave taken, $90 in Year 1 and $105 in Year 2. They would be included in line 16 of the Statement of Financing. The factor that explains this difference in both years is the increase in the annual leave liability, which is $10 in Year 1 and $15 in year 2. The amounts would be placed on line 18a and 18d, the total for the sub-lines under line 18. Combining line 16 with line 18d would yield the net cost of operations, $100 in Year 1 ($90 + $10) and $120 in Year 2 ($105 + $15).

It should be noted that a decrease in the annual leave liability results from more leave being taken than was accrued. In that case, some of the resources were not used to fund the net cost of operations, and a different display, using different lines, is required. This is discussed and illustrated on pp. 82-83 of the *Implementation Guide to SFFAS 7*.

**Line 18b: Credit program subsidy expense from upward subsidy re-estimates**

Credit programs with direct loans and loan guarantees obligated after October 1, 1991, receive a subsidy based on estimates of certain associated costs. Because the actual costs and assumptions on which the estimates are made may be different than the original estimates and assumptions, more or less subsidy may be needed. When more subsidy is needed, the subsidy expense from a re-estimate is accrued in the period to which it applies; however, it is not received until the subsequent year. This situation is analogous to the one for annual leave expense, above, and is treated similarly.

Assume that in a new credit program, subsidy expense was re-estimated to require $5 more as of the end of Year 1. The $5 was not received until Year 2. Net cost of operations is $5 in Year 1, but resources used to finance net cost of operations, on line 16 of the Statement of Financing, is zero. The factor that explains this difference is the amount of the re-estimate, which is $5, and it would be placed on line 18b and 18d. Combining lines 16, zero, and 18d, $5, yields the net cost of operations.

**Line 18: Other**

This line is provided for any situations under line 18 that have not been covered by lines 18a and 18b. Agencies may have such additional transactions, and may or may not have all of the transactions for which lines 18a and b provide. If some items being reported are small, it may be appropriate to group them on an "other" line rather than reporting them separately. The decision to do so rests with agencies.

**Line 19: Other net cost components that do not require or generate resources during the reporting period**

This line is provided for any expenses not requiring resources or exchange revenue not generating resources during the reporting period that have not been covered under lines 17 or 18. If any such items are material, they should be appropriately described.

**Line 20: Total components of net cost of operations that do not require or provide resources during the reporting period**

This is simply an arithmetic computation based on the items reported under lines 17, 18, and 19.

**Line 21: Net cost of operations**

The amount on this line must be the amount reported for net cost of operations on the Statement of Net Costs. It also must equal the amount computed by combining line 16, resources used to fund net cost of operations, and line 20, total components of net cost of operations that do not require or provide resources during the reporting period.

•

**An Important Caveat Repeated**

As mentioned in the beginning of this article, these illustrations and examples are provided to assist agencies; they do not purport to be comprehensive for every agency. Nor would every agency necessarily have all the transactions that would be reported using the lines shown. There is no requirement to use the specific 1) lines, 2) wording, 3) order of the lines, 4) subtotals, or 5) sections exactly as shown.

Moreover, these illustrations and examples are not authoritative. However, the Board and its staff often receive comments and questions indicating that individuals or entities may not understand the distinction between authoritative and illustrative guidance. Therefore, it bears repeating that the illustrations and examples in this article are not authoritative and do not preclude agencies from displaying their own Statement of Financing in any manner that best illustrates their financial situation and is consistent with Federal accounting standards promulgated by the Office of Management and Budget through FASAB, and other authoritative criteria (such as Office of Management and Budget Bulletin 97-01 and Circulars A-11 and A-34) related to budgetary or proprietary accounting and reporting. Careful thought and analysis should go into the preparation of agency financial statements. No practical illustration can feasibly cover every possible situation, and no authoritative guidance will be so specific as to have the effect of mandating exactly what display to create in every possible situation.

This section of the article discusses the approaches to understanding and preparing the Statement, including developing crosswalks from U.S. Government Standard General Ledger (SGL) accounts. Also, it illustrates some specific situations that arose in response to comments received while preparing the earlier part of the article.

**Approaches to Understanding and Preparing the Statement**

There are two basic approaches to learning about the Statement of Financing. One is a micro-approach, which builds the Statement entry by entry and is suitable for understanding how transactions affect, and are reported on, the Statement. The other is a macro-approach, which analyzes information developed from the micro approach and, through deductive reasoning, builds crosswalks from SGL accounts to lines on the Statement. This is suitable for developing the report generation program necessary to prepare the Statement from an automated system.

**The Micro Approach to Understanding**

One often looks at a new statement from the perspective of programming a report generator to prepare the statement from an automated system's database, the subject of the section after this one. It is also important to remember that every statement is built from individual transactions; each can be analyzed to see its effect, if any, on the statement, which is the subject of this section.

Assume, for example, the following series of simple transactions for a reporting period.

1. A $100 appropriation is received.
2. OMB apportioned the appropriation.
3. The agency allotted the appropriation.
4. Commitments of $100 were placed.
5. Goods and services covered by the $100 of commitments were ordered in the amount of $95. Advances of $10 accompanied the orders.
6. Goods and services were received for the orders, with the bills totaling $97. The bills represented supplies of $27 and expenses of $70. No payments were made at this time.
7. Accounts Payable of $600 were paid.
8. Supplies on hand at the end of the reporting period were $12; $15 had been used during the period.

Each of these transactions, once journalized, can be analyzed to see its effect on the Statement of Financing. This analysis for the transactions is set forth below by showing the journal entries required (using SGL accounts) and commenting on their effect on the Statement. This is followed by showing how the entries build the Statement of Financing that would be prepared for them. (Debits appear first and flush left in each entry. Credits are indented and follow all debits.)

1. A $100 appropriation is received.

<u>Budgetary Entry</u>

| | | |
|---|---|---|
| 4119 Other Appropriations Realized | 100 | |
| 4450 Unapportioned Authority - Available | | 100 |

<u>Proprietary Entry</u>

| | | |
|---|---|---|
| 1010 Fund Balance With Treasury | 100 | |
| 3100 Unexpended Appropriations | | 100 |

An analysis of these entries reveals that neither budgetary nor non-budgetary resources were used (obligated) and that there were no expenses or exchange revenues generated. Since both resources obligated and net cost of operations are zero, the entry has no effect on the Statement of Financing.

2. OMB apportioned the appropriation.

<u>Budgetary entry</u>

| | | |
|---|---|---|
| 4450 Unapportioned Authority - Available | 100 | |
| 4510 Apportionments - Available | | 100 |

<u>Proprietary entry</u>
None

The analysis for these entries is the same as for transaction 1. There is no effect on the Statement of Financing.

3. The agency allotted the appropriation.

<u>Budgetary entry</u>

| | | |
|---|---|---|
| 4510 Apportionments - Available | 100 | |
| 4610 Allotments - Realized Resources | | 100 |

<u>Proprietary entry</u>
None

The analysis for these entries is the same as for transaction 1. There is no effect on the Statement of Financing.

4. Commitments of $100 were placed.

<u>Budgetary entry</u>

| | | |
|---|---|---|
| 4610 Allotments - Realized Resources | 100 | |

4700 Commitments 100

Proprietary entry
None

The analysis for these entries is the same as for transaction 1. There is no effect on the Statement of Financing.

5. Goods and services covered by the $100 of commitments were ordered in the amount of $95. $10 of the orders were accompanied by advances.

Budgetary entry

| | | |
|---|---|---|
| 4700 Commitments | 100 | |
| 4610 Allotments - Realized Resources | 5 | |
| 4801 Undelivered Orders - Unpaid | | 85 |
| 4802 Undelivered Orders - Paid | | 10 |

Proprietary entry

| | | |
|---|---|---|
| 1450 Prepayments | 10 | |
| 1010 Fund Balance With Treasury | | 10 |

These entries show resources obligated to fund activities of the agency in the amount of $95. The net cost of operations is zero because the entry does not involve expenses or exchange revenue. The reconciling item is the $95 of undelivered orders, considered a resource that does not fund net cost.

6. Goods and services were received for the orders, with the bills totaling $97. The bills represented supplies of $27 and expenses of $70.

Budgetary entry

| | | |
|---|---|---|
| 4801 Undelivered Orders Without Advances | 85 | |
| 4802 Undelivered Orders With Advances | 10 | |
| 4610 Allotments - Realized Resources | 2 | |
| 4901 Expended Authority - Unpaid | | 87 |
| 4902 Expended Authority - Paid | | 10 |

Proprietary entry

| | | |
|---|---|---|
| 1511 Operating Materials and Supplies Held for Use | 27 | |
| 6100 Program and Operating Expenses ["Other"] | 70 | |
| 1450 Prepayments | | 10 |
| 2110 Accounts Payable | | 87 |

- and -

| | | |
|---|---|---|
| 3100 Unexpended Appropriations | 97 | |
| 5700 Appropriations Used | | 97 |

These entries also affect the Statement of Financing. $2 more of resources was obligated, and the net cost of operations was the $70 of expenses (designated simply "other" for purposes of the illustration, the "other" being "other than for supplies used," which we will see in transaction 8.). The reconciling items are the decrease in undelivered orders, $95, which must be added, and the $27 of supplies acquired, which must be subtracted ($2 + $95 - $27 = $70). The entry to record appropriations used does not involve expenses or exchange revenues, and hence has no impact on the Statement of Financing.

7. Accounts Payable of $600 were paid.

Budgetary entry

| | | |
|---|---|---|
| 4901 Expended Authority - Unpaid | 600 | |
| 4902 Expended Authority - Paid | | 600 |

Proprietary entry

| | | |
|---|---|---|
| 2110 Accounts Payable | 600 | |
| 1010 Fund Balance With Treasury | | 600 |

The analysis for these entries is the same as for transaction 1. There is no effect on the Statement of Financing.

8. Supplies on hand at the end of the reporting period amounted to $12; $15 had been used during the period.

Budgetary entry
None

Proprietary entry

| | | |
|---|---|---|
| 6790 Expenses Not Requiring Budgetary Res. - Supplies Used | 15 | |
| 1511 Operating Materials and Supplies Held for Use | | 15 |

These entries yield no resources, but the net cost of operations is $15. The reconciling item is the $15 of supplies used.

Based on the analysis of these eight transactions, the Statement of Financing could be prepared by building it transaction by transaction and summing the results. Doing so would yield the following condensed Statement, which omits all but one subtotal. It shows information specific to the problem rather than the generic information shown in the illustration earlier in this article (line numbers refer to those in that earlier illustration). The actual Statement would show the subtotals and would contain only the numbers in the total column.

**Condensed Statement of Financing**

| Transactions: | 1-4, 7 | 5 | 6 | 8 | Total |
|---|---|---|---|---|---|
| **Resources** | | | | | |
| 1. Budgetary resources obligated | 0 | 95 | 2 | 0 | $97 |
| **Resources That Do Not Fund Costs** | | | | | |
| 9. Change in undelivered orders | | (95) | 95 | | |
| 13. Acquisition of supplies | | | (27) | | (27) |
| **Expenses That Do Not Require Resources** | | | | | |
| 17a. Expense for supplies used | | | 15 | 15 | |
| **21. Net Cost of Operations** | 0 | 0 | 70 | 15 | $85 |

The transactions illustrated are basic ones, but the most complicated transactions one can imagine are still analyzed in the same way. From the example, we can generalize this "micro" approach to consist of the steps illustrated in the next table for any given transaction.

**MICRO APPROACH TO THE** STATEMENT OF FINANCING

1. Journalize the budgetary and proprietary entries, as applicable.

2. Compute the resources used to finance activities (the amount of budgetary resources obligated and non-budgetary resources used).

3. Compute the net cost of operations.

4. If there is no difference between 2 and 3, go to step 7. If there is a difference, continue with step 5.

5. Identify the components of the transaction which explain the difference between resources determined in step 2 and the net cost of operations determined in step 3.

6. Categorize the differences identified in 5 as adjustments related to (a) resources which do not fund costs or (b) expenses and exchange revenues which do not require or generate resources during the current period.

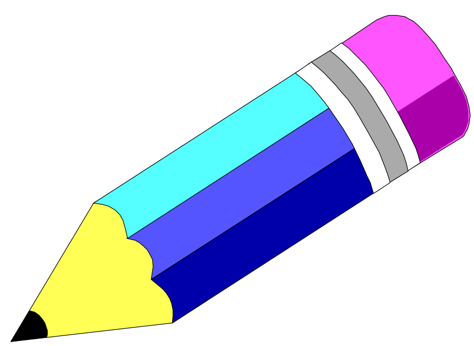
7. Prepare the Statement of Financing for the transaction by placing the items identified in step:
   - 2 on lines in the first (resources) section of the Statement.
   - 3 on line 21 (net cost of operations).
   - 6(a) on the lines in section 2 of the Statement (resources not generating costs).
   - 6(b) on the lines in section 3 of the Statement (net cost components not using or generating resources).

The completed Statement of Financing would be the sum of these various items for the different lines on which they appear.

**The Macro Approach to Preparation**

The micro approach discussed in the preceding section is useful to understanding the nature and construction of the Statement of Financing and for reporting the effects of any given transaction. However, it is not feasible to utilize that approach for the preparation of the Statement by an automated system, which generally would not be well-suited to, and would almost certainly not be programmed for, a transaction-by-transaction analysis. A "macro" approach requires that the effects of all transactions be generalized such that a crosswalk from SGL account balances accumulated as of the end of the year to lines on the Statement established by the agency can be developed. It requires an ability to utilize the micro approach for all possible transactions and then, by observing the relationship of the effect of the transactions on the lines of the Statement of Financing, to generalize those effects into a crosswalk from accounts to the lines on the Statement. A thoughtful review and analysis is required.

If we were to apply this macro approach to the transactions set forth in the preceding section, we would develop the crosswalk that follows.



**Condensed Statement of Financing**

**Crosswalk***

| | | |
|---|---|---|
| **Resources** | | |
| 1. Budgetary resources obligated | $97 | (4801 + 4802 + 4901 + 4902)P-B; must match this information on the statement of budgetary resources.) |
| **Resources That Do Not Fund Costs** | | |
| 9. Change in undelivered orders | | (4801 + 4802)P-B |
| 13. Acquisition of supplies | (27) | (1511)P-B + 6790 Supplies Used |
| **Expenses That Do Not Require Resources** | | |
| 17a. Expense for supplies used | 15 | 6790 Supplies Used |
| **21. Net Cost of Operations** | $85 | (Computation of lines; must match net cost of operations on the Statement of Net Costs.) |

*B = Beginning balance; P = Pre-closing balance

Fortunately, much of the analysis required to apply the macro approach has already been done for agencies by the SGL Board, which has published a crosswalk. It may not be comprehensive, and every facet of it may not be correct, but an iterative process of engagement among the agencies will result in its being more comprehensive and correct over time. The efforts made to date have been admirable, and discussion should focus on how to make an already good tool even better rather than on the tool's shortcomings, which are to be expected in any new enterprise of this nature.

How to develop a crosswalk? Basically, agencies must identify their transactions (which should already have been done in the course of designing and documenting their automated accounting systems) and apply the micro approach to the transactions. Then, observing the results of the micro approach, they would analyze and generalize effects to result in a crosswalk. For purposes of this article, we will follow this approach with an analysis of SGL account 1750, Equipment. The reader is referred to pars. 23-45 of SFFAS 6, *Accounting for Property, Plant, and Equipment* for information on categorization and valuation, a discussion of which is beyond the scope of this article.

The first step in the macro approach is to identify the transactions. Intuitively, or through researching a documented list of transactions for an agency, one might arrive at a list like the following:

1. Acquire equipment on account or for cash.
2. Acquire equipment by donation or transfer-in
3. Depreciate equipment
4. Sell equipment at a gain, loss, or neither
5. Scrap equipment or transfer it out without reimbursement
6. Trade equipment in on new equipment at a gain, loss, or neither, with no cash to or from the agency

There are still other transactions, such as the trade-in of equipment with cash to or from the agency, but we will limit ourselves to the ones listed here to illustrate application of the macro method.

The journal entries for these transactions, and their effects on the Statement of Financing, are set forth below, assuming an appropriation-based organization with no undelivered orders recorded prior to the transactions; sales to non-federal entities; and collections not already anticipated in the budget (these assumptions make no difference in preparing the Statement of Financing, but they simplify the illustrations). Additionally, numbers are assumed for purposes of the entries, each of which are mutually exclusive; account titles are abbreviated where necessary to conserve space; and SGL account numbers are used. After the entries and analysis have been presented, the resulting Statement of Financing and crosswalk to the lines, based on these transactions, is illustrated.

1. Acquire equipment on account or for cash.

| | | |
|---|---|---|
| Budgetary entry | | |
| 4610 Allotments - Realized Resources | 100 | |
| 4901 or 4902 Expended Authority - Unpaid or - Paid | | 100 |
| Proprietary entry | | |
| 1750 Equipment | 100 | |
| 2110 or 1010 Accounts Payable or Fund Balance with Treasury | | 100 |
| 3100 Unexpended Appropriations | 100 | |
| 5700 Appropriations Used | | 100 |

Analysis: Resources, $100; Net Cost of Operations, $-0-; Reconciling Item: Section 2 adjustment for acquisition of equipment, $100. Note that the entry to record appropriations used has not effect on either resources or net cost of operations.

2. Acquire equipment by donation or transfer (debits are indicated without parentheses; credits are indicated with parentheses)

Budgetary entry
None

| Proprietary entry | Donation | Transfer-in |
|---|---|---|
| 1750 Equipment | 100 | 100 |
| 5610 Donated Revenue - Nonfinancial | (100) | |
| 5720 Transfers-in w/o Reimbursement | | (100) |

Analysis for either entry: (Nonbudgetary) resources, $100; Net cost of operations, -0-; Reconciling item: Section 2 adjustment for equipment acquired, $100.

3. Depreciate equipment

Budgetary entry
None

| | | |
|---|---|---|
| Proprietary entry | | |
| 6710 Depreciation Expense - Equipment | 100 | |
| 1759 Accumulated Depreciation - Equipment | | 100 |

Analysis: Resources, $-0-; Net Cost of Operations, $100; Reconciling Item: Section 3 adjustment for depreciation expense

4. Sell equipment at a gain, loss, or neither (debits are indicated without parentheses; credits are indicated with parentheses)

| | Gain | Loss | Neither |
|---|---|---|---|
| Budgetary entry | | | |
| 4266 Other Non-federal collections | 100 | 100 | 100 |
| 4450 Unapportioned Authority - Available | (100) | (100) | (100) |
| Proprietary entry | | | |
| 1010 Fund Balance With Treasury | 100 | 100 | 100 |
| 1759 Accumulated Depreciation - Equipment | 80 | 80 | 80 |
| 7210 Loss on Disposal of Equip. | | 20 | |
| 7110 Gain on Disposal of Equip. (resources rec'd.) | (60) | | |
| 1750 Equipment | (120) | (200) | (180) |

Analysis of gain transaction: Resources, -$100; Net cost of operations, -$60; Reconciling item: Section 2, book value of equipment removed, $40

Analysis of loss: Resources, $-100; Net cost of operations $20; Reconciling items: Section 2, book value of equipment removed, $120, less loss on disposal, $20, or $100; Section 3 expense for revaluation of assets, $20. (Note that the $20 was not included in the $100 collection, and hence that portion of the book value did not explain the difference between resources and net cost of operations. Remember that one is not looking for the book value of the equipment, but rather is looking for the explanation of why there is a difference between resources and the net cost of operations. See also transaction 5, which has the same concept.)

Analysis of sale for book value: Resources, -$100; Net cost of operations, $-0-; Reconciling item: Section 2: book value of equipment removed.

Some special notes are appropriate here. First, this illustration supersedes the one on page 90 of the implementation guide to SFFAS 7. It is an example of the iterative process required to become more comprehensive and correct over time. When the illustration in the implementation guide was prepared, the book value of the equipment was used as the reconciling item for all three situations. That placed the Statement of Financing in balance, but it did not satisfy the theory underlying the Statement, which provides that section 2 is to adjust only resources which are reported in section 1. Since the amount of a loss does not appear in Section 1, it is inappropriate to make an adjustment for the loss in Section 2. Section 3 is the appropriate one to show the reconciling item.

Second, the reader can deduce from this that the crosswalk for line 13, as relates to these transactions, must be: 1750 Equip. (P-B) - 1759 Accum. Depr. (P-B) + 7210 Loss on Disposal. Taking into account transaction 2 would modify it further to be: 1750(P-B) - 1759(P-B) + 7210 + 6710 (Depr. Exp. - Equip.). This is the nature of the deductive reasoning that is performed in the macro approach, which results in developing a crosswalk by analyzing the effects of a series of transactions on the Statement of Financing. Note further that while it would appear that this crosswalk would produce the reverse sign from what the arithmetic requires for the Statement to balance, it will enter into the subtotal of line 15, which will be *subtracted*, and hence the arithmetic will be correct.

5. Scrap the equipment (assume a positive book value; if book value is zero, there is no effect on the Statement of Financing)

Budgetary entry
None

Proprietary entry

| | | |
|---|---|---|
| 1759 Accumulated Depreciation - Equipment | 80 | |
| 7210 Loss on Disposal of Equipment | 20 | |
| 1750 Equipment | | 100 |

Analysis: Resources, $-0-; Net cost of operations, $20; Reconciling item, Section 2 book value of equipment removed, $20, less loss on removal, $20,or $-0-; Section 3 expense for revaluation of assets, $20. (See the parenthetical note to loss scenario in transaction 4.)

6. Trade the equipment in on new equipment at a gain, loss, or neither, with no cash to or from the agency (debits are indicated without parentheses; credits are indicated with parentheses)

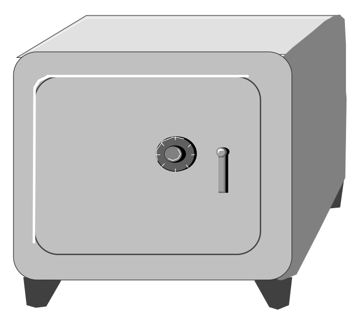
| | Gain | Loss | Neither |
|---|---|---|---|
| Budgetary entry | | | |
| None | | | |
| | | | |
| Proprietary entry | | | |
| 1750 Equipment (New) | 70 | 25 | 40 |
| 1759 Accumulated Depreciation - Equipment (Old) | 80 | 80 | 80 |
| 7210 Loss on Disposal of Equip. | | 15 | |
| 7110 Gain on Disposal of Equip. (no resources rec'd.) | (30) | | |
| 1759 Equipment (Old) | (120) | (120) | (120) |

Analysis of gain transaction: Resources, -0-; Net cost of operations, -$30; Reconciling item: Section 3 gain which did not generate resources. (Note that this would further modify the crosswalk for line 13 to 1750(P-B) - 1759(P-B) + 7210 + 6710 (Depr. Exp. - Equip.) - 7110 (gain, no resources received) which, when applied would be $-0- for this transaction.)

Analysis of loss transaction: Resources, -0-; Net cost of operations, $15; Reconciling item: Section 3 loss on disposal .

Analysis of even exchange: Resources, -0-; Net cost of operations, $0; Reconciling item: None. This does not affect the Statement of Financing.

Using a micro analysis, the reporting for each transaction, and for the total, would appear as on the following pages.



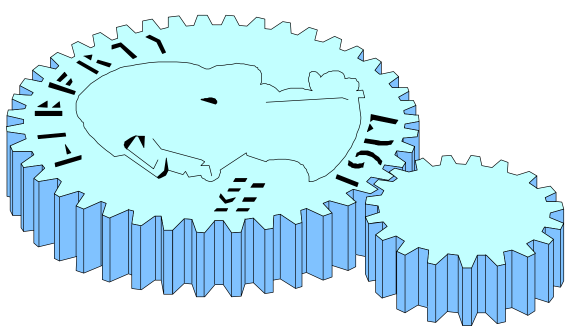
## Statement of Financing for Selected Property Transactions

| Transactions: | 1 | 2 | 3 | 4(gain) | 4(loss) | 4(neither) | 5 |
|---|---|---|---|---|---|---|---|
| 1. Budgetary Resources | 100 | 0 | | | | | 0 |
| 2. Budgetary Collections | | | | (100) | (100) | (100) | |
| 3. Donations and Transfers-in | | 100 | | | | | |
| 13. Adj. for Equip. Transactions* | (100) | (100) | | 40 | 100 | 100 | |
| 17a. Depreciation | | | 100 | | | | |
| 17b. Loss on Disposal | | | | | 20 | | 20 |
| 17b. Gains - no resources | | | | | | | |
| 21. Net Cost of Operations | 0 | 0 | 100 | (60) | 20 | 0 | 20 |

| Transactions: | 6 (gain) | 6(loss) | Total | Derived Crosswalk** |
|---|---|---|---|---|
| 1. Budgetary Resources | 0 | 0 | 100 | (4901 + 4902)P-B |
| 2. Budgetary Collections | | | (300) | 4266 |
| 3. Donations and Transfers-in | | | 100 | 5610 + 5720 |
| 13. Adj. for Equip. Transactions* | | | 40 | (1750-1759)P-B +7210 + 6710 (depr.) - 7110 (gain, no resources) |
| 17a. Depreciation | | | 100 | 6710 (depr.) |
| 17b. Loss on Disposal | | 15 | 55 | 7210 |
| 17b. Gains - no resources | (30) | | (30) | 7110 (no resources) |
| 21. Net Cost of Operations | (30) | 15 | 65 | |

*As this would be an item adding to a subtotal which is subtracted in the arithmetic for the Statement (line 15), the sign shown for it has been reversed to make it easier to see the arithmetic. In a Statement complete with subtotals, the sign for line 13 would be the opposite of that shown.

**B = beginning balance; P = Pre-closing balance.



Synthesizing what we have done to implement the macro approach to the Statement of Financing, we would have the general steps listed in the following table.

| MACRO APPROACH TO THE STATEMENT OF FINANCING |
| --- |
| 1. Identify transactions. |
| 2. Journalize transactions identified. |
| 3. Analyze the effects of the transaction on the Statement of Financing. |
| 4. Observe the cumulative effects of the transactions on the Statement. |
| 5. Derive a crosswalk from the accounts to the lines on the Statement which produces the effects observed for each transaction and in total, using deductive reasoning. |

The development of a crosswalk for the Statement of Financing is tedious, but it is easily done through the macro approach illustrated here. While it would be unfortunate if a single person had the task of applying the approach to every account in the SGL, the work lends itself well to committees, which could be formed to apply the approach to selected sets of accounts. Much of the work for one account might apply to another. The application of the macro approach to the equipment account, for example, yielded a crosswalk that generally would apply to the entire set of fixed asset accounts in the SGL.

For those who may very understandably lament the effort required, it would be well to remember that the accounts necessary for, and a viable crosswalk to, the outlays section of the SF-133 "Statement on Budget Execution" (precursor to the Statement of Budgetary Resources), which reconciles obligations and outlays, took 11 years to perfect. It was only in the FY 1997 version of the SGL that the work was substantially complete, and the result is a boon to those who program report generators and to those who wish to understand the nature of the process that reconciles the two numbers. The SGL effort was determined; it was an iterative process that provided better and better accounts and crosswalks over time; and it bore fruit. One would hope that a lesser time would be required for the Statement of Financing, as there are more agencies actively involved in SGL issues resolution than there were when the SGL was first published in 1986. Also Federal accounting theory is more mature and documented now. Nonetheless, the same iterative process can be expected. A "perfect" crosswalk from SGL accounts to the Statement of Financing will not be generated overnight, especially given competing demands on the limited accounting and computer staffs and sometimes less-than-fully-satisfactory computer systems faced in many agencies.

## Specific Illustrations

This next section provides information requested by readers of the draft versions of this article on specific situations. The situations are as follows:

- Provision for losses on accounts receivable and pre-credit reform loan guarantee liabilities
- Uncollected non-federal receivables for overpayments of expenses
- Upward re-estimates of credit program subsidy expenses.
- Downward re-estimates of credit program subsidy expenses.
- Recognition of negative subsidy expense in credit programs.

For each transaction, a journal entry or entries is provided and a condensed Statement of Financing is prepared.

### Provision for Losses on Accounts Receivable and Pre-Credit Reform Loan Guarantee Liabilities

The entry to record bad debts expense on accounts receivable requires no budgetary entry. The proprietary entry is as follows:

| | | |
|---|---|---|
| 6720 Bad Debts Expense | 100 | |
| 1319 Allowance for Loss on Accounts Receivable | | 100 |

The Statement of Financing for the transaction would be as shown below:

| | |
|---|---|
| Line 8 Total Resources | 0 |
| Line 17a Bad Debts Expense | 100 |
| Line 21 Net Cost of Operations | 100 |

The entry to record a provision for losses on pre-Credit Reform loan guarantee liabilities also requires no budgetary entry. The proprietary entry is as follows:

| | | |
|---|---|---|
| 6790 Provision for Loss on Loan Guarantee Liability | 100 | |
| 2180 Loan Guarantee Liability | | 100 |

The Statement of Financing for the transaction would be as shown below:

| | |
|---|---|
| Line 8 Total Resources | 0 |
| Line 17e Provision for Loan Guar. Losses | 100 |
| Line 21 Net Cost of Operations | 100 |

The illustrative Statement of Financing does not provide a specific line for this provision of losses, and hence line 17e, “other,” is used. Line 17(a) could be used if the wording on the line was changed slightly to include liabilities, and line 17(b) could be used if agencies chose to classify the transaction as a revaluation of liabilities. It is more important that reconciling items be placed in the proper section of the Statement of Financing than that they be on a specific line in the illustration in this article. Agencies are free to modify the lines as they deem necessary to properly describe and display their financial information.

**Uncollected non-federal receivables for overpayments of expenses**

There is no budgetary entry for this, as the budget does not recognize the transaction until the receivable has been collected. The proprietary entry to record the receivable is:

| | | |
|---|---|---|
| 1310 Accounts Receivable | 100 | |
| 6100 Operating Expenses/ Program Costs | | 100 |

The Statement of Financing would be as shown below:

| | |
|---|---|
| Line 8 Total Resources | 0 |
| Line 17e Increase in Accounts Receivable from the Public for Overpayments of Expenses | (100) |
| Line 21 Net Cost of Operations | (100) |

Here again, the illustrative Statement of Financing does not provide a specific line. However, with a slight modification in wording to provide for overpayments of expenses line 17(b) could be used, if desired, perhaps avoiding the need to break out accounts receivable for exchange revenue from accounts receivable for overpayments of expenses, unless otherwise required. The concept through which they are providing adjustments is the same.

If the receivable is collected in a subsequent year, the following entries would be made:

<u>Budgetary entry</u>

| | | |
|---|---|---|
| 4972 Downward Adjust. of Prior-year Expended Authority - Refunds Collected | 100 | |
| 4610 Allotments - Realized Resources | | 100 |

<u>Proprietary entry</u>

| | | |
|---|---|---|
| 1010 Fund Balance With Treasury | 100 | |
| 1310 Accounts Receivable | | 100 |

[An additional entry to adjust unexpended appropriations and appropriations used would be required if appropriations were involved. This entry would have no effect on the Statement of Financing.]

The Statement of Financing would appear as follows:

| | |
|---|---|
| Line 2 Budgetary Collections | (100) |
| Line 17e Decrease in Accounts Receivable from the Public for Overpayments of Expenses | 100 |
| Line 21 Net Cost of Operations | 0 |

**Upward Re-estimates of Credit Program Subsidy Expenses**.

An upward re-estimate of credit program subsidy expense is made in one year and is collected in another year, and interest would be computed on the re-estimate. Assuming a discretionary loan guarantee program, the following entries are made in each year (debits are without parentheses, and credits are in parentheses). The proprietary entries are made in net for the consolidated reporting entity (i.e. interfund debits and credits are eliminated). A discussion of the intricacies of credit program accounting and reporting is beyond the scope of this publication. For edification of readers intimate with the topic, however, letters (P) and (F) designate whether the account would appear in the program fund or financing fund, respectively. For a direct loan program, account 2180 would be replaced by account 1399 Allowance for Subsidy and account 6330 Interest Expense - Loan Guarantee Liability by 5310 Interest Revenue - Subsidy (the revenue account is appropriate here, for reasons beyond the scope of this article).

| | Year 1 | Year 2 |
|---|---|---|
| Budgetary entries | | |
| 4271 Program Fund Subsidy Collected (F) | | 100 |
| 4276 Other Federal Collections (F) | | 5 |
| 4070 Anticipated Federal Collections (F) | | (105) |
| 4610 Allotments - Realized Resources (P) | No | 105 |
| 4902 Expended Authority - Paid (P) | Entry | 105 |
| Net proprietary entries | | |
| 6100 Subsidy Expense - Re-estimates (P) | 100 | |
| 6330 Interest Expense - Loan Guar. Liab. (F) | 100 | |
| 2180 Loan Guarantee Liability (F) | (105) | |
| 6330 Interest Expense - Re-estimates (P) | 5 | |
| 5310 Interest Revenue - Re-estimates (F) | (5) | |
| 1010 Unexpended Appropriations (P) | | 105 |
| 5700 Appropriations Used (P) | | (105) |

The Statements of Financing would appear as:

| | Year 1 | Year 2 |
|---|---|---|
| Line 1 Budgetary Resources | 0 | 105 |
| Line 12 Resources Funding Prior Period Adjustments | 0 | (105) |
| Line 18b Re-estimated Subsidy Exp. | 100 | 0 |
| Line 18c Interest Expense - LGL | 5 | 0 |
| Line 21 Net Cost of Operations | 105 | 0 |

Readers should note that this illustration supersedes that on page 98 of the implementation guide to SFFAS 7. Again, through the iterative process of examining the mechanics of the Statement of Financing, we have better knowledge and understanding of the Statement today than we did when the guide was issued in 1996.

**Downward Adjustments of Credit Program Subsidy Expenses**

Assume the same facts as in the preceding example for upward adjustments, except that the adjustment to subsidy expense is downward. Under that same caveats as the preceding example, and with the designation of "G" for the general fund receipt account, the entries would be as follows. The Federal accounting community is presently considering which entries should be made to record downward adjustments, and the entries illustrated here are possibilities that are not yet sanctioned. Different illustrative guidance may be formulated by the Credit Reform Task Force of the Accounting and Auditing Policy Committee (AAPC) or from other sources; variations of the Statement of Financing may result.

| | Year 1 | Year 2 |
|---|---|---|
| Budgetary entries | | |
| 4276 Collections from Financing Fund (G) | No | 105 |
| 4147 Actual Payments to Treasury (G) | Entry | (105) |
| 4610 Allotments - Realized Resources (F) | | 105 |
| 4902 Expended Authority - Paid (F) | | 105 |
| Net proprietary entries | | |
| 2180 Loan Guarantee Liability (F) | 105 | |
| 6330 Interest Expense - Loan Guar. Liab. (F) | (5) | |
| 6100 Subsidy Expense (F) | (100) | |
| 6330 Interest Expense - Re-estimates (F) | 5 | |
| 5310 Interest Revenue - Re-estimates (G) | (5) | |
| 5730 Transfers-out Without Reimbursement (G) | | 105 |
| 1010 Fund Balance with Treasury (G) | | (105) |

The Statements of Financing would appear as:

| | Year 1 | Year 2 |
|---|---|---|
| Line 1 Budgetary Resources | 0 | 105 |
| Line 4b Transf.Out to Treas. | 5 | (105) |
| Line 17e Re-estimated Subsidy Exp. | (100) | 0 |
| Line 17e Interest Expense - LGL* | (5) | 0 |
| Line 21 Net Cost of Operations | (105) | 0 |

*Line 17d for direct loan programs

Readers should note that this illustration supersedes that on page 101 of the implementation guide to SFFAS 7. As for the other items superseded in this article, we have gained a better knowledge and understanding of the mechanics of the Statement in the years since the guide was issued.

**Recognition of Negative Subsidy Expense in Credit Programs**

Assume that loans for which a negative subsidy of $100 was to be recognized were guaranteed by the

Government and disbursed by the private lenders. The journal entries appear below. As with the preceding two transactions, proprietary entries are presented in net for the consolidated entity. Originating funds are labeled "F," for the financing fund, and "G," for the general fund receipt account. For a direct loan program, account 1399, Allowance for Subsidy, would appear in place of account 2180, Loan Guarantee Liability. Here, too, the Federal accounting community is considering the entries to record negative subsidy expense; the entries illustrated here are possibilities that are not yet sanctioned. Different illustrative guidance may be formulated by the Credit Reform Task Force of the AAPC or from other sources and variations of the Statement of Financing may result.

Budgetary entries

| | | |
|---|---|---|
| 4148 Resources Realized from Borrowing Authority (F) | 100 | |
| 4145 Borrowing Authority Converted to Cash (F) | | 100 |
| 4276 Collections from Financing Fund (G) | 100 | |
| 4396 Authority Permanently Permanently Unavailable (G) | | 100 |
| 4610 Allotments - Realized Resources (F) | 100 | |
| 4902 Expended Authority - Paid (F) | 100 | |

Net proprietary entries

| | | |
|---|---|---|
| 2180 Loan Guarantee Liability (F) | 100 | |
| 6100 Subsidy Expense - Re-estimates (F) | | 100 |
| 5730 Transfers-out Without Reimbursement (G) | 100 | |
| 1010 Fund Balance with Treasury (G) | | 100 |

The resulting Statements of Financing would be:

| | |
|---|---|
| Line 1 Budgetary Resources | 100 |
| Line 2 Budgetary Collections | (100) |
| Line 17e Re-estimated Subsidy Exp. | (100) |
| Line 21 Net Cost of Operations | (100) |

## Summary and Observations

This special article on the Statement of Financing has illustrated a more comprehensive Statement than has previously been available, and discussed at length its structure and individual lines. It has illustrated micro and macro approaches to understanding and preparing the Statement by building the Statement entry by entry and using deductive reasoning to develop a crosswalk from SGL accounts to the lines on the Statement.

One of the purposes of the article is to ease the fears that the Statement requires so much new information and effort that agencies will not be able to prepare it. As explained in the illustrations, the section on resources uses the same budgetary resource information as on the Statement of Budgetary Resources; derives the same nonbudgetary resources information as reported on the Statement of Changes in Net Position; and takes the net cost of operations from the Statement of Net Costs. The bulk of items that explains the difference between resources and net cost of operations are items that already must be reported on the Balance Sheet or Statement of Net Costs.

Indeed, there is only one instance in the illustrations presented for the Statement of Financing that requires information not expected to be reported in other statements -- the breakout of account 7110, gain on disposal of assets, by gains that do and do not generate resources.

And because the SGL provides relatively high-level accounts for many transactions, such as its account 6100 for operating expenses and program costs, agencies are used to the freedom -- and responsibility -- of providing subaccounts in their ledgers for the detail required for financial statements.

There is precedent for the need for this level of detail. In the fiscal year (FY) 1997 version of the SGL, a level of detail previously unavailable was provided by an account for imputed financing sources. It was added to assist in the preparation of the Statements of Changes in Net Position and Financing and appears on both statements. In the FY 1998 version of the SGL, an account for imputed costs was added to assist in preparation of the Statement of Net Costs. And the FY 1998 version of the SGL also added accounts that detailed a previously single account for donations revenue by (1) donations of financial resources that appear in the budget, and (2) donations of nonfinancial resources that are nonbudgetary. This was done primarily to support reporting on the Statement of Financing.

It is thus not surprising that there may be other instances, such as an account for gain on dsposal of assets, in which more detail than presently provided by existing SGL accounts will prove necessary for preparing the Statement of Financing. It is to be expected that the SGL will evolve to meet such challenges in the future, as it has so well done in the past.

Agencies' success in preparing the Statement of Financing and obtaining the unqualified audit opinion all desire rests largely upon their analytical skills in developing crosswalks to the Statement and their ability to integrate their budgetary and proprietary accounting systems. The Statement of Budgetary Resources calls for budgetary information, which must pass audit; the Statement of Financing, which also must pass audit, shows that the budgetary and proprietary data have the proper relationship to one another. Nonetheless, the goal of good financial management and reporting demands a capability to report total resources financing agency activity and how those resources were used to finance the net cost of operations and other resources. To meet the goal, agencies must direct attention to crosswalks and integration now.

Fortunately, as mentioned in the beginning of this article, there is considerable help available. Both SFFAS 7 and its implementation guide have been available since 1996. Some of the illustrations in the guide have been superseded by this article, however, most remain valid. Readers also are reminded that there is considerable narrative explanation in the guide. Of course, this article should prove useful. Further, a hands-on workshop on the Statements of Budgetary Resources and Financing has been developed (see information that follows). Hopefully, other training and education organizations will rise to the challenge of providing more in-depth study aids.

In addition, the SGL Board will continue to assist agencies in developing tighter and more comprehensive crosswalks. Moreover, agency personnel will learn more about the statements from actual statement preparation. And naturally, organizations and sub-organizations, such as OMB, FASAB, the AAPC, and the Credit Reform Task Force can be expected to continue issuing standards and illustrative guidance.

With entities striving for the same goal -- better financial information and enhanced credibility of financial statements -- it seems impossible to contemplate anything but success. Patience, a determined effort, and a personal commitment by every member of the Federal accounting profession will be required as we move toward that goal. The Statement of Financing is an important milestone along the way. We will master it.

For comments or questions, contact Robert Bramlett, 202-512-7355, email bramlettr.fasab@gao.gov, or at OMB, James Short, 202-395-3124, email short_j@a1.eop.gov.

## *Financial Statements Workshop*

**Description:** Using Standard General Ledger accounts and Trial Balances, students review how transactions affect the new statements.

**Audience:** Preparers and auditors of agency financial statements, especially those accounting for budget formulation and execution, assets, liabilities, net position, and income and expense.

**Prerequisites:** Technical knowledge of Federal budgetary and proprietary accounting, including a working knowledge of material covered in both SGL Basic and Advanced courses.

**Dates:** Possible summer/fall 1999 sessions.

**Point of Contact:** Erika Mathis, Center for Applied Financial Management, 202-874-9542.

***J. Thomas Luter***

*Prior to retirement in 1996, J. Thomas (Tom) Luter worked for 5 years for the Financial Management Service of the Treasury Department. He serves as the Standard General Ledger Board's representative for both agencies. Before that, he worked for the General Accounting Office for 20 years. Mr. Luter supported the Standard General Ledger Board, the FASAB, and the Office of Management and Budget in such areas as accounting for lapsed authority and credit reform; he was a key participant in FASAB's revenue standard and the Statement of Financing. Mr. Luter taught accounting, auditing, and other college courses and has designed and taught training courses in Federal accounting. He has published professional accounting articles and given numerous speeches on Federal accounting. Mr. Luter is a Certified Public Accountant, Certified Management Accountant, and Certified Government Financial Manager.*

## Change of Address
## or Cancellation?

Forward this form to ***FASAB*** at:

Suite 3B18
441 G Street, NW
Washington, DC 20548

or FAX to ***FASAB*** at 202-512-7366

**Old Address (if no mailing label):**

____________________________________
____________________________________
____________________________________
____________________________________

**New Address:**

____________________________________
____________________________________
____________________________________
____________________________________
____________________________________

**Cancel My Name from the Print List** ☐

---

***FASAB***

**Federal Accounting Standards Advisory Board**


**U.S. General Accounting Office**
**441 G Street, NW, Suite 3B18**
**Washington, DC 20548**


**Official Business**
**Penalty for Private Use $300**


**Bulk Mail**
**. . . Postage & Fees Paid**
**GAO**
**Permit No. G100**