



December 5, 2014

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Reporting Model – **TAB C**<sup>1</sup>

### **MEETING OBJECTIVE**

The objective is to discuss a revised draft concept statement.

### **BRIEFING MATERIALS**

This memo discusses revisions to the reporting model draft concepts statement and attachments:

- Attachment I: Working Draft Statement provides the revised draft concepts statement.
- Attachment II: Excerpts of Statement of Federal Financial Accounting Concepts 2, *Entity and Display*, provides existing concepts regarding the basic financial statements that should be included in financial reports.

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations

## **BACKGROUND**

During the October 22, 2014 meeting, the Board discussed broad concepts included in the initial draft concepts statement and agreed that:

- The interrelationship among information presented in financial statements should be understandable. This may be self-evident or accomplished through narrative explanation.
- There are different levels of reporting, the government-wide and component levels, and they have different characteristics that should be discussed in the conceptual statement.
- The government-wide is the economic entity and components are not economically independent entities.
- The government-wide should help citizens and citizen intermediaries understand the major goods and services and other activities that the federal government provides and where they can obtain detailed information in components.
- The government-wide and components have different financing structures and focus.
- Although it may be challenging for external users to understand, the relationships and differences between the government-wide and component level, the financing should be explained.

Also, the Board believed that the concepts should acknowledge that the process of preparing financial statements instills discipline and a user could be an individual that relies on information that results from the discipline imposed. However, the individual may not necessarily use the financial statements. Accordingly, staff incorporated the concepts in the revised draft concepts statement.

## Staff Analysis and Recommendations

### Preamble for Concepts Statements

During the development of Statement of Federal Financial Accounting Concepts (SFFAC) 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, the Board discussed the purpose of concepts statements in general and eventually decided to draft a preamble to all SFFACs. The preamble would explain the purpose of concepts statements; their primary beneficiary – the Board; how the Board intends to use conceptual guidance; the placement of concepts within the generally accepted accounting principles (GAAP) hierarchy; and other topics. Subsequently, with the issuance of SFFAC 5, the Board completed the Preamble to Statements of Federal Financial Accounting Concepts (Preamble).

Although the Preamble helps constituents understand the purpose of concepts statements in general, they can access the statements without reviewing the Preamble. The FASAB Handbook currently presents the Preamble and each concepts statement. However, the Preamble and each concepts statement can be accessed as standalone documents.

### Staff Recommendation

Include a summary of the Preamble in the Introduction section of individual concepts statements. The summary would provide context for the reader and help them understand that the individual concepts statement is a part of a framework. The summary would help connect individual concepts statements by informing the reader on other concepts FASAB discusses and would reduce the need for repeating concepts in each statement. Therefore, certain concepts may not be discussed in the statement under review because they are already discussed elsewhere within the framework.

Staff revised the draft concepts statement to demonstrate this approach and accordingly focused on removing concepts discussed within other areas of the conceptual framework. See Attachment I: Working Draft Statement.

**Question 1:** Does the Board agree or disagree with the notion that a summary of the Preamble should be included in the Introduction section of concepts statements? The entire Preamble would continue to be provided in the FASAB Handbook.

## **The Role of Financial Statements**

During the October 2014 meeting, the Board discussed the benefits and limitations of financial statements. Members and experts in component entity financial reporting discussed how individuals are seeking access to more detailed information than financial statements are intended to provide. While those individuals may not be financial statement users, they may indirectly benefit from the internal controls and discipline required to prepare financial statements in accordance with GAAP and have them audited.

Staff incorporated the Board's discussions regarding financial statements in the revised draft concepts statement section entitled, The Role of Financial Statements – Benefits and Limitations, and beginning with paragraph 7.

**Question 2:** Does the Board agree or disagree that The Role of Financial Statements – Benefits and Limitations section should be included in the concepts statement?

**Question 3:** If the Board agrees that the section should be included, do you have suggested changes to the proposed language?

## Budgetary Compliance

Users expect information on compliance with budgetary legislation. Some Board members have noted that the consolidated financial report for the U.S. government (CFR) and components should provide a budget to actual comparison so that users can assess the government’s compliance with budget legislation. Also, members noted that the Statement of Budgetary Resources is difficult to understand; therefore, its usefulness is limited. However, others believe that a comparison would not be meaningful given that a significant amount of budgetary spending is mandatory spending and the amount is growing. In addition, other sources currently present budgetary information.

Also, significant differences exist among the government-wide financing structure and the component level financing structure. The government-wide structure focuses on economic resources and the component primarily concerns receiving and using budget authority. The table below illustrates how some basic events affect economic resources and the available budget authority of components.

**Table 1: Comparison of different focuses**

<b>Event</b>	<b>Impact on Economic Resources of the Government-wide</b>	<b>Impact on Available Component Level Budget Authority</b>
Collect general taxes	Increase	None
Appropriation for programs and services	None	Increase
Contract awarded for services	None	Decrease
Payment to contractor for services that have been obligated	Decrease	None
Use of a fixed asset	Decrease	None

Accordingly, monitoring the changes and status of budget authority may be important for components. However, the terms and measurements to facilitate monitoring are unique to the federal government and may be challenging for external users to understand.

As part of discussing TABs A and B of the Board materials, members will have an opportunity to discuss government-wide and component entity budgetary reporting with a panel of experts. The experts could assist the Board in determining what information might be useful for the different reporting entities.

### **Staff Recommendation**

Staff suggests distinguishing between the budgetary information that should be provided for government-wide reporting versus component reporting. As the intended audience for the CFR, citizens are more likely to understand the cash basis budget deficit showing sources of revenues and types of expenditures than an obligation basis presentation intended to monitor changes in and the status of budget authority. Accordingly, concepts should guide development of different constructs for government-wide and component reporting entity budgetary information.

**Question 4:** Does the Board believe that the conceptual guidance should assist the Board in developing different presentations of budgetary information for the government-wide and component reporting entities?

## **Approach to Conceptual Guidance**

Concepts can provide general or specific guidance for developing standards with respect to classifying and aggregating flows in financial statements. General guidance is intended to afford the Board a level of flexibility as new ideas evolve rather than restricting the Board to a single approach regardless of the existing circumstances. With respect to conceptual guidance, the Board has stated that “A general framework permits future Boards some level of flexibility in developing standards and the framework would not necessarily need to be revised as changes in the environment occurred.”<sup>2</sup>

## **Staff Recommendation**

The working draft concepts statement proposes a general framework to assist the Board in developing financial reporting standards regarding the classification and aggregation of government-wide and component entity flows. (See paragraphs 21-23 and 28 of the revised draft concepts statement.) This approach would be consistent with the Board’s previous determination concerning conceptual guidance.

**Question 5:** Does the Board agree or disagree that a general framework should be provided to assist in developing financial reporting standards regarding the classification and aggregation of government-wide and component entity flows?

**Question 6:** If the Board agrees with a general framework, what comments might you have with respect to the proposed framework presented in the draft concepts statement?

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<sup>2</sup> SFFAC 6, Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information.

## **Agreed-upon Concepts**

During the October 2014 meeting, the Board agreed upon concepts and staff has included them in the revised draft:

- The interrelationship among information presented in financial statements should be understandable. This may be self-evident or accomplished through narrative explanation. (paragraphs 12-13)
- There are different levels of reporting, the government-wide and component levels, and they have different characteristics that should be discussed in the conceptual statement. (paragraphs 14-30)
- The government-wide is the economic entity and components are not economically independent entities. (paragraphs 16 and 25)
- The government-wide should help citizens and citizen intermediaries understand the major goods and services and other activities that the federal government provides and where they can obtain detailed information in components. (paragraphs 22 and 24)
- The government-wide and components have different financing structures and focus. (paragraphs 16 and 25)
- Although it may be challenging for external users to understand, the relationships and differences between the government-wide and component level, the financing should be explained. (paragraphs 31-33)

**Question 7:** Does the Board have comments regarding how the agreed-upon concepts have been included in the draft concepts statement?

## Next Steps

When the Board finalizes the concepts regarding financial statements in general and classifying and aggregating flows, at least three options are available for the next steps. Determining the next steps will assist staff in planning the additional research and resources that might be needed to conclude the project and begin plans to address other Board priorities.

### Option 1: Finalize Concepts Regarding Classifying and Aggregating Flows

The draft concepts statement currently includes a discussion on financial statements in general and focuses on classifying and aggregating flows. Given that FASAB's conceptual framework already discusses the basic financial statements that should be included in financial reports, the Board could finalize the concepts and conclude the conceptual phase of the project. Accordingly, the Board would be able to proceed with standards setting priorities.

### Option 2: Discuss Displays of Information in Basic Financial Statements

Upon finalizing general concepts regarding financial statements and classifying and aggregating flows, the Board could focus on displays of information in basic financial statements, including illustrative depictions. The Board had initially envisioned the development of basic financial statement displays as part of the project and the current draft concepts statement includes a placeholder for illustrations. Also, the Board could amend SFFAC 2, *Entity and Display*, for any changes identified.

### Option 3: Finalize Concepts Regarding Financial Statements in General and Classifying and Aggregating Flows and Remove Basic Displays from the Conceptual Framework

The Board believes that a level of flexibility is needed for developing standards.<sup>3</sup> However, the existing conceptual framework provides specific conceptual guidance, such as basic financial statements that should be presented in financial reports. For component entities, SFFAC 2, *Entity and Display*, specifies:

- statement of financial position (commonly referred to as balance sheet);
- statement of net costs;
- statement of changes in net position;
- statement of custodial activities, when appropriate;
- statement of budgetary resources;

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<sup>3</sup> SFFAC 6, Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information.

- statement of financing; and
- statement of program performance measures.

Also, for the CFR the concepts specify:

- statement of financial position (commonly referred to as balance sheet);
- statement of net costs;
- statement of operations and changes in net position;
- reconciliation of net operating revenue (or cost) and unified budget surplus (or deficit);
- statement of changes in cash balance from unified budget and other activities;
- comparison of budgeted and actual use of resources; and
- statement of program performance measures.

While the concepts helped guide the Board for a time, the financial statements have changed and changes are continuing. For instance, the CFR and certain component entities present a statement of social insurance to inform users on how much the federal government needs today to cover projected long-term commitments of significant social insurance programs. Statement of Federal Financial Accounting Standards (SFFAS) 36, *Comprehensive Long-Term Projections for the U.S. Government*, currently requires a basic financial statement to address users' need for fiscal sustainability information in the CFR. Also, component reporting entities are responding to other users' needs and presenting a schedule of spending. However, the statement of social insurance, fiscal sustainability statement, and the schedule of spending are not included in the basic financial statement display discussion, necessitating a revision.

Once the Board finalizes the concepts regarding financial statements in general and classifying and aggregating flows, the Board could amend SFFAC 2 by removing the specific listing of basic financial statements and conclude the project. The removal of specific guidance regarding basic financial statements would provide a level of flexibility and support the Board's efforts to respond to changing circumstances.

For example, the International Public Sector Accounting Standards Board (IPSASB) issued its complete conceptual framework on October 31, 2014. It does not specifically identify or illustrate financial statements. It discusses the usefulness of specific types of information including financial position, performance, cash flows, budgets (and compliance), service delivery achievements, sustainability of service delivery, non-financial information, and explanatory information. It also discusses the

scope of financial reports and the role of financial statements and notes but does not identify specific content.

Under this option, the Board would proceed to other standards setting priorities after completing the amendments to SFFAC 2.

### **Staff Recommendation**

Staff recommends that the Board: finalize the concepts regarding financial statements in general and classifying and aggregating flows; and amend SFFAC 2 by removing the specific listing of basic financial statements (Option 3). The general framework for financial statements could guide the Board in developing standards for basic financial statements and reduce the likelihood of revisiting concepts as changes occur. The Governmental Accounting Standards Board (GASB) and the IPSASB frameworks provide a precedent for this approach. GASB's conceptual framework discusses financial statements in general but basic financial statements are discussed in standards.<sup>4</sup> While the recommended displays, their contents and the accompanying illustrations would be removed, SFFAC 2's general concepts likely would remain (see Attachment II: Excerpts of Statement of Federal Financial Accounting Concepts 2, *Entity and Display*, par. 54 to 73).

**Question 8:** What does the Board believe should be the next steps for the project?

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<sup>4</sup> For example, see GASB Cod. Appendix B, Concepts Statement No. 3, *Communication Methods in General Purpose External Reports that Contain Basic Financial Statements*, and GASB Cod.Sec.2200.

## **QUESTIONS FOR THE BOARD**

**Question 1:** Does the Board agree or disagree with the notion that a summary of the Preamble should be included in the Introduction section of concepts statements? The entire Preamble would continue to be provided in the FASAB Handbook.

**Question 2:** Does the Board agree or disagree that The Role of Financial Statements – Benefits and Limitations section should be included in the concepts statement?

**Question 3:** If the Board agrees that the section should be included, do you have suggested changes to the proposed language?

**Question 4:** Does the Board believe that the conceptual guidance should assist the Board in developing different presentations of budgetary information for the government-wide and component reporting entities?

**Question 5:** Does the Board agree or disagree that a general framework should be provided to assist in developing financial reporting standards regarding the classification and aggregation of government-wide and component entity flows?

**Question 6:** If the Board agrees with a general framework, what comments might you have with respect to the proposed framework presented in the draft concepts statement?

**Question 7:** Does the Board have comments regarding how the agreed-upon concepts have been included in the draft concepts statement?

**Question 8:** What does the Board believe should be the next steps for the project?

## **MEMBER FEEDBACK**

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

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Attachment I: Working Draft Concepts Statement



Federal Accounting Standards Advisory Board

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**WORKING DRAFT**  
SUBTITLE

**Statement of Federal Financial Accounting Concepts**

**Exposure Draft**

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

Month day, year

Working Draft – Comments Are Not Requested on This Draft

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## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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

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

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

- [“Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.”](#)
- [“Mission Statement: Federal Accounting Standards Advisory Board”](#), [exposure drafts](#), [Statements of Federal Financial Accounting Standards and Concepts](#), [FASAB newsletters](#), and other items of interest are posted on FASAB’s website at: [www.fasab.gov](http://www.fasab.gov).

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## Federal Accounting Standards Advisory Board

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ISSUE DATE

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

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

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

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

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

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

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

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

Sincerely,

Tom L. Allen  
Chairman

## EXECUTIVE SUMMARY

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The Executive Summary will be prepared when the body of the statement is completed. The text below serves as a placeholder.

### WHAT IS THE BOARD PROPOSING?

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Financial statements are the basic means of communicating financial information and they are a vehicle for demonstrating accountability and improving controls. The Board is proposing concepts for financial statements to better communicate the information users expect.

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

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The proposed concepts should help the Board develop financial reporting standards that better address user expectations for information. FASAB conducted focus group discussions, surveys, and roundtables and determined that users expect information on the operating performance of the government and its component entities. They expressed the need for program, budget, cost, and performance information. This information would help them understand, evaluate, and ultimately inform decisions about the services provided and understand changes in the government's financial condition.

## TABLE OF CONTENTS

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<b>Executive Summary .....</b>	<b>4</b>
<b>What is the board proposing? .....</b>	<b>4</b>
<b>How would this proposal improve federal financial reporting and     contribute to meeting the federal financial reporting objectives? .....</b>	<b>4</b>
<b>Questions for Respondents .....</b>	<b>6</b>
<b>Introduction .....</b>	<b>7</b>
<b>Purpose.....</b>	<b>7</b>
<b>Proposed Concepts .....</b>	<b>9</b>
<b>The Role of Financial Statements – Benefits and Limitations.....</b>	<b>9</b>
<b>Interrelationship of Information is Central to Understanding .....</b>	<b>10</b>
<b>Financial Statements Provided by Government-wide and     Component Reporting Entities .....</b>	<b>10</b>
The government-wide reporting entity.....	10
The component reporting entity .....	12
Both government-wide and component entity .....	13
<b>Appendix A: Basis for Conclusions .....</b>	<b>14</b>
<b>Project History .....</b>	<b>14</b>
<b>Appendix B: Illustrations.....</b>	<b>18</b>
<b>Appendix C: Abbreviations .....</b>	<b>19</b>
<b>Appendix D: Glossary.....</b>	<b>20</b>

## QUESTIONS FOR RESPONDENTS

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

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

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

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

All responses are requested by [insert date].

- Q1. A summary of the issue (one paragraph) should be presented followed by a question. If multiple questions follow one issue summary, use letters to distinguish them.
- Q2. New Question

# INTRODUCTION

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## PURPOSE

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1. Statements of Federal Financial Accounting Concepts set forth objectives and fundamentals on which financial accounting and reporting standards will be based. The objectives identify the goals and purposes of financial reporting and the fundamentals are the underlying concepts of financial accounting—concepts that guide the selection of transactions, events, and circumstances to be accounted for; their recognition and measurement; and the means of summarizing and communicating them to interested parties.
2. Concepts statements guide the Board’s development of accounting and reporting standards by providing the Board with a common foundation and basic reasoning on which to consider the merits of alternatives. Also, knowledge of the objectives and concepts the Board considers should help users and others who are affected by or interested in federal financial accounting and reporting standards to understand better the purposes, content, and qualitative characteristics of information provided by federal financial accounting and reporting.
3. The conceptual framework addresses many of the fundamentals needed to support standards setting. FASAB developed the core of its conceptual framework in the early 1990s. At that time, financial management legislation and administrative directives focused on component level reporting. Hence, the FASAB’s second concept statement, *Entity and Display*, focused on the display of component financial statements. Other concepts statements address financial reporting objectives; qualitative characteristics of information; the reporting entity; the intended audience for the consolidated financial report of the U.S. Government (CFR); elements of accrual basis statements and their measurement attributes; communication methods; and managerial cost accounting. Through its ongoing conceptual framework project, the FASAB has reviewed its early concepts statements and is establishing new statements as needed.
4. This Statement provides concepts for financial statements and will address fundamental questions about both the government-wide and component financial reporting model, including how these two models relate to each other. It will also respond to changes in the reporting environment that indicate a demand for more dimensions and ultimately more detailed information. These changes include legislation requiring:
  - i. an annual government-wide audited financial report (Government Management Reform Act of 1994)
  - ii. the reporting of cross-agency priority goals and the publication of searchable, machine-readable performance information on the Internet (Government Performance and Results Modernization Act of 2010)
  - iii. electronic access to transaction level financial information (Federal Funding Accountability and Transparency Act of 2006 and the Digital Accountability and Transparency Act of 2013)

5. Many of these developments seek detailed and timely access to information that could not reasonably be accommodated in a generally accepted accounting principles-based (GAAP-based) financial report as envisioned by initially developed concepts. Early on, the FASAB acknowledged that there are many sources of information about the federal government and its finances. A distinguishing feature of the federal financial reporting model is that it envisions an integrated effort to meet the federal financial reporting objectives. Absent this integrated model, an array of unarticulated and changing presentations could obscure the information needed to allow the user to answer fundamental questions about government finances.
6. This Statement will help the Board determine classification and aggregation standards for government-wide and component level financial statements that answer fundamental questions. Users may use the financial statements as a foundation for more in-depth research involving other information sources and the concepts would ultimately help the government demonstrate accountability to its citizens.

## PROPOSED CONCEPTS

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### THE ROLE OF FINANCIAL STATEMENTS – BENEFITS AND LIMITATIONS

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7. Financial statements are the basic means of communicating financial information and they help the federal government demonstrate accountability for its actions. When preparing financial statements, the federal government applies standards that facilitate the uniformity needed to capture and aggregate data from various sources. Also, financial statements are prepared and issued using disciplined processes to ensure that the information is reliable. These standards and underlying processes ensure clear communication of complete financial information so that the federal government can demonstrate accountability.
8. Standard data classifications, measurement, and terminology ensure comparability and consistency in recording events and transactions. Accordingly, the federal government and its components prepare financial statements in accordance with GAAP. GAAP governs when and how financial transactions and events should be represented in financial statements and the terms that should be used. It helps ensure that financial statements present information to users in an understandable manner.
9. Also, to ensure that financial statements communicate reliable information, the federal government and its components establish internal controls. Internal controls help ensure that events and transactions are properly recorded and classified. In addition, financial statements subjected to audit establish discipline in financial system processes.
10. Financial statements prepared in accordance with GAAP require systems populated with a core set of data elements. These core data elements provide the foundation for preparing a variety of reports that can inform topics such as cash, grant, property, and guarantee and direct loan management. Consequently, financial systems can facilitate the reporting of information customized to meet the needs of a variety of users even though annual GAAP financial statements themselves are generally too highly aggregated to meet all users' needs. Also, individuals who may not directly use financial statements can have increased access to and quality of information.
11. Financial statements and their preparation can inform decisions and provide insight on issues that may require additional analysis. For example, preparing financial statements and applying GAAP may help management focus on their operating environment and identify risks. The risks may require additional resources to sustain a service.

## INTERRELATIONSHIP OF INFORMATION IS CENTRAL TO UNDERSTANDING

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12. Financial statement users expect to identify answers to questions timely. Addressing users' questions may require multiple statements and, when faced with multiple financial presentations, users expect to readily understand the purpose of the presentations; learn how one presentation relates to another; and determine where they can locate the answers they need. A presentation of information that lacks congruence would burden the user.
13. Accordingly, when multiple financial statements are needed to address fundamental questions, their interrelationships should be clearly communicated to facilitate user understanding. The interrelationship may be evident from the statements or explanations could be provided.

## FINANCIAL STATEMENTS PROVIDED BY GOVERNMENT-WIDE AND COMPONENT REPORTING ENTITIES

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14. Legislation enacted to improve financial management requires federal leaders to prepare financial statements for the government as a whole—the government-wide reporting entity—and its numerous departments and agencies—component reporting entities that should be consolidated into the government-wide reporting entity. Thus, federal financial reporting involves two basic levels of reporting entities— the government-wide reporting entity and component reporting entities.
15. As expected, characteristics of the government-wide reporting entity are different from the characteristics of its components. Financial reporting should reflect the differences and help users understand the relationships.

## THE GOVERNMENT-WIDE REPORTING ENTITY

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16. The federal government as a whole is an independent economic entity while its components are not. It has the power to tax, charge fees, borrow, and use economic resources. Accordingly, taxes, fees, and the issuance of debt are the primary sources of financing for the government-wide entity and it obtains economic resources and incurs obligations or liabilities, against those resources.
17. Information as of a point in time can inform users about the government's financial health. Such information can help users assess whether the financial condition of the federal government improved or deteriorated and whether resources will be available to meet obligations in the future.
18. Information about flows of economic resources can help users understand the types of services the government provides; the level of emphasis on each service; and the cause of changes over periods of time and in the future. When related to non-financial information, flow information can help users understand the efficiency and effectiveness of government operations.

19. Projected flows should help users understand the long-term sustainability of a service being provided and inform decisions about future resource needs. They should help answer what if questions such as what would be the impact on borrowing if the government continued existing policies for a long period without change. Also, they involve future cash flows but are not considered accrual or modified-cash basis accounting.
20. Projected flows should complement point-in-time information such as net economic resources. They assist users in understanding the current financial health of the economic entity and its likely direction absent a policy change. Therefore, projected flows are useful for the government-wide.
21. Also, the President and Congress establish near-term tax and spending priorities for the federal government through laws setting tax policy and providing budget authority. Administrative directives define the concepts for measuring and reporting budgetary flows and users expect information to help them assess compliance with the execution of budget laws.
22. As the fundamental starting point for user analyses, the CFR should use a classification structure that helps citizens understand the major services that the federal government provides and other activities that the government conducts. External users expect this information and are less interested in the organizational unit that administers them. They focus on the services that affect them such as the veterans' transition assistance program coordinated among the Departments of Labor, Defense, and Veterans Affairs. Also, the public may be interested in matters that do not relate to a particular mission, such as the interest on debt.
23. Additional factors could be considered in determining a classification structure for government-wide reporting entity flows. Those factors can be considered individually or collectively and are not presented in any order:
  - a. Stable – Is the approach likely to avoid frequent changes? Consistency is needed to compare multiple periods and determine trends.
  - b. Budget Associated – How well does the scheme complement the classification approach used to prepare the federal budget? An approach that complements the budget structure would help inform budget analyses and decisions.
  - c. Purpose Driven – How well does the approach inform users about the various purposes that the government performs? The approach should help users understand the major goods and services and other activities that the government provides and the resources used.
  - d. Broad-Based – Is the approach comprehensive? The approach should cover the wide range of goods and services that the government provides.
24. Also, the structure should inform users on where they can obtain detailed information regarding component reporting entities.

## THE COMPONENT REPORTING ENTITY

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25. The federal government is composed of dozens of component reporting entities and each entity can provide various goods and services to the public. Components are not independent economic entities. They engage in transactions on behalf of the federal government as they fulfill their responsibilities and Congress and the President provide the components with budget authority for use in acquiring and providing goods and services.
26. Congressional committees and federal executives and managers focus on monitoring changes in and the status of budget authority. Budget authority includes appropriations, authority to borrow from another component, contract authority, and offsetting collections. Legislation determines the nature and amounts of the authorities and how and when they should be used and administrative directives guide how the authorities should be classified and reported. The administrative directives use terms and measurements generally intended for monitoring budget authority.
27. Flows measured using an obligation basis would help inform users interested in budgetary compliance. Budget authority is used when obligated; however, government-wide level economic or financial resources have not been impacted at this time. Rather, the flows help users determine future budget authority needs. Therefore, the obligation basis is useful for component level reporting.
28. The component level budget structure relates to but does not encompass monitoring how events and transactions impact the economic resources and liabilities of the government as a whole. In order that the use of the federal government's economic resources and liabilities can be monitored, components report detailed financial information on events and transactions. This information can also be used to monitor the full cost of the component reporting entity's programs.
29. Factors should be considered in determining a classification structure for component reporting entity flows other than budgetary flows. The factors can be considered individually or collectively and are not presented in any order:
  - a. Management Centered – Does the approach assist managers in assessing performance of principal activities? Other user groups would be interested in the same information that managers use to drive performance and achieve results. The approach would facilitate accountability for the resources used to provide services.
  - b. Stable – Is the approach likely to avoid frequent changes? Consistency is needed to compare multiple periods and determine trends.
  - c. Purpose Driven – How well does the approach inform users about the various purposes that the component performs? The approach should help users understand the major goods and services and other activities that the component provides and the resources used.

30. Because the component entity budget structure is unique to the federal government, external users may have limited awareness and understanding of the concepts and terms used. Consequently, financial reporting should include explanations, references, or other support to assist external users in understanding the component entity budget structure and answering fundamental questions.

#### BOTH GOVERNMENT-WIDE AND COMPONENT ENTITY

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31. Also, government-wide and component entity financial reports should each include contextual or background information with references. Users expect information timely and may access government-wide and component entity financial reports individually rather than as an integrated set of financial reports. Background information with references would assist users in understanding and connecting reporting entity relationships and understanding other matters such as financing structures, why components might engage in transactions with other components, and the level of contribution to government-wide initiatives.
32. Explaining the approach to aggregating and classifying flows would help users understand the scope of individual categories and how they can be used in their analyses.
33. When different bases and projected flows are presented, users need to understand the differences in the presentations and how they should relate. Reconciliations can help users understand the different bases; however, it requires adding and subtracting amounts and it may not be clear why some amounts are added while others subtracted without additional research. Instead, a summary of the differences could reduce the level of user effort required.
34. In addition, analyzing the financial condition of the federal government and trends in budget authority requires multiple periods of information. The accomplishments of federal activities may not be known for several years and the federal government can provide services that obligate economic resources for several years. Consequently, flows should be reported for at least a five-year period.

## APPENDIX A: BASIS FOR CONCLUSIONS

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

### PROJECT HISTORY

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

#### User Needs and Reporting Community Outreach

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

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

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

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

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

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

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

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

#### Task Forces and Additional Research

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

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

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

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

- A9. The CFOs and various groups provided a range of ideas such as:
- a. Restructure the financial statements and develop a statement of spending
  - b. Require that less time be spent on asset valuation
  - c. Develop a presentation that shows costs and value delivered
  - d. Develop a presentation with drilldown capability and improve user interactivity
  - e. Provide more useful information in the statement of net cost and provide additional cost accounting guidance
  - f. Improve performance reporting

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

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

#### Developing the Ideal Reporting Model without Constraints

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

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

#### Flow Information: The Starting Point for Developing the Ideal Model

- A12. During the April 2014 meeting, FASAB members developed and presented their view of an ideal reporting model. The presentations addressed the Budgetary Integrity objective, in general, and each of the sub-objectives of the Operating Performance objective. Also, with respect to the Stewardship objective, the Board decided to focus on the federal government as the entity rather than the nation's economy. In addition, in June, the Board decided not to revisit the reporting objectives or clarify the role of FASAB with respect to the objectives. Instead, the Board decided to begin developing the ideal reporting model by focusing on the flows and the flow statements that would help achieve the reporting objectives.
- A13. Users have consistently sought to better understand flow information, such as costs and budgetary information, and how they relate. The Board would consider how cost and budgetary information should be disaggregated and address how to reconcile cost and budget at a level that would be understandable to users.

## APPENDIX B: ILLUSTRATIONS

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

## APPENDIX C: ABBREVIATIONS

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

## APPENDIX D: GLOSSARY

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Attachment II: Excerpts of Statement of Federal Financial Accounting Concepts 2, *Entity and Display*

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52. A process in which the reporting entity is billed and pays for the amounts attributable to its activities is normally the most desirable approach for recording and reporting these amounts. However, when this type of direct debiting or crediting is not done, the decision as to whether to capture and report attributable amounts would be based on such criteria as the magnitude of the attributable amounts, the decision usefulness of the information to its likely users, the costs of capturing the data, whether a decision would be made differently as a result of having the information, and whether the information would have a policy impact.<sup>6</sup>
53. It might be appropriate to consider the interest expense inherent in devoting a sum of capital to an organization or program as part of the total costs incurred in operating the organization or performing the program. This principle has already been adopted for the accounting for loans and loan guarantees, whereby a loan program is charged for the cost of capital provided by the U.S. Treasury.<sup>7</sup>

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## Displaying Financial Information

54. Financial information is typically provided by or for a reporting entity through financial statements. Financial statements represent the principal means of communicating accounting information about an entity's resources, obligations, revenues, costs, etc. to those outside the entity. However, financial statements, and particularly those prepared for governmental and other not-for-profit organizations, may also contain information from sources other than accounting records. Also, management may communicate information to those outside the entity by means of financial reporting other than financial statements, either because the information is required to be disclosed by statute, regulation, or custom; or because management believes the information would be useful to those outside the entity and discloses it voluntarily.
- 55A. To enhance confidence in the reliability of information presented in financial statements, the statements are often, but not always audited by Inspectors General, independent accounting firms, or the Government Accountability Office. In developing accounting standards, the Board considers whether information should be categorized as basic information, required supplementary information (RSI), or other accompanying information (OAI). Distinguishing

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<sup>6</sup>The Board is developing a Statement of Managerial Cost Accounting Concepts and Standards. This document, when finalized, will address recognition of these amounts.

<sup>7</sup>The Board has decided to undertake a project addressing the types of capital for which it might be appropriate for a reporting entity to disclose the costs, the reasons thereof, and the manner in which to determine and report these costs. A determination of the appropriateness of considering interest expense as part of the costs incurred by an organization or program will be made by that project.

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these categories is important because each category is subject to different procedures and reporting requirements under generally accepted government auditing standards (GAGAS). When an auditor is engaged to audit an entity's financial statements, basic information as a whole is subject to testing for fair presentation in conformity with GAAP. However, RSI and OAI are unaudited, but subject to certain procedures specified by GAGAS for RSI and OAI, respectively. To assist users in analyzing the different types of information within financial reports, these differences must be conveyed and can be accomplished in a variety of ways. The traditional approach is to separate the categories of information. However, the categories may be commingled if the RSI and OAI are clearly labeled as "unaudited" or distinguished in a manner that informs the reader of the level of assurance provided.

- 55B. Classification of the information as basic information, RSI, or OAI does not constrain the form of presentation. For example, financial statements may be presented as basic financial statements, RSI, or OAI. Information can be required or encouraged to be in the form of financial statements, narrative, graphs, or tables. To clearly communicate the intended status, the Board must specify whether the information is to be considered basic information, RSI, or OAI. Selecting a category may involve a process which is described in paragraphs 73A to 73G.
56. In the Federal Government, there are several types of reporting entities (organizations, suborganizations, programs, and the government as a whole) and several financial reporting objectives (budgetary integrity, operating performance, stewardship, and systems and control). Each of the reporting objectives can be met to a certain degree by the statements prepared by or for one type of reporting entity and to a greater or lesser degree by the statements prepared by or for the other types of reporting entities. For example, the objective of budgetary integrity can be best met with the program and financing schedules prepared for individual budget accounts. The objective of operating performance can be best met with financial statements from organizations/suborganizations and programs (although financial statements at this level can also help readers evaluate the reporting entity's budgetary integrity). The objective of stewardship can be best met with a financial statement for the entire government. Meeting the financial reporting objectives in their totality requires financial statements from all of the types of reporting entities.

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## Stock Statements

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

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## Flow Statements

58. Another type of financial statement provides information on an entity's flows of revenues, receipts, expenditures, expenses, gains, losses, and/or other changes of the entity's net resources during a period, however they are measured, i.e., budgetary, cash, or accrual. This type of financial statement is frequently characterized as a flow statement. The traditional flow statement is a statement of operations and changes in net position issued by private sector, profit seeking organizations. It presents the results of an entity's operations for a reporting period, including the changes in the entity's net position from the end of the prior reporting period. This type of statement is particularly useful for private sector, profit seeking organizations since their objective is to generate earnings and returns on investment. The statement of operations and changes in net position presents the revenues the entity receives, the expenses incurred to generate the revenues, the amount left for the entity's owners, and the resulting effect on the owners' equity.
59. The Federal Government and most of the other reporting entities in the Federal Government are spending entities whose objective is to provide services, some of which are financed by revenues received from the recipients of the service, and some of which, if not all or most of which, are financed by taxes and other unearned revenues.<sup>8</sup> Thus, the most useful information a flow statement could present is the total and net costs of the services, i.e., how much of the services provided by the entity was financed by the taxpayers. This type of statement, which would be a **statement of net costs**, would support the achievement of Federal financial reporting objective 2A. Objective 2A states that "Federal financial reporting should provide information that helps the reader to determine the costs of providing specific programs and activities and the composition of, and changes, in these costs."
60. As indicated, revenues provided in exchange for the services, i.e., earned revenues, are not the only manner in which a Federal Government entity finances the services it provides. Other sources of financing are the appropriations received from the Congress, and such various non-exchange revenues as fines, donations, and transfers from other agencies. Therefore, another useful flow statement would be a **statement of changes in net position** that presents the manner in which the entity's net costs were financed and the resulting effect on the entity's net position. This also would be consistent with Federal financial reporting objective 2: "Federal financial reporting should assist report users in evaluating. . .the manner in which these efforts and accomplishments have been financed...."

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<sup>8</sup>The Board is currently developing an Exposure Draft entitled "*Revenue and Other Financing Sources*" which addresses more fully the types of revenues (i.e., exchange versus non-exchange and earned versus unearned revenues) discussed here.

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61. The collection of the major sources of funds for the appropriations, e.g., taxes, royalty payments, and fines, is the responsibility of just a few reporting entities, especially the Internal Revenue Service, the Customs Service, and the Minerals Management Service. These entities are functioning in a custodial capacity and are required to turn the taxes or other monies they collect over to the Treasury or other organizations. The results of these entities' custodial activities could be reported in a flow statement that provides an understanding of from whom the taxes or other monies were collected and to whom they were distributed. This would be called a **statement of custodial activities**.
62. For many reporting entities, and particularly those engaged in reimbursable activities, it is useful to have an understanding of the sources and amounts of cash provided to the entity for operating, investing, and financing purposes and the major purposes for which the cash was used. This type of information can be displayed with a statement of cash flows, in accompanying footnotes, or as supplemental financial and management information.

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## Budget Statement

63. Meeting the first objective of SFFAC No. 1, "Objectives of Federal Financial Reporting," namely the budgetary integrity objective, necessitates that the reader receive assurance that
- the amounts obligated or spent did not exceed the available budget authority,
  - obligations and outlays were for the purposes intended in the appropriations and authorizing legislation,
  - other legal requirements pertaining to the account have been met, and
  - the amounts are properly classified and accurately reported.
64. This information is provided in other reports, but there needs to be auditor involvement to provide assurance as to the reliability of the information. The assurance as to reliability of the information could be accomplished by including a **statement of budgetary resources** in the reporting entity's financial statements, recognizing that the statement will likely be subject to audit. The presentation of data could be for the reporting entity as a whole, for the major suborganization units (assuming there is congruity among the major suborganization units and the budget accounts), or for the aggregations of the major budget accounts, rather than for the individual budget accounts of the entity or other types of entities. Violations of budgetary integrity at the account level occurring during the current year could be disclosed on an exception basis. (Many violations of budgetary integrity would also be violations of the Anti-Deficiency Act. Disclosure in the financial statements notwithstanding, these violations would also have to be reported as required by the Act.)

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## Reconciliation Statement--Budgetary And Financial Accounting

- 64A. Subobjective 1C of the budgetary integrity objective states that information is needed to help the reader to determine “how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.” This objective arises because accrual-based expense measures used in financial statements differ from the obligation-based measures used in the budgetary reports.
- 64B. To satisfy this objective, information is needed about the differences between budgetary and financial (i.e., proprietary) accounting that arise as a result of the different measures. This could be accomplished through a **Statement of Financing** that reconciles the budgetary resources obligated for a federal entity’s programs and operations to the net cost of operating that entity. The data presented could be for the reporting entity as a whole, for the major suborganization units, for major budget accounts, or for aggregations of budget accounts, rather than for each individual budget account of the entity.

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## Performance Measures Statement

65. The second objective of Federal financial reporting states, in part, that Federal financial reporting should provide information that helps readers of the financial reports determine the efforts and accomplishments associated with Federal programs and the changes over time and in relation to costs. This suggests that a **statement of program performance measures**,<sup>9</sup> i.e., one or more statements presenting service efforts and accomplishments measures for each of a reporting entity’s significant programs, is necessary.
66. The Federal Government is increasing its interest in measuring and reporting program performance, as evidenced by the enactment of the Government Performance and Results Act and increasing emphasis during budget reviews on program performance. Moreover, the ability to seek and obtain maximum return from increasingly limited resources can be enhanced by an understanding of the results of the programs for which budget resources have been expended. In the final analysis, the objective of the Federal Government is to provide services, in contrast to the objective of private sector organizations, which is to earn profits and enhance the return on investment, both of which are monetary objectives. All of these factors suggest that the statement of program performance measures is not only an appropriate statement, but likely to be the most important statement for those persons interested in how a Federal entity is using its resources.

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<sup>9</sup>The Board does not consider the Statement of Program Performance Measures to be a basic financial statement.

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67. For a statement of program performance measures prepared by an organization-level reporting entity, the outputs and outcomes would be related to the performance of the entity itself and its own programs, e.g., clients vaccinated, illnesses prevented. For the government-wide report, broader measures of outcomes and impacts that depended on the joint efforts of several reporting entities would be appropriate, e.g., state of the economy, national security, environment, personal health, social welfare, although some narrower outcome measures might also be included.

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## Other Information

68. Financial information is also conveyed with **accompanying footnotes**, which are an integral part of the financial statements. Footnotes typically provide additional disclosures that are necessary to make the financial statements more informative and not misleading.
69. It is also necessary to convey more general information about the reporting entity. This could entail such matters as a brief description of the reporting entity; its missions, goals, and objectives; the programs it provides and the major recipients for the program; its major sources of funding; the manner in which the reporting entity is organized; its personnel resources; highlights of the entity's accomplishments during the reporting period; selected measures of program performance abstracted from the statement of program performance; problems encountered or targets missed and the reasons why; financial highlights and trends; expected problems and challenges; future targets the entity is setting for itself; and any other information the agency head or CFO considers necessary to fully and fairly provide an understanding of the entity's financial affairs. This type of information is typically presented in what has come to be known as a **management's discussion and analysis** or **overview** of the reporting entity.
70. The third objective of Federal financial reporting is that it "should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial conditions have changed and may change in the future."<sup>10</sup> This objective requires a reporting of information concerning investments in education, training, research, and development and certain types of property, plant, and equipment that can affect the nation's future wealth, and to the claims on future budgetary resources resulting from prior decisions and actions.

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<sup>10</sup>A complete discussion of the third objective for Federal financial reporting, which is called the "stewardship objective," is contained in paragraphs 134 to 145 of Statement of Federal Financial Accounting Concepts No. 1, "Objectives of Federal Financial Reporting."

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71. The information pertaining to the aforementioned investments, certain types of property, plant, and equipment,<sup>11</sup> and claims on future budgetary resources is maintained in part in the entities' general ledgers and, in part, external to the general ledgers. Some of the information is recorded in units other than dollars, e.g., acres, millions of square feet. Finally, some of the information is not subject to the types of controls present in a system of double entry recordkeeping. Accordingly, a more suitable way to fulfill the third reporting objective would be to display the appropriate information as **required supplemental information** rather than attempting to include it in financial statements.<sup>12</sup>
72. [Rescinded per SFFAC 6.]
73. The fourth objective, systems and controls, is fulfilled, in part, by the act of preparing the financial statements. Other ways the fourth objective could be fulfilled through the audited financial reporting process is by a management assertion that would accompany the financial statements and/or an auditor's attestation on the financial statements. The management assertion would be an acknowledgment of its responsibility for the accuracy of the information in the financial statements, the completeness and fairness of the presentation of the information, the accuracy of the information in all material respects, and the reporting of the information in a manner designed to fairly present financial position and results of operations. The assertion could also include a statement regarding the adequacy of the entity's systems and controls, accompanied by the auditor's concurrence with the assertion.

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## Distinguishing Basic Information, RSI, and OAI

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### Determining Required Information

- 73A. Selecting a category for communicating information may involve a process that begins with determining what information should be required. Required information is information that consists of basic information and RSI. An item of information is a candidate for required information if it is consistent with the objectives of federal financial reporting and meets certain qualitative characteristics and cost-benefit considerations. The Board developed these factors earlier in the conceptual framework. SFFAC 1 identifies the reporting objectives (paragraphs 112 to 150) and the qualitative characteristics (paragraphs 157 to 164). It also discusses cost versus benefit considerations (paragraphs 151 to 155).

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<sup>11</sup>[Text rescinded per SFFAC 6.]

<sup>12</sup>[Text rescinded per SFFAC 6.]

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## Determining Basic Information versus RSI

- 73B. Information that meets the criteria for required information is a candidate for basic information or RSI. Basic information is information which is essential for the financial statements and notes to be presented in conformity with GAAP. The FASAB standards are the core<sup>12.1</sup> of GAAP and auditors may be engaged to express an opinion as to whether basic financial statements and notes are presented in conformity with those criteria.
- 73C. RSI is information that a body that establishes GAAP requires to accompany basic information. It may be experimental in nature to permit the communication of information that is relevant and important to the reporting objectives while more experience is gained through resolution of accounting issues. Also, the information may be expressed in other than financial measures or may not be subject to reliable estimation. As issues are resolved, the information may be considered basic at some point in the future.
- 73D. The Board specifies what information should be presented as basic information and what information should be presented as RSI. Assessing whether required information is a candidate for basic information or RSI may involve the Board's consideration of a range of factors which are listed in Table 1: Factors to Consider in Distinguishing Basic Information from RSI on page 107. The factors are not listed in a particular order and some may convey similar ideas. In addition, different Board members may assign different weight to each factor. Thus, the factors provide a general framework for each Board member's judgment and are not considered to present a decision tree, hierarchy, or precise algorithm for classifying items.
- 73E. For example, members may consider the relevance of the information to fair presentation. If the information has a high relevance to fair presentation, it may be a candidate for basic information communicated by financial statements and notes to the financial statements. The financial statements and notes could not be considered fairly presented if the information is missing or materially misstated. The rationales for some of the other factors that members may consider are:
- a. Use of various types of financial data or financial transaction data. Members may deliberate the nature of the data used or the type of system used to process the information. Financial data used or data derived from a system for processing financial transactions, may be more likely to be considered basic information.

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<sup>12.1</sup>The first and highest level of the GAAP hierarchy comprises standards and interpretations. Lower level GAAP may not conflict with standards or interpretations.

- b. Level of importance the Board wishes to be communicated in the financial report or the auditor's report. In addition to the nature of the information, the Board may take into account the effect of categorizing an item as basic information or RSI in the financial report and what the auditor's report would communicate if the item is missing or materially misstated. By designating an item as basic information rather than RSI, the Board can have some bearing on the level of importance conveyed in the financial report and auditor's report. In other words, users may pay less attention to items categorized as "supplementary" in the financial report. Conversely, they may be more concerned with the auditor's conclusions regarding the fair presentation of the financial statements. Hence, the more important the item, the more likely it would be a part of the financial statements and notes prepared in conformity with GAAP, such that if the item is missing or materially misstated, the matter would be conveyed in the auditor's report on the fair presentation of the financial statements.
- c. The extent to which the information interests a wide audience (rather than specialists). If an item of information is of great interest to users, the information may be a candidate for basic information. Conversely, if the item is primarily of interest to subject matter specialists, the information may accompany the basic information as RSI.
- d. Extent to which there are not alternative sources of reliable information. If organizations routinely publish an item of information that is scrutinized by independent advisors, it may be more likely to be considered RSI than basic information.
- e. Agreement on criteria that permit comparable and consistent reporting. If there is a lack of specific criteria for measuring an item, preparers may have great discretion in developing their calculations and auditors may lack criteria necessary for the expression of an opinion. The item of information may be a candidate for RSI.
- f. Experience among users, preparers, and auditors with the information. The Board may consider the views of expert users, preparers, and auditors in developing measurement criteria for basic information. If the level of experience regarding an item is low, input on specific criteria may not be available. Also, when there is not sufficient experience to develop measurement criteria, auditors may have concerns about expressing an opinion on the information. They may express qualifications or include explanations in their report. Categorizing the information as RSI may encourage reporting while more experience is gained and criteria developed.
- g. Benefit/cost ratio of using resources to compile the information as well as ensure accuracy. The Board may consider the benefit and cost associated with producing and auditing the item of information.

OAI

73F. If an item of information does not meet the criteria for basic information or RSI, it becomes a candidate for OAI. OAI is information that accompanies basic information and RSI, but is not required by a body that establishes GAAP. Some entities may desire to report information to supplement required information and enhance a user's understanding of the entity's operations or financial condition. This may include, but is not limited to, information on delivery times, turnover, and wastage of inventories; expected replacement of physical capital; and delinquency, aging, and default rates for loan portfolios. In addition, entities report information not required by a body that establishes GAAP, but required by laws or administrative directives. The laws or administrative directives may require the information to be audited and may require it to accompany basic information and RSI. However, this information is also considered OAI.

73G. Although the FASAB does not require OAI to be presented, the FASAB may at times encourage voluntary reporting of items to help in the development of information that may enhance overall federal financial reporting. For example, the FASAB may consider an item to be relevant to entity operations but, for the moment, does not meet other criteria for required information.

**Table 1: Factors to Consider in Distinguishing Basic Information from RSI\***

FACTORS TO CONSIDER IN DISTINGUISHING BASIC INFORMATION FROM RSI		
Low (implies RSI)	Factor	High (implies Basic)
	<Relevance to fair presentation>	
	<Connection with elements of financial reporting>	
	<Use of various types of financial data or financial transaction data>	
	<Level of importance the Board wishes to be communicated in the financial report>	
	<Significance, relevance, or importance of the item in light of <i>Objectives</i> >	
	<Level of importance the Board wishes to be communicated in the auditor's report>	
	<Relevance to measuring financial condition or changes in financial condition>	
	<Extent to which the information interests a wide audience (rather than specialists)>	
	<Extent to which there are not alternative sources of reliable information>	
	<Agreement on criteria that permit comparable and consistent reporting>	
	<Experience among users, preparers, and auditors with the information>	
	<Benefit/cost ratio of using resources to compile the information as well as ensure accuracy>	
	<Connection with basic financial statements>	
	<Reliability and/or precision possible>	

**Table 1: Factors to Consider in Distinguishing Basic Information from RSI\***

	<Reliability and/or precision needed>	
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\*As noted in paragraph 73D, the factors are not listed in a particular order and do not represent a hierarchy of factors.

## Financial Reporting For An Organizational Entity

74. Meeting the four objectives of Federal financial reporting in the most efficient manner suggests that reporting entities issue a financial report that would include the following:

- management’s discussion and analysis;
- statement of financial position (commonly referred to as balance sheet);
- statement of net costs;
- statement of changes in net position;
- statement of custodial activities, when appropriate;
- statement of budgetary resources;
- statement of financing;<sup>12.2</sup>
- statement of program performance measures;<sup>13</sup>
- accompanying footnotes;
- required supplementary information; and
- other accompanying information.

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

<sup>12.2</sup>The Statement of Financing may be presented as a financial statement or as a schedule in the notes to the financial statements. The OMB will provide guidance regarding details of how the information will be displayed.

<sup>13</sup>The statement of program performance measures is not a basic financial statement. Nevertheless, it is an important component of the financial reports.

information pertaining to their individual significant components.<sup>14</sup> The information for the individual components could be provided with separate columns in consolidating financial statements<sup>15</sup> (with the information for the less significant components, and possibly the entity's management component, aggregated into a single separate column), in separate financial statements for each significant component, or in the accompanying footnotes. The significant components can be suborganizations or programs. If they are suborganizations, information regarding programs should be provided in some manner.

76. Furthermore, there are frequently instances when one or more of the suborganizations conduct a very visible or critical activity and there is a high level of public interest, e.g., tax collection activity; maintains large and complex fund flow activity; has earmarked tax activity; or its financial viability is of special concern to the Executive Branch or the Congress, e.g., deposit insurance funds. In those situations, it may be desirable for the sub-organization to prepare and issue a separate financial statement that is consistent with the concepts presented in this concepts statement.<sup>16</sup> In doing so, it would need to identify the parent entity and describe the sub-organization's relationship to the parent.
77. The components of any reporting entity are likely to conduct transactions with other components in the reporting entity, other Federal entities, and persons and organizations outside the Federal Government. Likewise, they are likely to have assets due from and liabilities due to other Federal components and entities and to non-Federal persons and organizations. In reporting the transactions and balances of a Federal reporting entity in its entirety, it is conceptually desirable, although not always practicable, to eliminate the intra-entity transactions and balances.<sup>17</sup>
78. Some of a reporting entity's components are likely to be required by law or policy to prepare and issue financial statements in accordance with accounting standards other than FASAB's, e.g., accounting standards issued by the Financial Accounting Standards Board or

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<sup>14</sup>Such components are similar to responsibility segments as referred to in SFFAS 4, *Managerial Cost Accounting Concepts and Standards*, par. 78-81. Responsibility segments are used to accumulate costs and outputs for major lines of activity.

<sup>15</sup>A **consolidated financial statement** presents the transactions and balances for a reporting entity's components in a single column. In arriving at the consolidated amounts, the transactions and balances among the entities are eliminated. A **consolidating financial statement** presents the information for the reporting entity's components as well as the consolidated amounts in individual columns. The elimination of the inter-entity transactions and balances needed to arrive at the consolidated amounts might or might not be presented in a separate column.

<sup>16</sup>Sub-organizations required by statute to prepare and issue a separate financial statement would, by definition, also need to do so.

<sup>17</sup>[Rescinded by SFFAC 6.]

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

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## Financial Reporting For The Entire Government

79. In addition to budgetary integrity, operating performance, and systems and control information, readers of the financial statements for the entire government are likely to be concerned primarily with whether the government has been a proper steward. This can best be achieved with the preparation and issuance of the following:
- management's discussion and analysis;
  - statement of financial position (commonly referred to as balance sheet);
  - statement of net costs;
  - statement of operations and changes in net position;
  - reconciliation of net operating revenue (or cost) and unified budget surplus (or deficit);
  - statement of changes in cash balance from unified budget and other activities;
  - comparison of budgeted and actual use of resources;
  - statement of program performance measures;
  - accompanying footnotes;
  - required supplementary information; and
  - other accompanying information.
80. The readers should be made aware of whether the financial statements for the entire government exclude any significant entities that are included in the budget or include significant entities that are not included in the budget.
81. [Rescinded by SFFAC 6.]
82. The financial statements for the entire government could also be used to provide information on Presidential initiatives or crosscutting programs that is not available in financial statements for individual organizations or programs.

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83. Because the government is a complete and integral economic entity, in contrast to the departments and major agencies whose components frequently have nothing in common other than belonging to the same department, it would be appropriate that the financial statement for the entire government be a consolidated financial statement. However, it might also be appropriate to display selected information for the components, funds, etc., either within the consolidated financial statement, in accompanying footnotes, and/or as supplemental information.

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## Recommended Contents For The Recommended Displays

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### Balance Sheet

84. The elements most likely to be presented in the balance sheet of a Federal suborganization/organization, program, or the entire government would be as follows:
- **Fund Balance with Treasury.** This represents the amount in the entity's accounts with the U.S. Treasury that is available only for the purposes for which the funds were appropriated. It may also include balances held by the entity in the capacity of a banker or agent for others. However, Fund Balance with Treasury (FBWT) meeting the definition of fiduciary FBWT should not be recognized on the balance sheet, but should be disclosed in accordance with the provisions of SFFAS 31, *Accounting for Fiduciary Activities*.
  - **Cash and other monetary assets.** Cash consists of coins, paper currency and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit, amounts on demand deposit with banks or other financial institutions, cash held in imprest funds, and foreign currencies.
  - **Investments.** While Federal agencies have the authority to invest, they are typically limited to investing in securities issued by the Department of the Treasury or other Federal entities. There could be instances, however, when an agency owns property or securities issued by state or local governments, private corporations, or government sponsored enterprises, primarily for the purpose of obtaining a monetary return.
  - **Receivables.** These are the amounts that the entity claims for payment from others. Receivables can result from such activities as the sales of goods or services, the non-payment of taxes, the making of loans or loans assumed from defaults on previously made loan guarantees, the earning of interest, the advance or prepayment of monies, etc.
  - **Inventories and related properties.** Inventories consist of tangible personal property held for sale, in the process of production for sale, or to be consumed in the production of goods for sale or in the provision of services for a fee. Related properties

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

- **Property, plant, and equipment.** Property, plant, and equipment (PP&E) have been defined in the Federal Government as tangible items owned by the Federal Government and having an expected useful life of greater than two years. Some PP&E are held by the Federal Government but not used to provide a service. They are in themselves a service. Examples are heritage assets such as monuments and museum collections; the service is the sense of tradition, understanding, and pride visitors receive visiting these sites. Information pertaining to these assets would not necessarily be displayed in the balance sheet, but rather as required supplemental information.<sup>18</sup>
- **Liabilities.** These are the amounts the reporting entity owes to others for goods or services received, progress in contract performance, defaulted guarantees, funds held as deposits etc. Because no liability can be paid without an enacted appropriation, some liabilities are funded while others are unfunded. Also, because the Federal Government is a sovereign entity, it can abrogate at any time many of its liabilities arising from other than contracts. This does not, however, eliminate the existence of, and therefore the need to report, liabilities incurred by the reporting entity.
- **Net position.** Net position is the residual difference between assets and liabilities. It is generally composed of unexpended appropriations and the cumulative results of operations. Included in the former would be appropriations not yet obligated or expended, including undelivered orders. Included in the latter would be the amounts accumulated over the years by the entity from its financing sources less its expenses and losses, which would include donated capital and transfers in the net investment of the Government in the reporting entity's assets; and an amount representing the entity's liabilities for such things as accrued leave, credit reform subsidies, and actuarial liabilities not covered by available budgetary resources.

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

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<sup>18</sup>The Board issued an Exposure Draft, *Accounting for Property, Plant, and Equipment* (PP&E ED), on February 28, 1995 addressing those items of PP&E that would be reported on the balance sheet. The PP&E ED also proposes definitions for categories of PP&E that would not be reported on the balance sheet. In a separate ED, the Board will address other means of reporting on the non-balance sheet categories—possibly including separate basic financial statements and required supplemental information.

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## Statement Of Net Costs

86. The main purpose of a statement of net costs is to provide an understanding of the net costs of each organization and each program that the government supports with taxes and other unearned monies. Another important purpose for the statement is to provide gross and net cost information that can be related to the amounts of outputs and outcomes for the programs and/or organization. Thus the statement of net costs should present the amounts paid, the consumption of other assets, and the incurrence of liabilities as a result of rendering services, delivering or producing goods, or carrying out other operating activities.
87. The costs can be classified in a reporting entity's statement of net costs by sub-organization (assuming the reporting entity is an organization), by program, or by object class, or any combination thereof. Object class, also referred to as a "natural" classification, represents the nature or types of goods or services acquired without regard to the organization involved or the program for which they were used. Reporting of the sub-organization incurring the costs and/or the purposes for which the costs were incurred generally provides more useful information than reporting on the types of goods or services acquired.
88. The statement of net costs should also present the revenues earned by each program and organization. The manner in which the earned revenues would be presented would depend on the purpose of the program and the reasons why the revenues are present.
89. Some programs are established with generation of revenue as a primary consideration or purpose. One example would be when the goods or services provided by the organization are also available from the private sector and not charging a fee for the goods or services would be unfair competition. Another example would be when it is deemed appropriate that the persons or organizations receiving the goods or service pay for the goods or services, usually to be able to ascertain the true cost of the activity using the goods or services, e.g., the Defense Business Operations Fund, Postal Service. Still another example is when revenues are imposed to limit the unnecessary consumption of the goods or services. In each of these instances, the revenues earned by the program(s) should be considered a deduction from the total costs of the program(s).
90. With other programs, the revenues are generated from administering an inherently governmental service, which means the revenues are not a primary consideration for the program. Rather, the revenues are a means to recover all or most of the costs of administering the program, e.g., the Securities and Exchange Commission. In those instances, the revenues should be considered a deduction from the total costs of the organization, not the program.
91. In still other instances, an organization's revenues can be generated by providing a specific program, but the revenues are not a primary consideration in the conduct of the program;

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they are incidental to the purpose of the program, e.g., the sale of maps by the Geological Survey. In those instances, it would be appropriate to consider the earned revenues as a deduction from the incremental costs that need to be incurred in order to provide the goods or services that generate the incidental revenues, to the extent that the incremental costs are measurable and relevant to decision making. Otherwise the revenues should be considered a deduction from the program's or organization's total costs.

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

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reporting purposes, the organization does not allocate organizational management costs among the programs, the total costs displayed for any one program in the entity's financial statements could be different than the costs recorded for that program in the cost accounting system.

97. Other earned revenues would include revenues not attributable to a specific program.
98. Costs and revenues arising from transactions with other Federal entities should be displayed separately from transactions with non-Federal entities.
99. The decision as to how to display total program costs, earned revenues, net program costs, and organizational and program management costs should be based, in part, on a consideration of what the Congress, management, and others might want to know about the costs of providing an organization's programs.

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## Statement Of Changes In Net Position

100. The appropriate elements for a statement of changes in net position would be as follows:
  - **Net costs** display the amount that had to be financed by other than earned revenues.
  - **Appropriations used** represent the amount of budget authority, including transferred budget authority, used by the organization to finance its operations.
  - **Non-exchange revenues** include dedicated taxes, fines, and other revenues the Government is able to obtain due to its sovereign powers.
  - **Donations** are monies and materials given by private persons and organizations to the Government without receiving anything in exchange.
  - **Transfers in** are amounts of cash or other capitalized assets received by one Government entity from another Government entity without reimbursement.
  - **Transfers out** are amounts of cash or other capitalized assets provided by one Government entity to another without reimbursement.
  - **Imputed financing sources** are of two types: amounts equal to the costs that have been incurred by the reporting entity but financed by another entity, e.g., retirement costs; and amounts representing costs that are attributable to the reporting entity's activities but that do not require a direct out-of-pocket payment, e.g., the interest costs associated with carrying inventory or investing in physical assets.<sup>19</sup>
  - **Prior period adjustments** are corrections of prior period results of operations.

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<sup>19</sup>The Board plans to undertake a project on the interest cost associated with investing in operating assets. At this time, no decision has been made on the recognition by individual entities of these types of costs.

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- **Increase (decrease) in unexpended appropriations** is the change in appropriated capital, including transferred budgetary resources, that does not affect the net cost of operations but does affect net position.
  - **Net position-beginning of the period** is the total unexpended appropriations and cumulative results of operations held by the entity at the beginning of the reporting period.
  - **Net position-end of the period** results from adding and netting the various amounts associated with the operations of the entity during the reporting period, including the net position-beginning of the period and any prior period adjustments. The amount will thus equal the total unexpended appropriations and cumulative results of operations held by the entity at the end of the period.

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## Statement Of Custodial Activities

101. A separate statement of custodial activities would be appropriate for those entities whose primary mission is collecting taxes or other revenues, particularly sovereign revenues that are intended to finance the entire Government's operations, or at least the programs of other entities, rather than their own activities. The revenues should be characterized by those agencies as custodial revenues. The statement should display the sources and amounts of the collections of custodial revenues, any increases or decreases in amounts collectable but not collected, the disposition of the collections through transfers to other entities, the amounts retained by the collecting entity, and any increase or decrease in the amounts to be transferred.
102. Custodial collections do not include deposit funds, i.e., amounts held temporarily by the government (e.g., bidders' earnest money or guarantees for performance) or amounts held by the Government as an agent for others, (e.g., state income taxes withheld from Federal employees' salaries that are to be transferred to the states). These types of collections should be reported in accordance with the provisions of SFFAS 31, *Accounting for Fiduciary Activities*.
103. Organizations that collect custodial revenues that are incidental to their primary mission do not need to report the collections and disposition of these revenues in a separate statement. The disclosure of the sources and amounts of the collections and the amounts distributed to others could be disclosed in accompanying footnotes.

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## Statement Of Budgetary Resources

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

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- **Budgetary resources made available** is the amount available to enter into obligations that will result in immediate or future outlays involving Federal Government funds. The resources should be relevant to the reporting period. The components of budgetary resources would include budget authority (i.e., appropriations, borrowing authority, and contract authority) and unobligated balances of multi-year and no-year money remaining from prior reporting periods. Budgetary resources would also include reimbursements and other income (i.e., spending authority from offsetting collections credited to an appropriation or fund account) and adjustments (e.g., recoveries of prior year obligations).
  - **Status of Budgetary Resources** displays the disposition of the budgetary resources made available. It consists of the obligations incurred; the unobligated balances of multi-year and no-year budget authority that are available; and the unobligated balances of one-year and multi-year lapsed budget authority that are not available, but have been carried forward to be used only to record, adjust, or liquidate obligations chargeable to the appropriation. The total amount displayed for status should be equal to the total amount displayed as being made available.
  - **Outlays** are payments to liquidate obligations, net of offsetting collections. Obligations are usually liquidated by means of cash payments (currency, checks, or electronic funds transfers), but in certain cases obligations are liquidated and outlays recorded even though no cash is disbursed. It would be appropriate, in displaying outlay information, to tie it to the obligations incurred by also displaying the transfers of obligations and the obligated balances at the beginning and end of the period.

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

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## Statement of Financing

105A. The purpose of the Statement of Financing is to explain how budgetary resources obligated during the period relate to the net cost of operations for that reporting entity. This information should be presented in a way that clarifies the relationship between the obligation basis of budgetary accounting and the accrual basis of financial (i.e.,

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proprietary) accounting. By explaining this relationship through a reconciliation, the statement provides information necessary to understand how the budgetary (and some nonbudgetary) resources finance the cost of operations and affect the assets and liabilities of the reporting entity. The appropriate elements for the Statement of Financing would be as indicated in the following paragraphs. They provide logical groupings of reconciling items that help the reader move from obligations to net cost of operations.

- 105B. **Obligations incurred** are amounts of new orders placed, contracts awarded, services received, and other similar transactions during the period that will require payments during the same or a future period. A deduction is needed for spending authority from offsetting collections and recoveries of prior period obligations.
- 105C. **Nonbudgetary resources** represent the net amount of resources received by the entity that are not included in budgetary resources. These items could include donations of assets, transfers of assets from (to) other federal entities, and financing imputed for cost subsidies. This amount would also include decreases (increases) in receivables related to revenue accrued from the public because, while the cash collected for exchange revenue is a budgetary resource, the accrual amount is not.
- 105D. **Resources that do not fund net cost of operations** are primarily (a) the change in amount of goods, services, and benefits ordered but not yet received or provided, (b) amounts provided in the current reporting period that fund costs incurred in prior years, and (c) amounts incurred for goods or services that have been capitalized on the balance sheet.
- 105E. **Costs that do not require resources** are most commonly the result of allocating assets to expenses over more than one reporting period (e.g., depreciation) and the write-down of assets (due to revaluations).
- 105F. **Financing sources yet to be provided** are the financing amounts needed in a future period to cover cost incurred in the current period.
- 105G. The bottom line of this reconciliation would be the **net cost of operations**.

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## Statement Of Program Performance Measures

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

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services or outcomes provided. Outcome measures could address either the ultimate program outcome or intermediate outcomes, e.g., accuracy of, timeliness of, or satisfaction with the services provided. Workload, process, and input measures should be in the minority. Explanatory information that helps the readers understand the reported measures, assess the entity's performance, and evaluate the significance of underlying factors that may have affected the reported performance is appropriate. Comparative measures from prior years or similar programs and industry standards are also appropriate. They help to provide a better understanding of the level of the reporting entity's performance.<sup>20</sup>

107. The measures selected for reporting should relate to the programs' purposes and goals. It would be particularly useful to include measures previously included in budget documents and other materials released to the public. It would also be useful to base the selection of measures on discussions with budget examiners, Congressional staffs, and other users of the entity's financial statements.
108. The statement of program performance measures should not be cluttered with trivial measures. Measures selected should be considered important by decisionmakers and particularly the resource providers that are likely to use the financial statements. Also, relevant measures should be reported, without regard to whether they portray positive or negative performance. The most significant measures should be extracted for highlighting in the management's discussion and analysis.
109. Other characteristics to consider for reporting program performance measures are as follows:
- **Completeness.** The measures, in the aggregate, should cover all aspects of the reporting entity's mission.
  - **Legitimacy.** The measures should be accepted as relevant both inside the reporting entity and by the external stakeholders and others, e.g., the central management agencies, Congress, interest groups, the public.
  - **Understandability.** The measures should communicate the performance of the entity in a readily understandable manner to any reasonably informed and interested party.

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<sup>20</sup>The acceptance of a statement of program performance will increase in relation to the users' perception of the relevance and reliability of the reported information. These perceptions can be enhanced to the extent there are independent assessments of the appropriateness of the measures, the completeness of the data, the actual occurrence of the reported events, and the values assigned to the data. Auditors of Federal agency financial statements are currently required (by an OMB Bulletin) to evaluate the underlying control structure for program performance measures included with the financial statements. The extent to which auditors will be expected to expand the scope of their involvement with program performance measures to include the aforementioned independent assessments would be specified by OMB consistent with government audit standards.

- **Comparability.** The measures should provide a frame of reference for assessing, and comparing, if appropriate, the performance of the entity and entities with similar programs for both the immediate period and over time.
- **Ability to relate to cost.** The measures should be such that a cost can be defined for each unit of output, outcome, input, etc.
- **Timeliness.** The measures should be available to users of the financial statements before they lose their capacity to be of value in assessing accountability and making decisions. The value of timeliness should not preclude the use of important measures for which results are not immediately available.
- **Consistency.** The measures should be reported consistently from period to period to allow users to have a basis for comparison and to gain an understanding of the measures being used and their meaning (recognizing that the measures should be reviewed regularly and modifications made to reflect changing circumstances).
- **Reliability.** The information should be derived from systems that produce controlled and verifiable data, although at times it may be necessary to rely on secondary sources of data.<sup>21</sup>

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

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

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112. Example formats for displaying the recommended elements are provided in appendix 1. These formats are illustrative and provided solely to help readers of this document better understand the recommended concepts for displaying financial and related information. In exposing proposed standards, the Board might portray other formats. The ultimate specification of the form and content for financial statements for Federal agencies is defined by OMB.

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<sup>21</sup>The Public Management Committee of the Organization for Economic Cooperation and Development, which is comprised of the twenty four democratic nations with advanced market economies, has been studying performance management systems. It has concluded, based on the experiences of countries that have implemented such systems, that performance measures should reflect three important characteristics: validity, continuity, and legitimacy. These characteristics, while intended to guide management systems in their totality, rather than simply inclusion in financial statements, have nonetheless been incorporated into the above characteristics.

## Appendix 1-A: Balance Sheet

### Example Financial Statement Formats

#### BALANCE SHEET - as of September 30, 19X4 - ASSETS

	Suborganization A	Suborganization B	Suborganization C	Total FY 19X4	Total FY 19X3
<b>Entity assets:</b>					
Fund balance with Treasury	\$xxx	\$xxx	\$xxx	\$xxx	\$xxx
Cash (and other monetary assets)	xxx	xxx	xxx	xxx	xxx
Investments:					
Intragovernmental	xxx	---	xxx	xxx	xxx
With the public	xxx	xxx	xxx	xxx	xxx
Receivables:					
Intragovernmental	xxx	xxx	xxx	xxx	xxx
With the public	xxx	---	xxx	xxx	xxx
Inventories and related properties	xxx	xxx	xxx	xxx	xxx
Physical assets	xxx	xxx	xxx	xxx	xxx
<b>Total entity assets</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
<b>Non-entity assets:</b>					
Fund balance with Treasury	xxx	xxx	xxx	xxx	xxx
Cash	xxx	xxx	xxx	xxx	xxx
Receivables:					
Intragovernmental	xxx	xxx	xxx	xxx	xxx
With the public	xxx	xxx	xxx	xxx	xxx
<b>Total non-entity assets</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
<b>Total assets</b>	<b>\$xxx</b>	<b>\$xxx</b>	<b>\$xxx</b>	<b>\$xxx</b>	<b>\$xxx</b>

**BALANCE SHEET - as of September 30, 19X4 - LIABILITIES AND NET POSITION**

	Suborganization A	Suborganization B	Suborganization C	Total FY 19X4	Total FY 19X3
<b>LIABILITIES</b>					
<b>Liabilities covered by budgetary resources:</b>					
Intragovernmental liabilities:					
Payables	\$xxx	\$xxx	\$xxx	\$xxx	\$xxx
Governmental liabilities:					
Payables	xxx	xxx	xxx	xxx	xxx
<b>Total liabilities covered by budgetary resources</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
<b>Liabilities not covered by budgetary resources:</b>					
Intragovernmental liabilities:					
Payables	xxx	xxx	xxx	xxx	xxx
Governmental liabilities:					
Payables	xxx	xxx	xxx	xxx	xxx
Amounts held for others	xxx	---	xxx	xxx	xxx
<b>Total liabilities not covered by budgetary resources</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
<b>Total liabilities</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
<b>NET POSITION</b>					
Unexpended appropriations	xxx	xxx	xxx	xxx	xxx
Cumulative results of operations	xxx	xxx	xxx	xxx	xxx
<b>Total net position</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
<b>Total liabilities and net position</b>	<b>\$xxx</b>	<b>\$xxx</b>	<b>\$xxx</b>	<b>\$xxx</b>	<b>\$xxx</b>

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

## Appendix 1-B: Statement of Net Costs

### Example Financial Statement Formats

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

	Suborganization A	Suborganization B	Suborganization C	Total FY 19X4	Total FY 19X3
<b>COSTS:</b>					
<b>Program A:</b>					
Intragovernmental	\$xxx	\$---	\$---	\$xxx	\$xxx
With the public	xxx	---	---	---	---
Total	xxx	---	---	---	---
Less earned revenues	xxx	---	---	xxx	---
Net program costs	<b>xxx</b>	---	---	<b>xxx</b>	<b>xxx</b>
<b>Program B:</b>					
With the public	---	xxx	xxx	xxx	xxx
Less earned revenues	---	xxx	xxx	xxx	xxx
Net program costs	---	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
<b>Program C:</b>					
Intragovernmental	xxx	xxx	---	xxx	xxx
With the public	xxx	xxx	---	xxx	xxx
Net program costs	<b>xxx</b>	<b>xxx</b>	---	<b>xxx</b>	<b>xxx</b>
<b>Program D:</b>					
Costs with the public	---	xxx	---	xxx	xxx
Cost not allocated to programs	xxx	xxx	xxx	xxx	xxx
<b>Less other earned revenues</b>	---	---	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
<b>NET COST OF OPERATIONS</b>	<b>\$xxx</b>	<b>\$xxx</b>	<b>\$xxx</b>	<b>\$xxx</b>	<b>\$xxx</b>

## Appendix 1-C: Statement of Changes in Net Position

### Example Financial Statement Formats

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

	Suborganization A	Suborganization B	Suborganization C	Total FY 19X4	Total FY 19X3
<b>NET COST OF OPERATIONS</b>	<b>\$(xxx)</b>	<b>\$(xxx)</b>	<b>\$(xxx)</b>	<b>\$(xxx)</b>	<b>\$(xxx)</b>
<b>FINANCING SOURCES</b>					
Appropriations Used	xxx	xxx	xxx	xxx	xxx
Taxes (non-exchange revenue)	xxx	xxx	xxx	xxx	xxx
Donations (non-exchange revenue)	---	xxx	xxx	xxx	xxx
Imputed Financing	xxx	xxx	xxx	xxx	xxx
Transfers-in	xxx	---	xxx	xxx	xxx
Transfers-out	---	(xxx)	---	(xxx)	---
<b>NET RESULTS OF OPERATIONS</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
<b>PRIOR PERIOD ADJUSTMENTS</b>	<b>xxx</b>	<b>xxx</b>	<b>---</b>	<b>xxx</b>	<b>xxx</b>
<b>NET CHANGE IN CUMULATIVE RESULTS OF OPERATIONS</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
<b>INCREASE (DECREASE) IN UNEXPENDED APPROPRIATIONS</b>	<b>xxx</b>	<b>(xxx)</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
<b>CHANGE IN NET POSITION</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
<b>NET POSITION-BEGINNING OF PERIOD</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
<b>NET POSITION-END OF PERIOD</b>	<b>\$xxx</b>	<b>\$xxx</b>	<b>\$xxx</b>	<b>\$xxx</b>	<b>\$xxx</b>

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

## Appendix 1-D: Statement of Custodial Activities

### Example Financial Statement Formats

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

	FY 19X4	FY 19X3
<b>Collections:</b>		
Income Taxes	\$(xxx)	\$(xxx)
Estate and gift taxes	xxx	xxx
Excise Taxes	xxx	xxx
Employment Taxes	xxx	xxx
Penalties and Interest	xxx	xxx
Total collections	<b>xxx</b>	<b>xxx</b>
Refunds and other payments	(xxx)	(xxx)
Net collections	xxx	xxx
Accrual adjustment	xxx	(xxx)
<b>Total revenues collected</b>	<b>xxx</b>	<b>xxx</b>
<b>Disposition of revenues collected:</b>		
Transferred to others:		
Department of the Treasury	xxx	xxx
Department of Labor	xxx	xxx
Environmental Protection Agency	xxx	xxx
Total transfers	xxx	xxx
Retained by the entity	xxx	xxx
Increase (decrease) in amounts to be transferred	xxx	(xxx)
<b>Total disposition of revenues collected</b>	<b>xxx</b>	<b>xxx</b>
<b>Net custodial collections</b>	<b>\$000</b>	<b>\$000</b>

## Appendix 1-E: Statement of Budgetary Resources

### Example Financial Statement Formats

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

	Suborganization A	Suborganization B	Suborganization C	Total FY 19X4	Total FY 19X3
<b>Budgetary resources made available:</b>					
Budget authority	\$xxx	\$xxx	\$xxx	\$xxx	\$xxx
Unobligated balances- beginning of period	xxx	xxx	xxx	xxx	xxx
Reimbursements and other income	xxx	xxx	xxx	xxx	xxx
Adjustments	xxx	xxx	xxx	xxx	xxx
<b>Total, budgetary resources made available</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
<b>Status of budgetary resources:</b>					
Obligations incurred (gross)	xxx	xxx	xxx	xxx	xxx
Unobligated balances-end of period	xxx	xxx	xxx	xxx	xxx
Unobligated balances-not available	xxx	xxx	xxx	xxx	xxx
<b>Total, status of budgetary resources</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
<b>Outlays</b>					
Obligations incurred, net	xxx	xxx	xxx	xxx	xxx
Obligations balance transferred	xxx	xxx	xxx	xxx	xxx
Obligations balance-beginning of period	xxx	xxx	xxx	xxx	xxx
Less: obligations balance-end of period	xxx	xxx	xxx	xxx	xxx
<b>Total, outlays</b>	<b>\$xxx</b>	<b>\$xxx</b>	<b>\$xxx</b>	<b>\$xxx</b>	<b>\$xxx</b>

## Appendix 1-F: Statement of Program Performance Measures

### Example Financial Statement Formats

#### Statement of Program Performance Measures<sup>22</sup> - For the year ended September 30, 19X4

	FY 19X4	FY 19X3	FY 19X2
<b>Sub-organization A</b>			
<b>Program</b>			
Performance Measure	xxx	xxx	xxx
Performance Measure	xxx	xxx	xxx
<b>Program</b>			
Performance Measure	xx%	xx%	xx%
Performance Measure	xxx	xxx	xxx
<b>Program</b>			
Performance Measure	xxx	xxx	xxx
Performance Measure	xx%	xx%	xx%
<b>Sub-organization B</b>			
<b>Program</b>			
Performance Measure	xxx	xxx	xxx
Performance Measure	xx%	xx%	xx%
<b>Program</b>			
Performance Measure	xx%	xx%	xx%
Performance Measure	xxx	xxx	xxx
<b>Sub-organization C</b>			
<b>Program</b>			
Performance Measure	xxx	xxx	xxx
Performance Measure	xx%	xx%	xx%

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

<sup>22</sup>Although this example contains only numerical measures, the performance for some programs might be reported with other than numerical measures.

## Appendix 1-G: Statement of Financing

### EXAMPLE FINANCIAL STATEMENT FORMATS - STATEMENT OF FINANCING - For the year ended September 30, 19X4

<b>Obligations and Nonbudgetary Resources</b>	
Obligations incurred	\$XXX
Spending authority for offsetting collections and other budgetary adjustment	(X)
Donations not in the budget	X
Financing imputed for cost subsidies	X
Transfers-in (out)	X
Other	X
Obligations, as adjusted, and Nonbudgetary Resources	XXX
<b>Resources That Do Not Fund Net Cost of Operations</b>	
Change in amount of goods, services, and benefits ordered but not yet received or provided	(X)
Cost capitalized on the balance sheet	(X)
Financing sources that fund costs of prior periods	(X)
Other	(X)
<b>Costs That Do Not Require Resources</b>	
Depreciation and amortization	X
Revaluation of assets and liabilities	X
Other	X
<b>Financing Sources Yet to be Provided</b>	X
<b>Net Cost of Operations</b>	<u>\$XXX</u>

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## Appendix 2: List of Acronyms

See Consolidated List of Acronyms in “Appendix F: Consolidated List of Abbreviations”