



February 10, 2011

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Federal Reporting Model – TAB E<sup>1</sup>

**MEETING OBJECTIVE**

The objective of the meeting is to discuss priorities for the reporting model project and agree on potential FASAB priorities from among the task force recommendations as well as for the component entity phase of the effort.

**BRIEFING MATERIAL**

Attachment I – Summary Analysis of Task Force Recommendations

Attachment II – Analysis of Task Force Recommendations

**BACKGROUND**

FASAB initiated the reporting model project to determine necessary improvements to the existing federal reporting model. To determine how best to improve the model while balancing the cost and benefit of its decisions, the Board sought input from users and the financial reporting community by:

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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

- conducting user needs studies to determine the information that users and potential users sought to obtain about the federal government,
- monitoring the work of the Chief Financial Officer's (CFO) Council in developing a Statement of Spending for agencies, and
- organizing and considering recommendations from the Financial Reporting Model Task Force.

FASAB organized the Financial Reporting Model Task Force in April 2010. The nine-member task force consisted of:

- the current Deputy CFO of Treasury,
- the former Deputy CFO of the Department of Agriculture,
- the first Controller of the Office of Federal Financial Management in the Office of Management and Budget (OMB) and former FASAB member,
- a former senior leader from the Congressional Budget Office, who also was a former FASAB member,
- the former Assistant Comptroller General of the United States for Accounting and Information Management and Managing Director for Financial Management and Assurance at the Government Accountability Office (GAO),
- the former staff director of the House Committee on Government Oversight,
- a former top OMB management official who was instrumental in performance reporting concepts,
- the founder and CEO of the Institute for Truth in Accounting, and
- a former partner in a major CPA firm, which audits a significant number of federal CFO Act agencies' financial statements, and who chairs the Certificate of Excellence in Accountability Reporting (CEAR) program sponsored by the Association of Government Accountants.

The task force decided to make actionable recommendations to increase users' understanding, access, and use of federal financial information while avoiding costly requirements that do not add value. They began by considering the *2009 Financial Report of the U.S. Government* (CFR) because, for external users such as citizens and citizen-intermediaries, it is a likely starting point in the search for federal financial information. The task force agreed to form a subcommittee to review the detailed financial statements and MD&A. The subcommittee recommendations were subsequently considered by the full task force. The task force formally met eight times and discussed federal reporting issues during the months of April, May, July, August, September, October, and November 2010.

During FASAB's October 2010 meeting, the task force presented preliminary draft recommendations consistent with its objectives. The presentation included a preliminary draft recommendation to adopt an electronic, Web-based reporting method. Features of this method included: a central Web site for federal financial information which permits users to select the appropriate level of technical information. Also, the Web site would be searchable, possess drill-down capability, present machine-readable data, permit data to be downloaded in different formats, use multimedia for explanations of financial statements, and present some information using graphical and other user-friendly displays. FASAB members discussed the benefits and need to implement this recommendation soon. In addition, members noted that some initiatives along the lines of Web-based reporting have been started.

Subsequent to FASAB's October 2010 meeting, the task force noted that the nation is engaged in debates concerning the government's role in the economic future of the country and federal financial and program performance information helps inform these debates. As a result, the task force developed additional recommendations: (1) explore how best to report additional government-wide program performance in management's discussion and analysis (MD&A) of the CFR or in another electronic government-wide presentation, and (2) raise awareness of federal financial information. The task force believed that enhancements need to be made soon so that the public can go into fiscal planning deliberations being better informed about the financial health and performance of the federal government.

In December 2010, the task force finalized its report which included the following 10 recommendations.

<b>Recommendation No.</b>	<b>Recommendation</b>
1	Adopt an Electronic, Web-Based Reporting Method
2	Explore How Best to Report Additional Government-wide Performance Information
3	Present a Functional Statement of Net Cost in the CFR with Departmental Net Cost by Function as RSI
4	Establish Minimum Requirements for a Statement of Spending
5	Include Intergovernmental Financial Dependency in RSI
6	Enhance the Information Value of the Reconciliation of Net Operating Cost and Unified Budget Deficit Statement through Re-labeling

<b>Recommendation No.</b>	<b>Recommendation</b>
7	Reclassify the Information in the Statement of Changes in Cash Balance from Unified Budget and Other Activities
8	Re-orient the Balance Sheet Display and Enhance Related MD&A Discussion
9	Explain the Difference Between Net Position and Fiscal Gap
10	Establish a Federal Financial Information Web Site and Raise Awareness of Federal Financial Information

FASAB discussed the report during the December 2010 meeting and deliberated priorities and plans for the reporting model project which includes a review of disclosures. The Board discussed its role with respect to the task force recommendations and determined that an analysis of recommendations nos. 2 thru 9 was needed. The analysis should include a discussion of the existing FASAB standards relevant to each of the task force recommendations. In addition, the analysis should identify issues of questions the Board should address if it takes action on individual recommendations.

Staff prepared an analysis of task force recommendation nos. 2 – 9, see Attachment I: Summary Analysis of Task Force Recommendations and Attachment II: Analysis of Task Force Recommendations. Attachment I is intended to provide a summary of relevant considerations while Attachment II offers a comprehensive discussion.

## **NEXT STEPS**

Staff plans to conduct steps as determined by the Board during its discussion.

If you have questions or need additional information, please contact me at 202-512-2512 or by email at [simmsr@fasab.gov](mailto:simmsr@fasab.gov) as soon as possible. I will be able to consider and respond to your request more fully in advance of the meeting.

Task Force Recommendation	Existing Concepts	Existing Standards	Questions FASAB Might Address	Notes
<p><b>Recommendation 2:</b> Explore How Best to Report Additional Government-wide Performance Information</p>	<p>Concepts:</p> <p>SFFAC 2, "...operating performance can be best met with financial statements from organizations/suborganizations and programs"</p> <p>SFFAC 3 encourages references to comprehensive performance reports as a supplement to summary performance information presented in MD&amp;A</p> <p>SFFAC 4, "...it is particularly fundamental that the CFR be timely and understandable for citizens and citizen intermediaries. The content and structure of the CFR should be clear and complete to citizens and citizen intermediaries and the CFR should be available on a timely basis."</p> <p>Impact:</p> <p>Conceptually, operating performance not viewed from a government-wide perspective, but an agency and/or program perspective.</p> <p>Also, assumes that operating performance and the Financial Report of the U.S. Government (CFR) are printed documents rather than an electronic document with links and "pop-up" displays of additional information and the ability to be refreshed throughout the year. Thus, the CFR lists agencies and includes</p>	<p>Standards:</p> <p>SFFAS 15, "MD&amp;A should contain sections that address the entity's: mission and organizational structure; performance goals, objectives, and results; financial statements; and systems, controls, and legal compliance. "</p> <p>Impact:</p> <p>Management has great discretion regarding what to say in the MD&amp;A.</p>	<ol style="list-style-type: none"> <li>1. Should the level of flexibility afforded in the MD&amp;A guidance be narrowed by providing some minimum criteria?</li> <li>2. Should FASAB update the discussion in SFFAC 3 in light of the move to electronic performance reporting? Information may be refreshed more frequently than annually.</li> </ol>	

Attachment I: Summary Analysis of Task Force Recommendations

Task Force Recommendation	Existing Concepts	Existing Standards	Questions FASAB Might Address	Notes
	references to the agencies for information while citizens are not familiar with the role of agencies and the functions they administer.			
<b>Recommendation 3:</b> Present a Functional Statement of Net Cost in the CFR with Departmental Net Cost by Function as Required Supplementary Information (RSI)	<p>Concepts:</p> <p>SFFAC 2 discusses the statement of net cost and presenting net cost by organization. Also, it illustrates net cost by program and suborganization.</p> <p>Impact:</p> <p>Net cost should be presented from an organizational perspective rather than a perspective that presents functions of the entity. However, organizational titles do not necessarily indicate the functions being administered.</p>	<p>Standards:</p> <p>SFFAS 7 discusses gross cost and earned revenue and discusses reconciling obligations and net cost.</p> <p>SFFAS 32, Basis for Conclusion assumes a printed document and discusses the need for a concise CFR.</p> <p>Impact:</p> <p>Reconciliation of budgetary outlays to net cost not considered basic, accordingly reconciling items are not defined.</p> <p>The possibilities of providing information electronically on the Web are vast. Existing standards may seem restrictive in terms of the various perspectives that can be presented as basic information.</p>	<ol style="list-style-type: none"> <li>1. What concepts will be needed to address or prepare for electronic reporting issues?</li> <li>2. How best to present “spending” and receipts information drawn from budgetary reports?</li> <li>3. How to define the terms for the reconciling columns (terms for reconciling outlays to net cost)?</li> <li>4. How best to present information by function?</li> </ol>	
<b>Recommendation 4:</b> Establish Minimum Requirements for a Statement of Spending	<p>Concepts:</p> <p>SFFAC 2 states “...the most useful information a flow statement could present is the total and net costs of the services,”</p> <p>SFFAC 6, to determine whether an item of information should be required, the Board should consider among other things whether the item is consistent with the reporting</p>	<p>Standards:</p> <p>SFFAS 24, states that the following elements are important at the government-wide level: (1) net operating revenue (or cost); (2) the unified budget surplus (or deficit); and (3) the change in the government’s cash during the period. Financial statements at the government-wide level should include a reconciliation of</p>	<ol style="list-style-type: none"> <li>1. How should a statement of spending be categorized (basic, RSI, or other accompanying information)?</li> <li>2. How should a statement of spending relate to the other statement?</li> <li>3. What minimum information should be presented to</li> </ol>	

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	<p>objectives.</p> <p>SFFAC 1 discusses the budgetary integrity objective and sub-objective 1A states that financial reporting should help readers determine “how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization” and the conceptual guidance notes that outlay data may help meet this objective.</p> <p>Impact:</p> <p>Outlay data may be needed to help meet the budgetary integrity objective. However, past Boards believed that a statement of net cost is the most useful flow statement. Perhaps outlays should be considered RSI.</p>	<p>net operating revenue (or cost) to the unified budget surplus (or deficit) and a statement of changes in cash balance from budget and other activities.</p> <p>Also, the Basis for Conclusions, discusses the distinction between what budgetary basis information should be presented at the government-wide level and what budgetary basis information should be presented at the component entity or agency level.</p>	<p>ensure that users understand how the information relates to other flow statements presented?</p> <p>4. What are the Board’s views on what budgetary information should be presented at the government-wide level versus the agency level, considering the differences in financing?</p> <p>5. How best to achieve the budgetary integrity objective at the government-wide level, given that other government entities provide budget-to-actual comparisons?</p>	
<b>Recommendation 5:</b> Include Intergovernmental Financial Dependency Reporting in RSI	<p>Concepts:</p> <p>SFFAC 1 discusses the stewardship objective of financial reporting.</p> <p>Impact:</p> <p>Information is needed to help users understand the impact on the country of the government’s operations and investments; whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, and whether government operations have contributed to the nation’s current and future well-being.</p>	<p>Standards:</p> <p>SFFAS 17, requires social insurance information about the solvency of state unemployment insurance funds. This information should be categorized as RSI.</p> <p>SFFAS 8 requires reporting of stewardship investments (nonfederal physical property, costs incurred for human capital and research and development.). This information remains in the required supplementary stewardship information category,</p> <p>Impact:</p> <p>Existing standards require some</p>	<p>1. What should be the objectives of risk disclosures?</p> <p>2. What should be the key indicators or measures of risk?</p> <p>3. How should decisions about “Significant risk” be framed?</p> <p>4. What narrative explanations should be provided to help users understand risks?</p> <p>5. At what level should risk information be presented (program, SLG, entity, other.)</p> <p>6. Should FASAB help enhance the quality of the</p>	

Attachment I: Summary Analysis of Task Force Recommendations

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		information about the risks of partnering with states and local governments (SLG) to provide goods and services and about stewardship investments.	<p>data being provided in other reports by:</p> <ul style="list-style-type: none"> <li>a. defining and measuring intergovernmental financial dependency (IFD) information</li> <li>b. attributing flows and stocks to geographical areas</li> <li>c. determining what performance information might be provided</li> <li>d. developing criteria for narrative explanations to help users' understanding.</li> </ul>	
<b>Recommendation 6:</b> Enhance the Information Value of the Reconciliation of Net Operating Cost and Unified Budget Deficit Statement through Re-labeling		<p>Standards:</p> <p>SFFAS 24 requires the statement as basic information but did not intend to provide prescriptive guidance. Also, the statement provided an illustration that task force members believed to be superior to the existing presentation.</p> <p>Impact:</p> <p>Preparers have flexibility in presenting the information.</p>	<ol style="list-style-type: none"> <li>1. Should the level of flexibility be narrowed to ensure clarity in the presentation?</li> </ol>	
<b>Recommendation 7:</b> Reclassify the Information in the Statement of Changes in Cash Balance from	<p>Concepts:</p> <p>SFFAC 6 states that the Board determines the category (basic</p>	<p>Standards:</p> <p>SFFAS 24 requires the statement as basic information.</p>	<ol style="list-style-type: none"> <li>1. Should the Statement of Changes in Cash Balance from Unified Budget and Other Activities be a</li> </ol>	



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Unified Budget and Other Activities	information versus RSI) of information.  Impact:  Board determination is needed to reclassify the statement to RSI.	Impact:  The Board determined that the information is essential for fair presentation.	schedule in RSI, given a limited audience for the information?	
<b>Recommendation 8:</b> Reorient the Balance Sheet Display and Enhance the Related MD&A Discussion	Concepts:  SFFAC 2, provides an illustrative balance sheet with liabilities and net position as the bottom line, but does not particularly discuss the purpose of the balance sheet for the federal government.  SFFAC 5 defines net position as the “arithmetic difference between the total assets and total liabilities recognized in the federal government’s or a component entity’s balance sheet.”  Impact:  Challenge in determining the role of the statement from a federal government perspective and how the net position amount should be viewed.	Standards:  SFFAS 37 requires a discussion of critical measures in a separate section of the MD&A. The government-wide entity should present and explain total assets, liabilities, and net position.  Impact:  The details of the MD&A discussion may be determined by the intended purpose of the balance sheet and the Board’s view of net position.	1. What is the purpose of the balance sheet for the federal government?  2. What should net position inform a reader about the federal government?	
<b>Recommendation 9:</b> Explain the Difference between Net Position and Fiscal Gap	Concepts:  SFFAC 1, the broad reporting objectives require point-in-time and forward looking information (financial position, fiscal gap, social insurance).  SFFAC 2 discusses a point-in-time balance sheet.  SFFAC 3, MD&A should make financial statement understandable to	Standards:  SFFAS 15 provides guidance for the MD&A  SFFAS 17 requires long-term projections  SFFAS 36 requires long-term projections	1. Given the various types of financial statements needed to communicate the activity and fiscal health of the federal government, what additional information should be presented (narrative, tabular, etc.) that would help users understand how the financial statements relate to each other and help reduce the risk of confusion? The additional	

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	<p>a wide audience</p> <p>SFFAC 4, the CFR should be understandable to the average citizen and should be clear and complete.</p> <p>Impact:</p> <p>Although the CFR should be comprehensive to meet the reporting objectives, the relationship among the information, such as point-in-time and long-term projections, should be clear.</p> <p>Management should anticipate misunderstanding of the financial statements given that some users may be accustomed to financial statements prepared in conformity to private sector standards or accustomed to budgetary reporting versus accrual accounting.</p>	<p>Impact:</p> <p>Management has great discretion regarding what to say in the MD&amp;A.</p> <p>To achieve the reporting objectives, financial statements present budgetary and accrual basis information and long-term projections. Explanatory material may be needed to help users understand the relationship among the information presented.</p>	<p>information could include discussing: the purpose of each financial statement; interrelationships among components of financial statements; and significant differences in the information provided in the statements.</p>	

## **Recommendation 2: Explore How Best to Report Additional Government-wide Performance Information**

### Summary of the Task Force's Recommendation

Explore how best to report additional government-wide program performance in management's discussion and analysis (MD&A) of the *Financial Report of the U.S. Government* (CFR) or in another electronic government-wide presentation. The nation is engaged in deliberations to determine the federal government's future role in the economy and society. Program performance measures presented within the CFR could potentially help inform the national debate, especially if structured to provide information on such matters as: the government's effectiveness in achieving planned goals, and the economy and efficiency of government operations.

### Staff Analysis

The FASAB established guidance that permits a high level of flexibility in MD&A reporting. However, the Board's guiding principles for government-wide reporting require a report with clear and complete content and structure. Clear and complete content and structure is needed to help ensure that citizens and citizen intermediaries understand the extensive activities of the federal government. The Board should consider whether clear and complete content and structure could be best achieved with highly flexible guidance.

Statement of Federal Financial Accounting Standards (SFFAS) 15, *Management's Discussion and Analysis*, provides guidance for reporting information in the MD&A. The standard states:

MD&A should contain sections that address the entity's:

- mission and organizational structure;
- **performance goals, objectives, and results;**
- financial statements; and
- systems, controls, and legal compliance. (par. 2 emphasis added)

The FASAB did not want the standard to be overly prescriptive. The Board believed that "management should have great discretion regarding what to say about those topics..."<sup>1</sup> Also, the lack of specific criteria would permit management to have flexibility in dealing with topics such as performance measurement.<sup>2</sup>

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<sup>1</sup> SFFAS 15, par. 13.

<sup>2</sup> SFFAS 15, par. 14.

Additionally, while the scope of the standard appears to require operating performance information at the government-wide level, conceptually, the Board has noted that the operating performance objective may be best achieved by agency and program presentations. FASAB determined that achieving the reporting objectives requires financial statements from different types of entities. In Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, the FASAB stated:

**...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.<sup>3</sup> (emphasis added)

Given that achieving the operating performance objective can be best met with agency or program level presentations, the 2010 CFR states:

Since programs are not administered at the governmentwide level, performance goals and measures for the federal Government, as a whole, are not reported here. The outcomes and results of those programs are addressed at the individual agency level and can be found in each agency's financial report.<sup>4</sup>

Thus, the CFR lists 149 individual organizations and agencies and refers readers to the agencies' reports for program performance information. FASAB believes that citizens and citizen intermediaries are the intended audience for the CFR and the content and structure of the CFR should be clear and complete to those users. Specifically, SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*, states

SFFAC 1 also provides that information should be reliable, relevant, consistent, comparable, understandable and timely. While all of these characteristics are important for all reports and all users, it is particularly fundamental that the CFR be timely and understandable for citizens and citizen intermediaries. The content and structure of the CFR should be clear and complete to citizens and citizen intermediaries and the CFR should be available on a timely basis. For example, to be timely, the CFR should be issued not less than annually and as close to the end of the fiscal year as is possible.[footnote omitted]<sup>5</sup>

However, adhering to these concepts was a concern of the task force.

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<sup>3</sup> SFFAC 2, *Entity and Display*, par. 56.

<sup>4</sup> Financial Report of the U.S. Government 2010, footnote 4.

<sup>5</sup> SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*, par. 9.

The task force was concerned that citizens and other potential users seek a variety of information from various perspectives and they are not familiar with the organizational structure of the federal government. Presently, they would need to locate and review each individual agency's report to attempt to locate a program of interest to them. At a minimum, citizens need a description of each agency's mission and key programs to help them know where to start their search. In addition, key public issues can change from one reporting period to the next; therefore, a static listing of agencies with detailed descriptions would not allow readers to efficiently track progress on previous issues. Also, many users are interested in programs that involve multiple agencies. These programs may be perceived as government-wide programs and how to locate information on them is not clear from a listing of individual agencies.

For example, the international community is concerned about the financial management of natural catastrophes because of their increasing costs and frequency<sup>6</sup> and Congress noted that the U.S. faces significant risks from many natural hazards.<sup>7</sup> During 2010, an earthquake in Haiti took the lives of over 200,000 people, destroyed the homes of over a million, and is expected to cost billions<sup>8</sup> and concern about earthquake catastrophes heightened in the U.S. While Congress, think tanks, and other groups are reviewing natural catastrophic disaster risk mitigation efforts, a potential reader would need to visit and research individual agency Web sites to learn about the performance of the U.S.'s programs such as the National Earthquake Hazards Reduction Program (NEHRP). The NEHRP involves four agencies and is managed by the Interagency Coordinating Committee (ICC).<sup>9</sup>

Further, the task force discussed two recent developments—plans to create a performance portal (“Performance.gov”) website and the anticipated enactment of the GPRA Modernization Act of 2010 (which has since been signed into law)—that together will make performance information publicly available in electronic formats. The FY2010 President's Budget addresses performance improvement and indicates, among other things, that:

The Administration will create a Federal performance portal that provides a clear, concise picture of Federal goals and measures by theme, by agency, by program, and by program type. It will be designed to increase transparency and coherence for the public, motivate improvement, support collaboration, and enhance the ability of the Federal Government and its service delivery partners to learn from others' experiences and from research experiments. The performance portal will also provide easy links to mission-support management dashboards, such as the IT dashboard (<http://it.usaspending.gov/>) launched in

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<sup>6</sup> See Rebekah Green and Maria Petal, “Stocktaking Report and Policy Recommendations on Risk Awareness and Education on Natural Catastrophes,” *OECD Journal General Papers*, Vol. 2008/3, 2009.

<sup>7</sup> U.S. Congress, Committee on Science and Technology, *Natural Hazards Risk Reduction Act of 2009*, H. Rept. 111-424, February 26, 2010.

<sup>8</sup> David Luhnow. “Haiti Quake Damage in Billions.” *Wall Street Journal* (Online), February 16, 2010, <http://www.proquest.com/> (accessed January 6, 2011).

<sup>9</sup> See <http://www.nehrp.gov/about/history.htm> for additional information.

the summer of 2009, and similar dashboards planned for other common Government functions including procurement, improper payments, and hiring.<sup>10</sup>

Development of performance.gov is underway and it is expected to be available to the public later this year.

The Government Performance and Results Act was recently amended by the GPRA Modernization Act of 2010. With respect to government-wide performance information it provides for a Federal plan as well as web-based reporting in a single website for agency and federal goals (Section 7). Also, plans and reports are not to be printed and are required to be made available in machine readable form (Section 10). With respect to federal government plans and goals, it states:

The Federal Government performance plan shall—

- (1) establish Federal Government performance goals to define the level of performance to be achieved during the year in which the plan is submitted and the next fiscal year for each of the Federal Government priority goals required under section 1120(a) of this title;
- (2) identify the agencies, organizations, program activities, regulations, tax expenditures, policies, and other activities contributing to each Federal Government performance goal during the current fiscal year;
- (3) for each Federal Government performance goal, identify a lead Government official who shall be responsible for coordinating the efforts to achieve the goal;
- (4) establish common Federal Government performance indicators with quarterly targets to be used in measuring or assessing—
  - (A) overall progress toward each Federal Government performance goal; and
  - (B) the individual contribution of each agency, organization, program activity, regulation, tax expenditure, policy, and other activity identified under paragraph (2);
- (5) establish clearly defined quarterly milestones; and
- (6) identify major management challenges that are Governmentwide or crosscutting in nature and describe plans to address such challenges, including relevant performance goals, performance indicators, and milestones.

These changes mean that a single source for performance information will exist on the web, information will be updated with greater frequency than annually (e.g. quarterly), and that government-wide goals will be established.

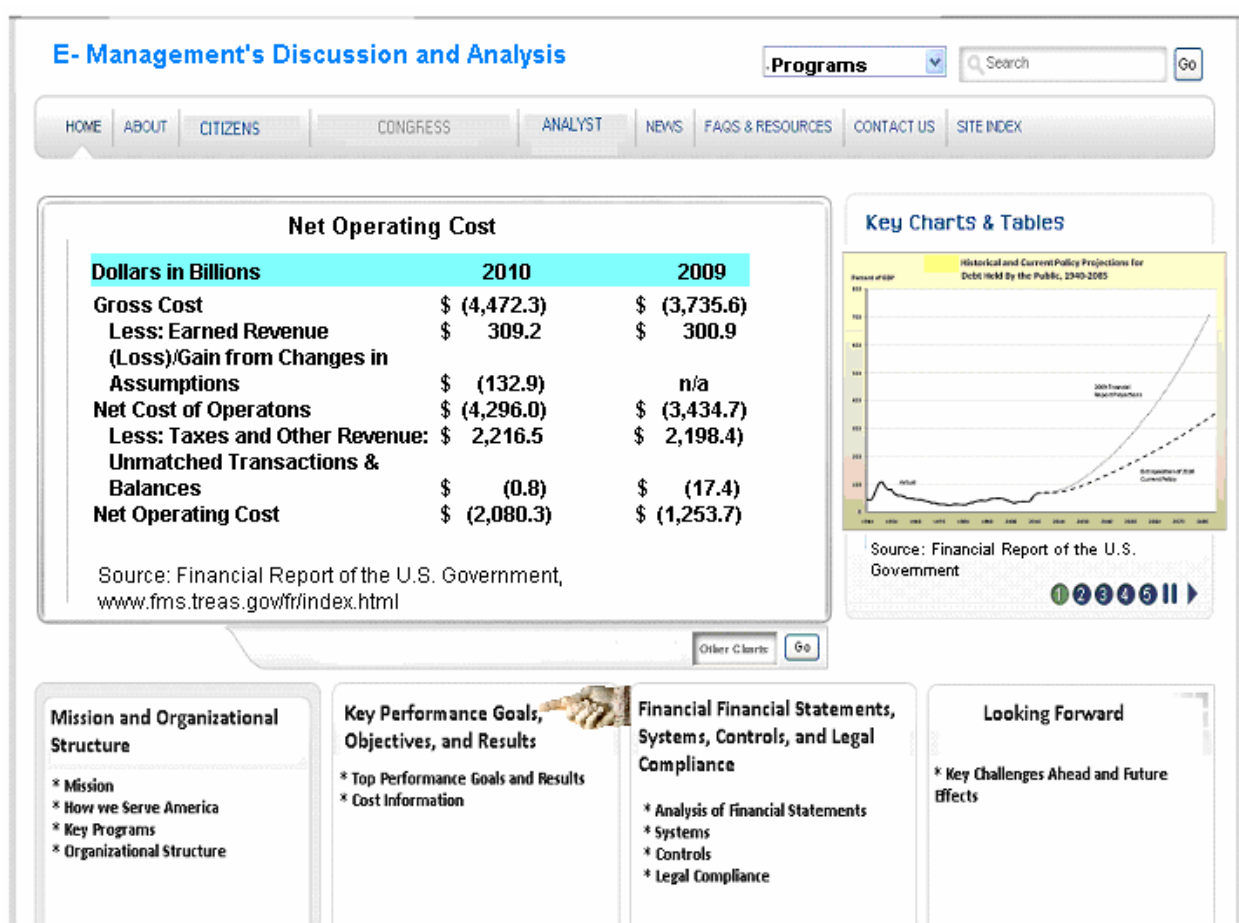
With the advances in technology, the challenge of locating program performance information from the MD&A could be minimized without adding voluminous pages to a report. For example, an E-MD&A or other electronic presentation could be integrated

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<sup>10</sup> See President's Budget, *Analytical Perspectives*, Performance and Management, page 74.

with an online catalog of programs, see Figure 1: Illustrative E – MD&A. Users could conduct keyword or advance searches for a program or programs related to a particular subject or perform searches by agency, see Figure 2: Illustrative E- MD&A Program Performance Catalog. The catalog could have a description, cost information, performance information, and other data of interest to citizens, see Figure 3: Illustrative Program Page. This type of approach would reduce the burden of locating information for a complex entity like the federal government while addressing the Board's concern for clear and complete content and structure.<sup>11</sup>

Figure 1: Illustrative E – MD&A



<sup>11</sup> Entities are moving toward electronic performance information reports. For example, the state of Virginia has a performance Web site. See <http://vaperforms.virginia.gov/>. Also, at the December 2010 meeting, FASAB discussed that the Office of Management and Budget is developing a performance Web site.

Figure 2: Illustrative E- MD&amp;A Program Performance Catalog

## E - Management's Discussion and Analysis

### Program Performance Catalog

[Home](#)
[Programs](#)
[Agencies](#)
[Functions](#)

[User Guide](#)

## Programs

[RETURN TO HOME](#)


[Programs](#)
[Advanced Search](#)
[Historical Index](#)

**Search Tip:** Use the [Advanced Search Form](#) for a wide array of search fields. To view programs by agency, go to the [Agencies](#) section. A quick search can be conducted using the fields below.

**Note:** Once you have found the Federal assistance program you want, please contact the office that administers the program for application instructions.

Keywords: 
[More Search Fields](#)

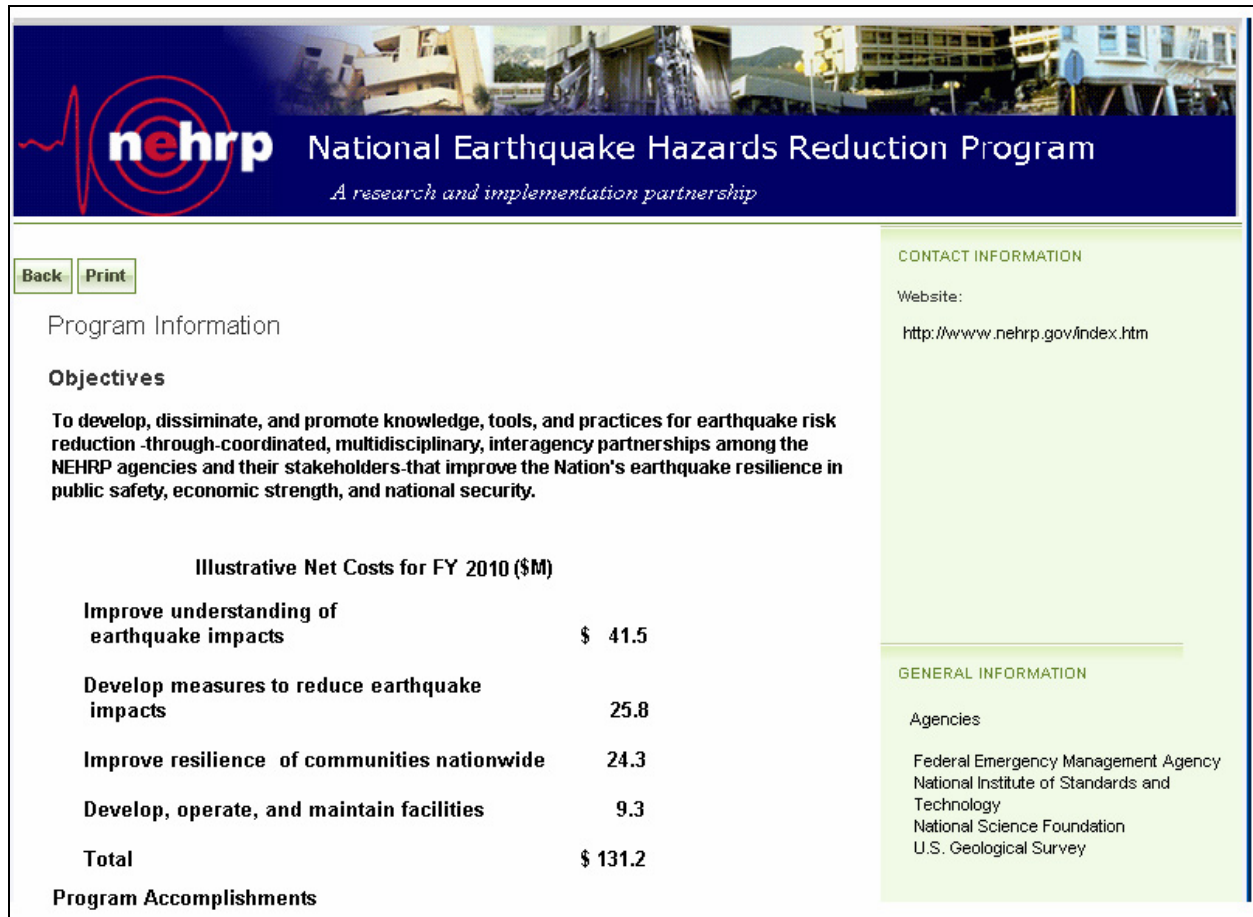
Items 1-11 of 11

	#	Program Title	Agency/Office
<input type="checkbox"/>		<b>National Earthquake Hazards Reduction</b>	
<input type="checkbox"/>		Engineering	National Science Foundation
<input type="checkbox"/>		Computer and Information Science and Engineering	National Science Foundation

Source: Adapted from Catalog of Federal Domestic Assistance - <https://www.cfda.gov/?s=program&tab=list&mode=list>



Figure 3: Illustrative Program Page



**nehrp** National Earthquake Hazards Reduction Program  
A research and implementation partnership

[Back](#) [Print](#)

Program Information

**Objectives**

To develop, disseminate, and promote knowledge, tools, and practices for earthquake risk reduction through coordinated, multidisciplinary, interagency partnerships among the NEHRP agencies and their stakeholders that improve the Nation's earthquake resilience in public safety, economic strength, and national security.

**Illustrative Net Costs for FY 2010 (\$M)**

Improve understanding of earthquake impacts	\$ 41.5
Develop measures to reduce earthquake impacts	25.8
Improve resilience of communities nationwide	24.3
Develop, operate, and maintain facilities	9.3
<b>Total</b>	<b>\$ 131.2</b>

Program Accomplishments

**CONTACT INFORMATION**

Website:  
<http://www.nehrp.gov/index.htm>

**GENERAL INFORMATION**

Agencies

Federal Emergency Management Agency  
National Institute of Standards and Technology  
National Science Foundation  
U.S. Geological Survey

Source: Adapted from National Earthquakes Hazard Reduction Program - <http://www.nehrp.gov>.

### Other Government Entities

The Governmental Accounting Standards Board (GASB) also provided general, rather than specific guidance to encourage management to report only the most relevant information and avoid “boilerplate” discussion in the MD&A. However, GASB set forth some specific reporting requirements. For example, GASB 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, requires that an MD&A include condensed financial information derived from the government-wide statements and comparing the current year to the prior year. The financial information should include the following elements if relevant:

- (1) Total assets, distinguishing between capital and other assets
- (2) Total liabilities, distinguishing between long-term liabilities and other liabilities
- (3) Total net assets, distinguishing among amounts invested in capital assets, net of related debt; restricted amounts; and unrestricted amounts
- (4) Program revenues, by major source

- (5) General revenues, by major source
- (6) Total revenues
- (7) Program expenses, at a minimum by function
- (8) Total expenses
- (9) Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, special and extraordinary items, and transfers
- (10) Contributions
- (11) Special and extraordinary items
- (12) Transfers
- (13) Change in net assets
- (14) Ending net assets<sup>12</sup>

#### Conclusion/Recommendation

The federal government is complex and involves a wide range of issues and programs and the data accessible to users is extensive. Also, with developments in technology, the possibilities for content-rich presentations are virtually endless. Although FASAB principles note that government-wide reports should be clear and complete to citizens, the MD&A reporting guidance may not have the safeguards to ensure adherence to this principle. Presently, citizens face challenges in locating and learning about required program performance information and the net cost associated with that performance. FASAB noted in SFFAC 3 that performance information is necessary for users to understand why costs were incurred.<sup>13</sup> The Board should consider:

1. whether the level of flexibility afforded in its MD&A guidance should be narrowed by providing some minimum criteria
2. updating the discussion in SFFAC 3 in light of the move to electronic performance reporting that may be refreshed more frequently than annually (currently, SFFAC 3 encourages references to comprehensive performance reports as a supplement to summary performance information presented in MD&A).

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<sup>12</sup> See GASB 34, par. 11.b.

<sup>13</sup> SFFAC 3, par. 20.

### **Recommendation 3: Present a Functional Statement of Net Cost in the CFR with Departmental Net Cost by Function as RSI**

#### Summary of Task Force Recommendation

Present net cost and spending (outlays) by function as a basic financial statement and present net cost by function and department (or agency) in RSI. The current statement of net cost in the CFR presents net costs by agency. However, users focus on the cost of programs rather than the agency that conducts them. In addition, many users prefer spending data and are unaware that sometimes large differences exist between what is spent on a program and what a program costs. Presenting net cost by function and department (or agency) in RSI would allow users to identify the departments most relevant to the functions of interest to them.

#### Staff Analysis

FASAB should consider whether its principles for summarizing and communicating government-wide net costs are adequate for guiding the Board in light of the information that citizens and citizen intermediaries seek today and the manner in which they obtain their information. The Board formulated its conceptual guidance in the early 90's before the common use of searchable, machine-readable media and the expectation that information would be accessible almost immediately.

SFFAC 2 provides guiding principles for the Statement of Net Cost (SNC). Those principles appear to focus on an organization and program perspective as follows:

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. (par. 86)

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. (par. 87, emphasis added)

In addition, SFFAC 2 presents an example statement of net cost. The example shows net cost by program and suborganization.<sup>14</sup>

Also, existing standards have focused on the presentation of information in a printed document and called for a minimal level of information at the government-wide level. FASAB believed that the CFR should be concise and disaggregated information should be reduced. SFFAS 32, *Consolidated Financial Report of the U.S. Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4 “Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government”* Basis for Conclusions section states

This standard eliminates or modifies disclosure requirements that are useful for assessing operating performance for a particular program within an agency. For example, disclosures of restrictions on the use of foreclosed property and average holding period for foreclosed property have been eliminated. Also, disclosures of the gross cost associated with exchange revenue and certain pricing policies have been eliminated. If information relevant to assessing operating performance for individual programs were included in the CFR it would not be concise. A concise CFR will be more appealing and therefore more accessible to citizens and citizen intermediaries. The Board believes that including references to other sources of information appropriately balances the appeal of a concise CFR with the disaggregated information necessary to assess operating performance. (par. 38)

In general, the specific changes reduce the level of detail provided regarding specific assets and liabilities. Such disaggregated information is inconsistent with SFFAC 4. For readers seeking additional detail for particular items, the Board proposes to substitute a reference to component entity reports disclosing significant detailed information about the item. (par. 39)

Accordingly, the 2010 CFR is consistent with these principles and presents cost by significant entity. See Figure 4: Current Statement of Net Cost. In addition, the CFR states that “budgets are prepared, defended, and monitored by agency.”<sup>15</sup>

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<sup>14</sup> See SFFAC 2, Appendix 1-B.

<sup>15</sup> *Financial report of the U.S. Government 2010*, p. 35.

**Figure 4: Current Statement of Net Cost**

**United States Government  
Statements of Net Cost  
for the Years Ended September 30**

	Gross Cost	Earned Revenue	Net Cost	Gross Cost	Earned Revenue	Net Cost
(In billions of dollars)	2010			2009		
Department of Defense .....	929.0	39.8	889.2	718.4	35.6	682.8
Department of Health and Human Services.....	920.4	62.7	857.7	866.4	59.5	806.9
Social Security Administration.....	754.2	0.3	753.9	736.6	0.4	736.2
Department of the Treasury.....	402.3	29.4	372.9	254.6	19.4	235.2
Department of Veterans Affairs .....	240.2	4.7	235.5	(38.8)	4.0	(42.8)
Interest on Treasury Securities held by the public.....	214.8	-	214.8	189.1	-	189.1
Department of Labor.....	179.0	-	179.0	140.2	-	140.2
Department of Agriculture.....	136.6	6.0	130.6	132.0	10.5	121.5
Department of Education.....	100.8	11.3	89.5	44.9	6.5	38.4
Department of Transportation.....	80.4	0.6	79.8	80.1	0.5	79.6
Department of Homeland Security .....	58.9	8.9	50.0	62.1	8.4	53.7
U.S. Postal Service.....	57.3	65.7	(8.4)	58.2	67.1	(8.9)
Department of Housing and Urban Development.....	56.7	1.3	55.4	62.6	1.0	61.6
Office of Personnel Management.....	43.5	18.0	25.5	41.2	16.9	24.3
Department of Justice.....	32.7	1.2	31.5	31.2	1.1	30.1
Department of Energy .....	28.9	3.8	25.1	46.8	3.9	42.9
Department of State .....	24.5	2.8	21.7	25.6	2.5	23.1
National Aeronautics and Space Administration .....	22.1	0.1	22.0	24.2	0.1	24.1
Department of the Interior.....	20.7	2.4	18.3	20.8	2.2	18.6
Federal Deposit Insurance Corporation .....	16.8	16.1	0.7	63.4	18.8	44.6
Department of Commerce .....	16.5	2.3	14.2	13.9	2.1	11.8
Railroad Retirement Board.....	14.6	5.8	8.8	22.7	11.2	11.5
Environmental Protection Agency .....	12.7	0.6	12.2	10.1	0.6	9.5
Pension Benefit Guaranty Corporation.....	11.9	8.1	3.8	22.9	10.5	12.4
Agency for International Development.....	10.7	0.2	10.5	11.8	0.7	11.1
Tennessee Valley Authority.....	9.7	10.8	(1.1)	10.2	11.0	(0.8)
Federal Communications Commission.....	9.5	0.5	9.0	8.8	0.5	8.3
National Science Foundation.....	6.9	-	6.9	6.1	-	6.1
Small Business Administration .....	5.4	0.4	5.0	6.3	0.4	5.9
National Credit Union Administration.....	3.2	1.1	2.1	6.1	1.3	4.8
U.S. Nuclear Regulatory Commission.....	1.2	0.9	0.3	1.3	0.8	0.5
Securities and Exchange Commission.....	1.1	1.4	(0.3)	1.1	1.1	-
Smithsonian Institution .....	0.8	-	0.8	0.9	-	0.9
General Services Administration .....	0.6	0.6	-	1.0	0.5	0.5
Export-Import Bank of the United States.....	0.4	0.7	(0.3)	1.5	0.8	0.7
Farm Credit System Insurance Corporation .....	-	0.1	(0.1)	-	0.3	(0.3)
All other entities .....	47.3	0.7	46.6	51.3	0.7	50.6
Subtotal before loss/(gain) from changes in assumptions in 2010.....	4,472.3	309.2	4,163.1	3,735.6	300.9	3,434.7

**Source: Financial Report of the U.S. Government 2010**

However, to meet the needs of citizens and citizen intermediaries, disaggregated information and the ability to present information from various perspectives may be needed. For example, functions<sup>16</sup> have remained constant over the years and provide a viable means of classifying costs for government-wide reporting. Functions classify data based on the primary purpose of the federal activity regardless of the agency or federal organizational distinction. Also, functions have historically been used to present government-wide data. *Historical Tables, Budget of the United States Government Fiscal Year 2011* presents federal government outlays by function and notes that the functional structure provides a “coherent and comprehensive basis for analysis.”<sup>17</sup> In addition, think tanks categorize data in a manner similar to functions when analyzing national issues.<sup>18</sup> Moreover, functions form the framework for Congress’ government-wide budgetary decision-making. Congress uses functions as part of its budget resolutions.<sup>19</sup>

As noted previously, citizens and citizen intermediaries are not familiar with federal agencies and the organizational structure of the federal government. They would like to know about the cost of national priorities currently being presented by functions. For example, they want to know the cost of defense, health, and social security. They also want to see trend information and believe audiovisual presentations and graphics can help their understanding of the federal government’s finances. In addition, additional information such as performance information is needed to provide context for the costs.

Also, some citizen intermediaries focus on budgetary outlays or spending data.<sup>20</sup> They monitor the rate of spending and the debt limit to determine the volume and maturity of Treasury securities to be sold. Thus, multiple perspectives are needed to meet the needs of citizens and citizen intermediaries and the advances in technology makes the presentation of multiple perspectives possible.

To facilitate the Board’s consideration of the next steps for the reporting model project, staff provided a series of Web pages that illustrate how net costs could be presented electronically as the task force recommended. See Figure 5: Illustrative Net Cost Home Page, Figure 6: Illustrative Net Cost Web Page, and Figure 7: Illustrative Electronic Statement of Net Costs.

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<sup>16</sup> The term “function” refers to budget function which provides a means of classifying data according to the primary purpose served.

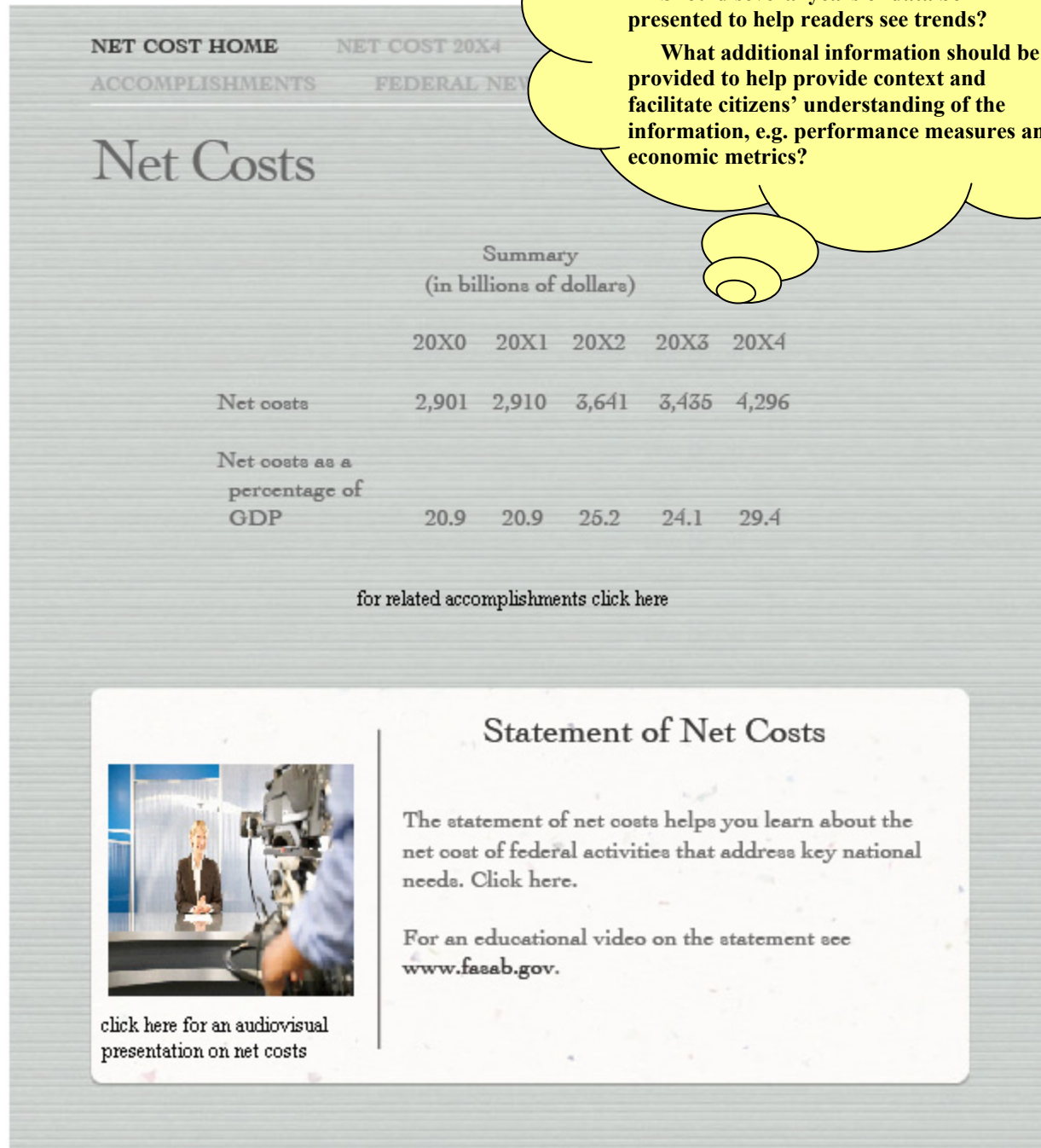
<sup>17</sup> Office of Management and Budget, *Historical Tables, Budget of the U.S. Government Fiscal Year 2011*, Washington DC.

<sup>18</sup> For example, see Center on Budget and Policy Priorities <http://www.cbpp.org/cms/index.cfm?fa=view&id=1258>.

<sup>19</sup> Bill Heniff, *CRS Report for Congress: Formulation and Content of the Budget Resolution*, Congressional Research Service, 98-512 GOV, May 1, 2007.

<sup>20</sup> The terms outlays and spending are used interchangeably throughout this document.

Figure 5: Illustrative Net Cost Home Page



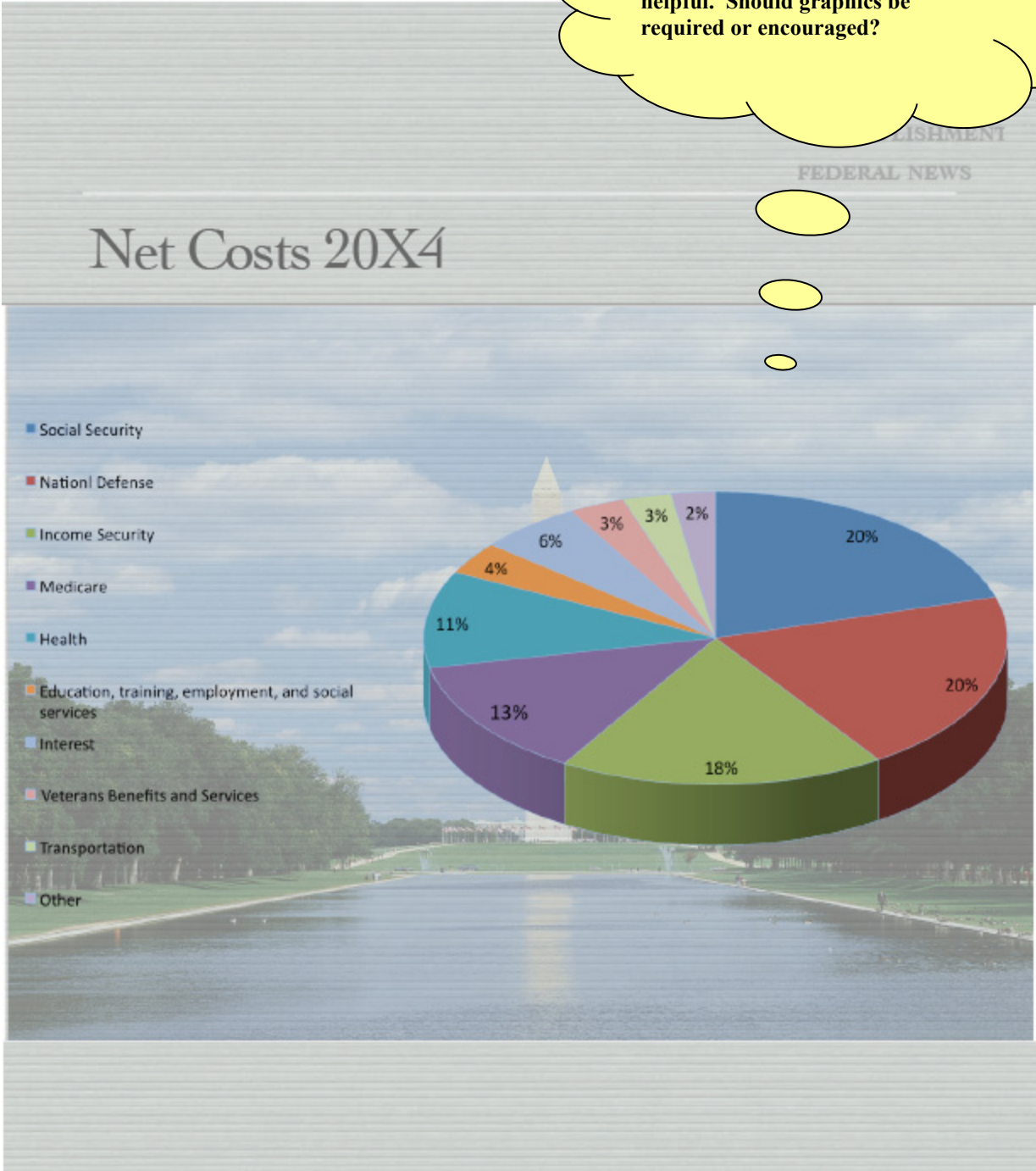
Think about:

Should several years of data be presented to help readers see trends?

What additional information should be provided to help provide context and facilitate citizens' understanding of the information, e.g. performance measures and economic metrics?



Figure 6: Illustrative Net Cost Web Page

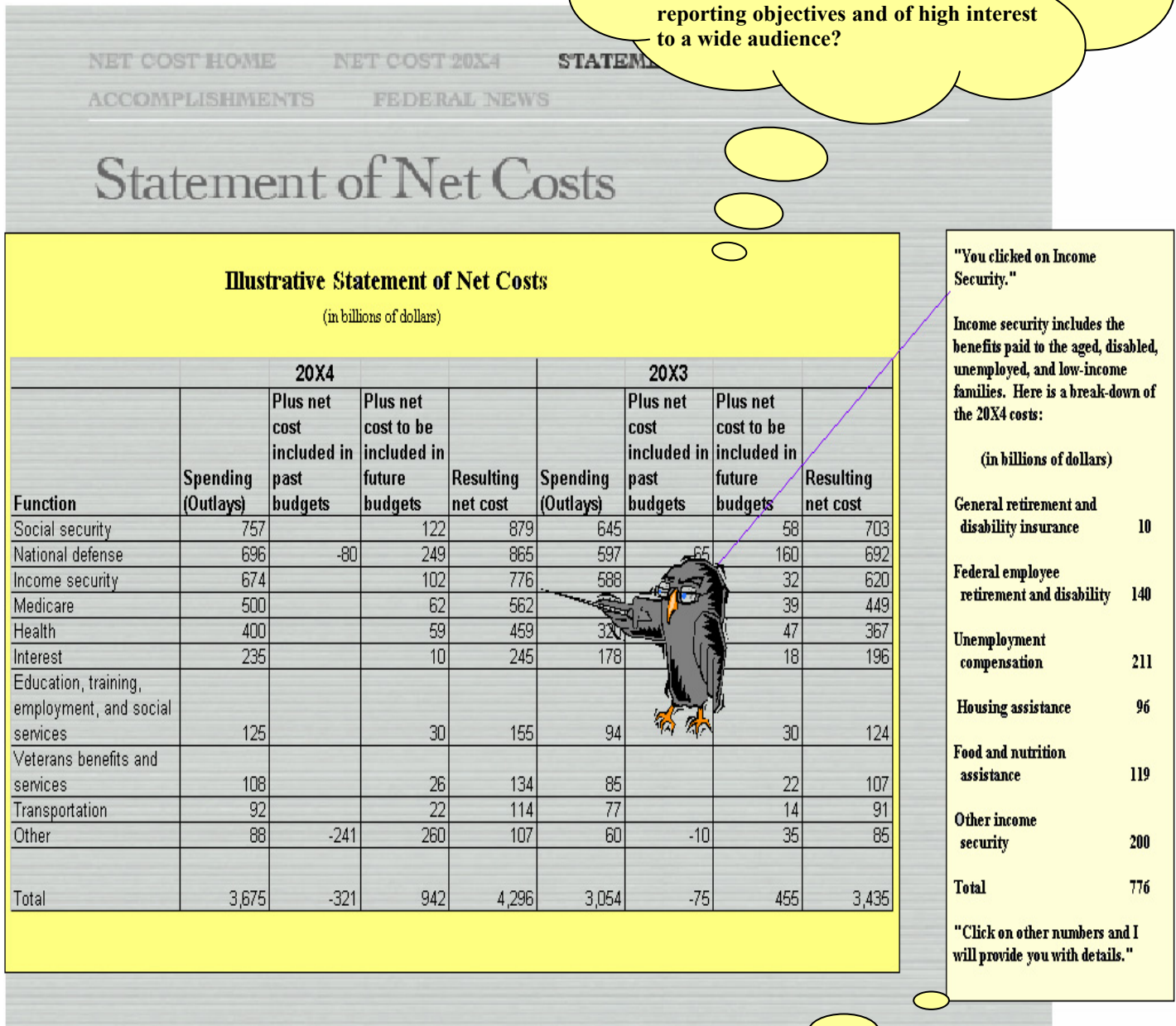




Think about:

This illustrative statement has cost and spending data by function. Is the statement highly significant to the reporting objectives and of high interest to a wide audience?

Figure 7: Illustrative Electronic Statement of Net Costs



Think about:

The statement offers "drill-down" capability. Is "drill-down" information basic information like note disclosures? If not, should it be labeled in a manner that alerts the reader?

The task force's recommended SNC provides information that citizens and citizen intermediaries seek (see Figure 7: Illustrative Electronic Statement of Net Costs). The statement presents, for each federal function, budgetary and accrual basis information and significant differences between the two bases during the reporting period. The statement presents spending (budgetary outlays), net costs included in past budgets, net costs to be included in future budgets, and accrual basis net cost. Accordingly, users can learn about the amount of budgetary outlays and net costs for each federal function, and the activities of each function that causes significant differences between the amounts, such as net costs that will require budgetary outlays in the future.

However, existing FASAB standards discuss "gross" cost and earned revenue. SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* states

Exchange revenue should be recognized in determining the net cost of operations of the reporting entity during the period. The exchange revenue should be recognized regardless of whether the entity retains the revenue for its own use or transfers it to other entities. Gross and net cost should be calculated as appropriate to determine the costs of outputs and the total net cost of operations of the reporting entity. The components of the net cost calculation should separately include the gross cost of providing goods or services that earned exchange revenue, less the exchange revenue earned, and the resulting difference. The components of net cost should also include separately the gross cost of providing goods, services, benefit payments, or grants that did not earn exchange revenue. The U.S. government-wide financial statements need not break out gross costs of providing goods, services, benefit payments, or grants that did not earn exchange revenue, separately from those programs that earned exchange revenue. (par. 43)

The net amount of gains (or losses) should be subtracted from (or added to) gross cost to determine net cost in the same manner as exchange revenue is subtracted. Exchange revenue that is immaterial or cannot be associated with particular outputs should be deducted separately in calculating the net cost of the program, suborganization, or reporting entity as a whole as appropriate. Nonexchange revenues and other financing sources should not be deducted from the gross cost in determining the net cost of operations for the reporting entity. (par. 44)

Also, existing guidance discusses a reconciliation to explain the relationship between budgetary "obligations" and net cost rather than budgetary outlays and net cost. SFFAS 7 states

Budgetary and financial accounting information are complementary, but both the types of information and the timing of their recognition are different, causing differences in the basis of accounting. To better understand these differences, a

reconciliation should explain the relationship between budgetary resources obligated by the entity during the period and the net cost of operations. It should reference the reported “obligations incurred” and related adjustments as defined by OMB Circular A-34. It also should include other financing sources not included in “obligations incurred” such as imputed financing, transfers of assets, and donations of assets not included in budget receipts. [Text deleted by SFFAS No. 22] The total of these items comprises obligations and nonbudgetary resources. (par. 80)

This total should then be adjusted by:

- (a) Resources that do not fund net cost of operations (e.g., changes in undelivered orders, appropriations received to pay for prior period costs, capitalized assets),
- (b) Costs included in net cost of operations that do not require resources (e.g., depreciation and amortization expenses of assets previously capitalized), and
- (c) Financing sources yet to be provided (those becoming available in future periods which will be used to finance costs recognized in determining net cost for the present reporting period). (par. 81)

The adjustments should be presented and explained in appropriate detail and in a manner that best clarifies the relationship between the obligations basis used in the budget and the accrual basis used in financial (proprietary) accounting. (par. 82)

Moreover, current FASAB standards do not discuss the presentation of data by function. However, earlier versions of the CFRs presented net cost by function and noted that the SNC reflects the cost incurred to carry out the national priorities identified by the President and the Congress.”<sup>21</sup> See Figure 8: 2000 Statement of Net Cost.

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<sup>21</sup> *Financial Report of the U.S. Government 2000*, p.10.

**Figure 8: 2000 Statement of Net Cost**

**United States Government Statement of Net Cost  
for the Year Ended September 30, 2000**

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
<b>National Defense</b> .....	408.7	11.4	397.3
<b>Human Resources:</b>			
Education, training, employment, and social services ...	56.6	3.3	53.3
Health .....	152.9	1.2	151.7
Medicare .....	221.3	21.9	199.4
Income security .....	194.7	4.9	189.8
Social Security .....	410.1	0.0	410.1
Veterans benefits and services .....	117.6	2.2	115.4
Total human resources .....	1,153.2	33.5	1,119.7
<b>Physical Resources:</b>			
Energy .....	16.2	13.7	2.5
Natural resources and environment .....	30.5	3.8	26.7
Commerce and housing credit .....	108.2	77.4	30.8
Transportation .....	48.6	0.1	48.5
Community and regional development .....	15.3	2.8	12.5
Total physical resources .....	218.8	97.8	121.0
<b>Interest</b> .....	230.2	0.0	230.2
<b>Other Functions:</b>			
International affairs .....	26.9	3.0	23.9
General science, space, and technology .....	17.7	0.1	17.6
Agriculture .....	39.1	3.9	35.2
Administration of justice .....	37.3	2.9	34.4
General government .....	23.9	4.4	19.5
Total other functions .....	144.9	14.3	130.6
<b>Total</b> .....	2,155.8	157.0	1,998.8

**Source: Financial Report of the U.S. Government 2000**

### Other Government Entities

Canada provides multiple presentations of expenses in its basic financial statements and note disclosures. Canada presents a Statement of Operations and Accumulated Deficit which shows expenses by the main functions of the government and provides a budget versus actual comparison. Both budget and actual amounts are prepared on an

accrual basis. See Figure 9: Canada's Statement of Operations and Accumulated Deficit. Also, the disclosures present expenses by ministry and object. See Figure 10: Notes Showing Expenses by Segment and Figure 11 : Notes Showing Objects of Expenses, respectively.

**Figure 9: Canada's Statement of Operations and Accumulated Deficit**

**GOVERNMENT OF CANADA**

**Statement of Operations and Accumulated Deficit  
for the Year Ended March 31, 2010**

(in millions of dollars)

	2010		2009
	Budget (Note 2)	Actual	Actual
<b>REVENUES</b>			
<i>TAX REVENUES (Note 17) —</i>			
Income tax revenues —			
Personal .....	110,277	103,947	116,024
Corporate .....	26,386	30,361	29,476
Non-resident .....	4,875	5,293	6,298
<i>Total income tax revenues .....</i>	<i>141,538</i>	<i>139,601</i>	<i>151,798</i>
Other taxes and duties —			
Goods and services tax .....	25,785	26,947	25,740
Energy taxes .....	5,035	5,178	5,161
Customs import duties .....	4,150	3,490	4,036
Other excise taxes and duties .....	5,143	4,958	4,869
<i>Total other taxes and duties .....</i>	<i>40,113</i>	<i>40,573</i>	<i>39,806</i>
<b>TOTAL TAX REVENUES .....</b>	<b>181,651</b>	<b>180,174</b>	<b>191,604</b>
<b>EMPLOYMENT INSURANCE PREMIUMS .....</b>	<b>16,795</b>	<b>16,761</b>	<b>16,887</b>
<i>OTHER REVENUES —</i>			
Crown corporations .....	9,975	7,622	7,760
Other programs .....	14,959	12,396	15,105
Net foreign exchange .....	1,525	1,647	1,736
<b>TOTAL OTHER REVENUES .....</b>	<b>26,459</b>	<b>21,665</b>	<b>24,601</b>
<b>TOTAL REVENUES .....</b>	<b>224,905</b>	<b>218,600</b>	<b>233,092</b>
<b>EXPENSES (Notes 3 and 17)</b>			
<i>TRANSFER PAYMENTS —</i>			
Old age security benefits, guaranteed income supplement and spouse's allowance .....	35,160	34,653	33,377
Major transfer payments to other levels of government .....	50,065	56,990	46,515
Employment insurance benefits .....	18,920	21,586	16,308
Children's benefits .....	12,270	12,340	11,901
Other transfer payments .....	35,694	39,892	30,192
<b>TOTAL TRANSFER PAYMENTS .....</b>	<b>152,109</b>	<b>165,461</b>	<b>138,293</b>
<i>OTHER PROGRAM EXPENSES —</i>			
Crown corporations .....	9,108	10,428	8,066
Ministries .....	67,868	68,895	61,498
<b>TOTAL OTHER PROGRAM EXPENSES .....</b>	<b>76,976</b>	<b>79,323</b>	<b>69,564</b>
<b>TOTAL PROGRAM EXPENSES .....</b>	<b>229,085</b>	<b>244,784</b>	<b>207,857</b>
<b>PUBLIC DEBT CHARGES .....</b>	<b>29,500</b>	<b>29,414</b>	<b>30,990</b>
<b>TOTAL EXPENSES .....</b>	<b>258,585</b>	<b>274,198</b>	<b>238,847</b>
<b>ANNUAL DEFICIT .....</b>	<b>33,680</b>	<b>55,598</b>	<b>5,755</b>
<b>ACCUMULATED DEFICIT AT BEGINNING OF YEAR .....</b>	<b>463,710</b>	<b>463,710</b>	<b>457,637</b>
<b>OTHER COMPREHENSIVE INCOME OR LOSS (-) (Note 4) .....</b>	<b>211</b>	<b>211</b>	<b>-318</b>
<b>ACCUMULATED DEFICIT AT END OF YEAR (Note 4) .....</b>	<b>497,390</b>	<b>519,097</b>	<b>463,710</b>

**Source: Public Accounts of Canada 2010 Volume I: Summary Report and Financial Statements**

**Figure 10: Notes Showing Expenses by Segment****3. Expenses**

Expenses in the Statement of Operations and Accumulated Deficit include:

**i. Major transfer payments to other levels of government**

	(in millions of dollars)	
	2010	2009
Canada health transfer .....	24,820	22,759
Canada social transfer .....	10,858	10,568
Fiscal arrangements .....	16,193	15,138
Other major transfers .....	7,822	1,024
Alternative payments for standing programs <sup>(1)</sup> .....	-2,703	-2,974
Total major transfer payments to other levels of government .....	56,990	46,515

Details (unaudited) can be found in Section 3 of this volume and in Section 1 of Volume II of the *Public Accounts of Canada*.

<sup>(1)</sup> These amounts represent amounts recovered from a province that has entered into an abatement arrangement with the Government of Canada for personal income tax payers of that province.

**ii. Public debt charges**

	(in millions of dollars)	
	2010	2009
Public debt charges related to unmatured debt —		
Interest on unmatured debt .....	14,023	13,422
Amortization of discounts on Canada and Treasury Bills .....	1,229	3,643
Amortization of premiums and discounts on all other debts .....	1,721	1,455
Cross currency swap revaluation .....	-438	-218
Servicing costs and costs of issuing new borrowings .....	32	28
Capital lease obligations .....	228	233
Total .....	16,795	18,563
Interest expense related to public sector pensions and other employee and veteran future benefits .....	12,343	12,120
Other .....	276	307
Total public debt charges .....	29,414	30,990

Certain comparative figures have been reclassified to conform to the current year's presentation. Details (unaudited) can be found in Section 3 of this volume.

**iii. Total expenses by segment**

The Government has defined the segments as the Ministries and Crown corporations and other entities. Additional segmented information is provided in Note 17. The following table presents the total expenses by segment after the elimination of internal transactions:

	(in millions of dollars)	
	2010	2009
Ministries —		
Agriculture and Agri-Food .....	3,234	3,446
Atlantic Canada Opportunities Agency ..	377	290
Canada Revenue Agency .....	17,223	16,813
Canadian Heritage .....	2,291	1,824
Citizenship and Immigration .....	1,663	1,400
Economic Development Agency of Canada for the Regions of Quebec ..	343	258
Environment .....	1,838	1,796
Finance .....	85,447	77,604
Fisheries and Oceans .....	1,885	1,625
Foreign Affairs and International Trade ..	12,268	6,307
Governor General .....	19	20
Health .....	6,159	5,010
Human Resources and Skills Development .....	66,068	58,607
Indian Affairs and Northern Development .....	9,151	7,327
Industry .....	6,179	4,554
Justice .....	1,541	1,384
National Defence .....	21,137	19,009
Natural Resources .....	3,544	4,731
Parliament .....	581	548
Privy Council .....	359	561
Public Safety and Emergency Preparedness .....	9,951	9,132
Public Works and Government Services ..	2,792	2,428
Transport .....	5,532	3,669
Treasury Board .....	2,501	2,193
Veterans Affairs .....	1,024	1,018
Western Economic Diversification .....	408	237
Provision for valuation and other items ..	-335	-1,406
Total ministries .....	263,180	230,385
Crown corporations and other entities .....	11,018	8,462
Total expenses .....	274,198	238,847

Details (unaudited) providing total expenses by segment and type can be found in Section 3 of this volume.

**Source: Public Accounts of Canada 2010 Volume I: Summary Report and Financial Statements**



**Figure 11 : Notes Showing Objects of Expenses***iv. Total expenses by type of resources used in the operations*

The Statement of Operations and Accumulated Deficit and the previous table present a breakdown of expenses by segment, which represent the expenses incurred for each of the main functions of the Government. The following table presents the detail of these expenses broken down by the main objects of expense:

(in millions of dollars)		
Objects of expense	2010	2009
Transfer payments .....	165,461	138,293
Other program expenses —		
Crown corporations <sup>(1)</sup> .....	9,873	7,680
Personnel .....	41,009	35,593
Transportation and communications .....	3,098	3,224
Information .....	347	317
Professional and special services .....	8,148	7,450
Rentals .....	1,892	1,748
Repair and maintenance .....	3,205	2,892
Utilities, materials and supplies .....	3,117	3,071
Other subsidies and expenses .....	3,799	3,240
Amortization of tangible capital assets .....	4,418	4,176
Net loss on disposal of assets .....	417	173
Total other program expenses .....	79,323	69,564
Total program expenses .....	244,784	207,857
Public debt charges .....	29,414	30,990
Total expenses .....	274,198	238,847

Details (unaudited) reconciling objects of expense to objects of expenditure can be found in Section 3 of this volume and details (unaudited) on ministerial expenditures by object can be found in Section 1 of Volume II of the *Public Accounts of Canada*.

(1) This amount differs from the expense shown on the Statement of Operations and Accumulated Deficit due to the amortization of tangible capital assets and the net loss on disposal of assets of consolidated Crown corporations, which have been reclassified within their respective object of expense.

*v. Significant transactions**Financial assistance to the automotive sector*

The Government entered into agreements with Ontario to provide financial assistance to the automotive sector, whereby Ontario contributed one-third of the financial assistance and participates with the Government in any future economic benefit or loss resulting from these transactions. Amounts indicated below include both the Government and Ontario portion of the transactions except where specifically indicated.

The Government entered into agreements with various corporate entities of General Motors and Chrysler to provide loans to both companies and to acquire common and preferred shares in a restructured General Motors and membership interests in Chrysler. Disbursements to General Motors totalling \$10,846 million (nil in 2009) and to Chrysler totalling \$2,637 million (\$250 million in 2009) occurred during the year.

On July 10, 2009, the Government exchanged loans to General Motors totalling \$9,753 million for 16,101,695 series A preferred shares and 58,368,644 common shares, representing 4.5 percent and 11.7 percent of the outstanding preferred and common shares, respectively. At the exchange date, the fair value of the preferred and common shares was estimated to be \$3,149 million. This amount has been recorded as an increase in loans, investments and advances on the Statement of Financial Position. A net amount of \$4,402 million, representing the Government's two-thirds share of the difference between the face value of the loans and the fair value of the equity as at the exchange date has been recorded as a transfer payment expense on the Statement of Operations and Accumulated Deficit.

Principal repayments totalling \$401 million were received from General Motors during the year, reducing loans outstanding at March 31, 2010, to \$1,288 million (nil in 2009). A further principal repayment of \$1,096 million was received in April 2010.

At March 31, 2010, loans outstanding to Chrysler total \$2,902 million (\$250 million in 2009). Repayment of these loans is scheduled to be completed by 2017.

As additional consideration for providing loans to Chrysler, the Government acquired 24,615 class A membership interests, representing 2.5 percent of the membership interests in Chrysler on an undiluted basis (2 percent on a fully diluted basis), with an estimated fair value of \$20 million at the acquisition date. This amount has been recorded as an increase in loans, investments and advances on the Statement of Financial Position.

A liability to Ontario representing its one-third proportionate participation in the value of the loans receivable, membership interests and common and preferred shares as at March 31, 2010, has been recorded in accounts payable and accrued liabilities on the Statement of Financial Position.

*Harmonized Sales Tax (HST) Transitional Assistance to Ontario and British Columbia*

During the year, the Government signed Comprehensive Integrated Tax Coordination Agreements with the provinces of Ontario and British Columbia with the intent to harmonize the sales taxes in those provinces and the federal goods and services tax.

As part of the terms to these agreements, the Government agreed to provide transitional payments to both provinces in fiscal years 2011 and 2012. Ontario will receive \$4,300 million and British Columbia will receive \$1,599 million. An amount totalling \$5,899 million has been recorded in 2010 as a transfer payment expense on the Statement of Operations and Accumulated Deficit and is included in other accounts payable and accrued liabilities on the Statement of Financial Position. Of this amount accrued, \$4,019 million will be paid in fiscal year 2011 and \$1,880 million will be paid in fiscal year 2012.

**Source: Public Accounts of Canada 2010 Volume I: Summary Report and Financial Statements**

Also, GASB requires the reporting of expenses by function for states and local governments (SLG). GASB 34 states

The operations of the reporting government should be presented in a format that reports the net (expense) revenue of its individual functions. An objective of using the net (expense) revenue format is to report the relative financial burden of each of the reporting government's functions on its taxpayers. This format identifies the extent to which each function of the government draws from the general revenues of the government or is self-financing through fees and intergovernmental aid. As discussed in paragraph 47, this notion of burden on the reporting government's taxpayers is important in determining what is program or general revenue. General revenues, contributions to term and permanent endowments, contributions to permanent fund principal, special and extraordinary items, and transfers should be reported separately after the total net expenses of the government's functions, ultimately arriving at the "change in net assets" for the period. An example of a format that meets these requirements is illustrated in paragraph 54. [footnote omitted] (par. 38)

#### Conclusion/Recommendation

FASAB believes that a framework of concepts should include descriptions of the financial statements used to present elements and help those interested in standards to understand the purposes, content, and characteristics of information provided in financial reports. While existing concepts describe some statements such as the SNC, readers of government-wide reports seek outflow information from various perspectives and the technology is available to provide them with multiple types of presentations. Compared to the paper-based reports used when existing concepts were developed, the possibilities of Web-based financial reports seem almost endless. Accordingly, FASAB should consider whether existing concepts provide the Board with the principles needed to address future electronic government-wide reporting issues.

In addition, the FASAB should consider:

- concepts or standards regarding the presentation of "spending" and receipts information drawn from budgetary reports.
- guidance on terms for reconciling columns (change from reconciling obligations to net cost to reconciling outlays to net cost)
- requirements to present information by function.



## Recommendation 4: Establish Minimum Requirements for a Statement of Spending

### Summary of Task Force Recommendation

Establish minimum requirements for fair presentation of a Statement of Spending by agencies. We understand that the CFO Council is developing a Statement of Spending for agencies. At a minimum, a statement of spending for agencies and government-wide should: (a) be designed to help the public learn where and how their tax dollars are being spent, (b) present spending data in relation to net cost (covered in recommendation #3), and (c) include an explanation of the differences between spending and net cost.

### Staff Analysis

Conceptually, FASAB believes that the most useful information that a flow statement could present is the total and net cost of services. SFFAC 2 states

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.[footnote omitted] 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.” [emphasis added] (par. 59)

In addition, the Board has noted that to determine whether an item of information should be required, the Board should consider among other things whether the item is consistent with the reporting objectives.<sup>22</sup> The budgetary integrity sub-objective 1A states that financial reporting should help readers determine “how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization”<sup>23</sup> and the conceptual guidance notes that outlay data may help meet this objective.<sup>24</sup> Accordingly, FASAB concepts and standards discuss a

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<sup>22</sup> SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*.

<sup>23</sup> SFFAC 1, *Objectives of Federal Financial Reporting*, par. 116.

<sup>24</sup> SFFAC 1, par. 117.

statement of budgetary resources (SBR) which presents outlays for the entity during the period. Given that outlays are payments to liquidate obligations, readers can compare outlays to obligations incurred by the entity during the period. See Figure 12: Example Statement of Budgetary Resources.

**Figure 12: Example Statement of Budgetary Resources**

### STATEMENT OF BUDGETARY RESOURCES

(In Thousands)

For the years ended September 30,	2010	2009
<b>Budgetary Resources</b>		
Unobligated balance, brought forward, October 1	\$ 81,126	\$ 78,990
Recoveries of prior year unpaid obligations		
Actual	22,446	28,371
Budget authority		
Appropriation	1,066,859	1,045,517
Spending authority from offsetting collections		
Reimbursements earned-collected	10,086	8,429
Reimbursements earned-change in receivables	(424)	375
Change in unfilled customer orders-advance received	1,198	333
Change in unfilled customer orders-without advance	493	3,190
Subtotal-spending authority from offsetting collections	11,353	12,327
Permanently not available	(18,000)	-
<b>Total Budgetary Resources</b>	<b>\$ 1,163,784</b>	<b>\$ 1,165,205</b>
<b>Status of Budgetary Resources</b>		
Obligations incurred (Note 12)		
Direct	\$ 1,108,948	\$ 1,073,782
Reimbursable	10,137	10,297
Subtotal	1,119,085	1,084,079
Unobligated balance		
Apportioned	29,744	66,699
Exempt from apportionment	7,079	7,609
Subtotal	36,823	74,308
Unobligated balance, not available	7,876	6,818
<b>Total Status of Budgetary Resources</b>	<b>\$ 1,163,784</b>	<b>\$ 1,165,205</b>
<b>Change in Obligated Balance</b>		
Obligated balance, net		
Unpaid obligations brought forward, October 1	\$ 367,498	\$ 314,488
Obligations incurred, net	1,119,085	1,084,079
Gross outlays	(1,088,687)	(999,133)
Recoveries of prior year unpaid obligations, actual	(22,446)	(28,371)
Change in uncollected customer payments, from Federal sources	(69)	(3,565)
Obligated balance, net, end of period		
Unpaid obligations	383,154	375,201
Uncollected customer payments, from Federal sources	(7,773)	(7,703)
<b>Total unpaid obligated balance, net, end of period</b>	<b>\$ 375,381</b>	<b>\$ 367,498</b>
<b>Net outlays</b>		
Gross outlays	\$ 1,088,687	\$ 999,133
Offsetting collections	(11,284)	(8,762)
Distributed offsetting receipts	(909,514)	(857,839)
<b>Net Outlays</b>	<b>\$ 167,889</b>	<b>\$ 132,532</b>

Source: U.S. Nuclear Regulatory Commission Fiscal Year 2010 Performance and Accountability Report

Also, FASAB standards require a reconciliation so that users can learn about the differences between budgetary obligations and net costs prepared in conformity with generally accepted accounting principles (GAAP). See Figure 13: Example Reconciliation of Budgetary Obligations and Net Cost of Operations.

**Figure 13: Example Reconciliation of Budgetary Obligations and Net Cost of Operations**

**Note 15. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGETARY RESOURCES**

For the years ended September 30,	2010	2009
<b>Budgetary Resources Obligated</b>		
Obligations incurred (Note 12)	\$ 1,119,085	\$ 1,084,079
Less: Spending authority from offsetting collections and recoveries	(33,799)	(40,698)
Less: Distributed offsetting receipts	(909,514)	(857,839)
Net Obligations	175,772	185,542
<b>Other Resources</b>		
Imputed financing from costs absorbed by others	40,812	32,207
Net Other Resources Used to Finance Activities	40,812	32,207
Total Resources Used to Finance Activities	216,584	217,749
Resources Used to Finance Items not Part of the Net Cost of Operations	(19,668)	(53,413)
Total Resources Used to Finance the Net Cost of Operations	196,916	164,336
Components of the Net Cost of Operations that will not require or generate resources in the current period	20,056	6,056
<b>Net Cost of Operations</b>	<b>\$ 216,972</b>	<b>\$ 170,392</b>

Source: U.S. Nuclear Regulatory Commission Fiscal Year 2010 Performance and Accountability Report

However, FASAB distinguishes between what budgetary basis information should be presented at the government-wide level and what budgetary basis information should be presented at the component entity or agency level. FASAB noted that certain information presented in the statement of budgetary resources is less relevant or meaningful at the government-wide level. The government as a whole receives exchange and non-exchange revenue and borrows from the public, while component reporting entities or agencies receive appropriations and other budget authority to incur obligations. SFFAS 24, *Selected Standards for the Consolidated Financial Report of the U.S. Government*, Basis for Conclusions section states

SFFAS 7 requires entities “whose financing comes wholly or partially from the budget” to provide information on budgetary resources and the status of resources, which is presented in the SBR. [footnote omitted] It also calls for a reconciliation of budgetary resources obligated by the entity with the net cost of

operations, which is presented in the SOF [Statement of Financing].[footnoted omitted] (par. 22)

The Board continues to believe that such information is less relevant or meaningful at the level of the CFR. Resources differ between the Government as a whole and individual component entities. The exchange and non-exchange revenue and borrowing from the public are the main sources of financing for the Government as a whole. [footnoted omitted] For component reporting entities, however, the sources of financing are provided through the budget process and are largely financing sources other than revenue. Appropriations and other budget authority provide an agency with the authority to incur obligations to acquire goods and services or to provide benefits and grants. Budgetary resources are not earned by an entity's operations and have a different character than both exchange revenue and non-exchange revenue. [footnote omitted] Federal entities report as an asset their fund balance with Treasury, which is the aggregate amount of funds in the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. This is an intra-government item. From the perspective of the Government as a whole, it is not an asset. It represents a commitment to make resources available to federal departments, agencies, programs, etc. [footnote omitted] (par. 23)

Thus, the Board believes that the following elements are important at the government-wide level: (1) net operating revenue (or cost); (2) the unified budget surplus (or deficit); and (3) the change in the government's cash during the period. Financial statements at the government-wide level should include a reconciliation of net operating revenue (or cost) to the unified budget surplus (or deficit) and a statement of changes in cash balance from budget and other activities.<sup>25</sup>

### Other Government Entities

GASB guidance for SLGs enables users to see the details of budgetary inflows and outflows during the reporting period. According to GASB 34, the basic government-wide statements for SLGs are a statement of net assets and a statement of activities.<sup>26</sup> However, GASB does require budget-to-actual comparison schedules as RSI for the general fund and for each major special revenue fund that has a legally adopted annual budget.<sup>27</sup> The schedule is prepared on the budgetary basis and enables users to see the sources of budgetary inflows and outflows classified by function. See Figure 14: Example Budgetary Comparison Schedule Page 1 of 2 and Figure 15: Example Budgetary Comparison Schedule Page 2 of 2. Also, GASB requires a schedule that reconciles the budgetary and accrual basis amounts.<sup>28</sup> See Figure 16: Example Reconciliation of Budgetary and GAAP. The statement enables users to learn about the differences in the two bases.

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<sup>25</sup> SFFAS 24, par. 29.

<sup>26</sup> GASB 34, par. 12.

<sup>27</sup> GASB 34, par. 130.

<sup>28</sup> GASB 34, par. 131.

Figure 14: Example Budgetary Comparison Schedule Page 1 of 2

**STATE OF MARYLAND**  
**Schedule of Revenues and Expenditures and Changes in Fund Balances - Budget and Actual -**  
**Budgetary General, Special, and Federal Funds**  
**For the Year Ended June 30, 2010**  
*(Expressed in Thousands)*

	General Fund			Variance Positive (Negative)
	Budget Amounts		Actual Amounts	
	Original Budget	Final Budget		
Revenues:				
Income taxes .....	\$7,157,665	\$6,600,565	\$6,888,949	\$ 288,384
Sales and use taxes .....	3,605,424	3,473,936	3,528,960	55,024
Other taxes .....	1,066,748	1,010,987	1,034,718	23,731
Licenses and fees .....	199,052	202,944	204,963	2,019
Charges for services .....	295,670	291,250	271,923	(19,327)
Interest and other investment income .....	73,000	35,000	64,759	29,759
Other .....	599,461	598,114	705,211	107,097
Federal revenue .....				
Total revenues .....	12,997,020	12,212,796	12,699,483	486,687
Expenditures and encumbrances by major function:				
Payments of revenue to civil divisions of the State .....	124,011	124,011	124,011	
Public debt .....				
Legislative .....	84,655	84,655	70,961	13,694
Judicial review and legal .....	498,501	493,964	462,295	31,669
Executive and administrative control .....	239,847	213,198	204,722	8,476
Financial and revenue administration .....	189,348	198,718	195,843	2,875
Budget and management .....	54,378	40,308	36,979	3,329
Retirement and pension .....				
General services .....	61,790	53,842	52,254	1,588
Transportation and highways .....				
Natural resources and recreation .....	53,717	46,891	45,421	1,470
Agriculture .....	30,369	25,645	25,626	19
Health, hospitals and mental hygiene .....	3,166,495	2,986,536	2,962,552	23,984
Human resources .....	573,424	614,170	606,280	7,890
Labor, licensing and regulation .....	36,036	33,283	32,970	313
Public safety and correctional services .....	1,050,955	1,009,875	1,004,495	5,380
Public education .....	7,067,918	7,016,638	6,989,558	27,080
Housing and community development .....	12,888	12,500	11,028	1,472
Business and economic development .....	97,146	85,974	67,638	18,336
Environment .....	47,760	45,234	39,195	6,039
Juvenile services .....	262,123	260,637	260,382	255
State police .....	172,698	166,543	160,714	5,829
State reserve fund .....	139,948	114,948	114,948	
Reversions .....	(63,680)	(63,680)		(63,680)
Total expenditures and encumbrances .....	13,900,327	13,563,890	13,467,872	96,018
Excess of revenues over (under) expenditures .....	(903,307)	(1,351,094)	(768,389)	582,705
Other sources (uses) of financial resources:				
Transfers in (out) .....			898,877	898,877
Excess of revenues over (under) expenditures and other sources (uses) of financial resources .....	(903,307)	(1,351,094)	130,488	1,481,582
Fund balances - beginning of the year .....	(4,119,081)	(3,216,934)	925,637	4,142,571
Fund balances - end of the year .....	\$(5,022,388)	\$(4,568,028)	\$1,056,125	\$5,624,153

Source: State of Maryland 2010 Comprehensive Annual Financial Report

**Figure 15: Example Budgetary Comparison Schedule Page 2 of 2**

Special Fund				Federal Fund			
Budget Amounts		Actual Amounts	Variance Positive (Negative)	Budget Amounts		Actual Amounts	Variance Positive (Negative)
Original Budget	Final Budget			Original Budget	Final Budget		
\$ 153,638	\$ 187,978	\$ 202,736	\$ 14,758				
221,092	217,117	224,817	7,700				
2,368,102	2,409,219	2,306,559	(102,660)				
701,290	771,483	767,541	(3,942)				
1,039,426	1,338,337	1,314,441	(23,896)				
30,550	25,690	32,013	6,323			\$ 1,037	\$ 1,037
1,020,474	785,894	695,130	(90,764)				
				\$9,308,051	\$10,338,384	9,095,525	(1,242,859)
5,534,572	5,735,718	5,543,237	(192,481)	9,308,051	10,338,384	9,096,562	(1,241,822)
784,987	784,987	776,666	8,321		857	857	
100	100	90	10				
99,420	101,344	76,896	24,448	6,693	7,178	6,160	1,018
284,709	288,353	235,365	52,988	171,200	233,157	157,523	75,634
101,977	106,154	100,077	6,077				
28,748	30,426	17,356	13,070				
39,974	39,512	31,644	7,868				
2,606	2,543	2,534	9	1,002	1,002	1,002	
2,777,816	2,488,286	2,358,259	130,027	1,081,016	1,010,289	804,900	205,389
184,820	184,403	126,123	58,280	44,973	61,542	34,287	27,255
87,068	96,305	53,129	43,176	14,623	15,703	10,964	4,739
725,868	901,904	867,516	34,388	4,418,200	4,697,467	4,666,835	30,632
88,365	135,917	132,854	3,063	1,285,008	1,682,358	1,547,816	134,542
42,161	41,037	33,558	7,479	184,143	192,262	163,469	28,793
170,866	176,328	147,438	28,890	49,367	86,187	75,243	10,944
95,738	120,889	110,996	9,893	1,662,639	1,846,705	1,393,417	453,288
92,214	98,340	46,500	51,840	366,726	474,383	294,568	179,815
92,208	92,696	30,620	62,076	3,286	3,625	3,042	583
488,892	503,080	121,994	381,086	220,578	221,553	63,587	157,966
1,343	2,039	714	1,325	15,057	16,287	10,296	5,991
76,326	75,431	65,320	10,111	35,003	39,292	24,224	15,068
6,266,206	6,270,074	5,335,649	934,425	9,559,514	10,589,847	9,258,190	1,331,657
(731,634)	(534,356)	207,588	741,944	(251,463)	(251,463)	(161,628)	89,835
		(135,121)	(135,121)			161,628	161,628
(731,634)	(534,356)	72,467	606,823	(251,463)	(251,463)		251,463
(2,563,005)	(2,616,504)	1,702,041	4,318,545	(1,687,321)	(1,687,314)		1,687,314
\$(3,294,639)	\$(3,150,860)	\$1,774,508	\$4,925,368	\$(1,938,784)	\$(1,938,777)	\$ -	\$1,938,777

Source: State of Maryland 2010 Comprehensive Annual Financial Report

**Figure 16: Example Reconciliation of Budgetary and GAAP**

STATE OF MARYLAND		
Reconciliation of the Budgetary General and Special Fund, Fund Balances to the GAAP General and Special Revenue Fund, Fund Balances		
June 30, 2010		
(Expressed in Thousands)		
	General	Special
Amount in budgetary funds, fund balance (pages 104 and 105).....	\$1,056,125	\$1,774,508
Budgetary special funds reclassified to the general fund .....	961,852	(961,852)
Budgetary special funds reclassified to other funds.....		(557,840)
Other non-budgetary funds reclassified to governmental funds.....	301,352	417
Total of budgetary fund balances reclassified into the governmental funds' fund structure.....	2,319,329	255,233
Accounting principle differences:		
Assets recognized in the governmental funds financial statements not recognized for budgetary purposes:		
Cash.....	(67,992)	
Investments .....	36,579	
Taxes receivable .....	27,143	2,114
Intergovernmental receivables.....	154,438	
Other accounts receivable .....	(1,177)	2,657
Prepaid items.....	(219,934)	
Inventories.....	25,987	79,089
Loans and notes receivable.....	33	(1,178)
Due from other funds .....	2,713	16,005
Liabilities recognized in the governmental funds financial statements not recognized for budgetary purposes:		
Salaries payable .....	(164)	
Accounts payable and accrued liabilities.....	(244,771)	
Due to other funds .....	(381,110)	
Accounts payable to political subdivisions .....	(12,809)	(18,198)
Deferred revenue .....	(311,485)	
Accrued self insurance costs.....	(77,688)	
Financial statement governmental funds' fund balances, June 30, 2010 (page 28).....	\$1,249,092	\$ 335,722

Source: State of Maryland 2010 Comprehensive Annual Financial Report

In addition, Canada provides users with a budget-to-actual comparison that enables users to see the details of budgetary flows. Note that Canada's budget information is presented on an accrual basis. See Figure 9: Canada's Statement of Operations and Accumulated Deficit.

### Conclusion/Recommendation

The Board has noted that users seek budgetary and accrual basis flow information. In addition to cost, they seek information on spending and spending data helps achieve the budgetary integrity objective. FASAB guidance discusses the complementary nature of this information and, to reduce the risk of confusing financial statement users, the Board seeks to provide information to help them understand how budgetary and accrual basis information relate to each other. Also, the Board believes that different perspectives are needed for component entity and government-wide level reporting and existing FASAB standards require different elements of budgetary data in component

entity and government-wide financial statements. Given that the statement of spending is in the development stage, FASAB should continue to monitor progress on the statement and when the statement is fully developed consider conceptual guidance to determine: whether the statement should be basic, RSI, or other accompanying information (OAI); how the statement should relate to the existing financial statements, and the minimum information that should be presented to ensure that readers understand how the information relates to other flow information presented.

In addition, in the meantime, FASAB should consider conceptual guidance that formally discusses the Board's views on budgetary reporting at the government-wide level versus the component entity level. The guidance could also discuss the Board's view on how best to achieve the budgetary integrity objective at the government-wide level, considering that other governments are providing users with budget-to-actual comparisons.

### **Recommendation 5: Include Intergovernmental Financial Dependency Reporting in RSI**

#### **Summary of the Task Force's Recommendation**

Include summary-level information on intergovernmental financial dependency (i.e., direct flows, indirect flows, and obligations held as investments), organized by state, in RSI. Intergovernmental financial dependency is the reliance of one level of government on another level for direct financial flows, or indirect financial flows derived from the purchases of goods and services and/or payments to individuals within a governmental jurisdiction by another level of government. Such dependency can also be associated with the holding of the financial obligation of one level of government by another as an income-producing asset.

The nation's critical programs, such as addressing health care needs and countering terrorism, involve the joint efforts of all levels of government. The federal government relies on state and local government management and resources to deliver these national programs. Accordingly, the fiscal health and policy decisions of each level of government have become significantly interdependent. To the extent state and local governments face fiscal challenges that impair their ability to carry out federal programs, there is a fiscal risk to the federal government as demonstrated by the hundreds of billions of dollars of recovery funding provided to state and local government. And conversely, to the extent the federal government curtails its spending in response to its own fiscal gap state and local governments' financial condition would be significantly affected.

#### **Staff Analysis**

FASAB concepts discuss criteria to consider when determining whether to require the reporting of information. One criterion is whether the information helps to achieve the reporting objectives. Intergovernmental financial dependency (IFD) information offers a



geographic perspective of the federal government's stewardship as well as perspectives regarding risks inherent in partnering with other levels of government to deliver goods and services. Such risks may include an implied assumption of financial responsibility (e.g., risk assumed), the potential that critical goods or services will not be delivered or will be delivered inadequately during times of fiscal stress, and shared accountability for results.

IFD may involve: geographically displaying federal outlays made directly to SLGs (direct flows) and outlays to individuals and entities within an SLG area (indirect flows); and geographically classified stocks at the end of the reporting period. In addition, measures of the risk of financial need arising at the SLG level – either broadly or relative to key programs financed by federal funds but administered by SLGs – may be needed to reveal the extent to which risk may have been assumed at the federal level. This information may be important to meeting the stewardship objective which states

Federal financial reporting should assist report users in assessing the **impact on the country of the government's operations and investments for the period** and how, as a result, the government's and the nation's financial condition has changed and may change in the future. Federal financial reporting should provide information that helps the reader to determine whether

- the government's financial position improved or deteriorated over the period,
- **future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due**, and
- **government operations have contributed to the nation's current and future well-being.**<sup>29</sup> [emphasis added]

SFFAS 17, *Accounting for Social Insurance* (as amended), requires information about the solvency of state unemployment insurance funds as follows:

*27 (5) State-by-State Analysis* - For the UI program provide a state-by-state analysis illustrating the relative solvency of individual state programs. The analysis should provide the ratio of each state's current accumulated fund balance to a year's projected benefit payments based on the highest level of annual benefit payments experienced by that state over the last 20 years.

While SFFAS 17 does not define solvency for the unemployment trust funds, it does require that such information be included in reports. The FY 2010 consolidated financial report shows that only nine funds met the Department of Labor's test for minimum solvency (see sidebar). In FY 2009, they numbered 16 and in FY 2008, they numbered 24. In addition, cash flow projections are provided for the program as a whole and aid the reader in assessing the likelihood that the fund as a whole will be able to repay the amounts borrowed and return to minimum solvency levels.

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<sup>29</sup> SFFAC 1, par. 15 and 16.

Currently, IFD flow data are presented in federal reports and Web sites to help users learn about the federal government's impact on the nation as well as particular SLG areas of the nation. The following are some examples:

- *Budget of the United States Government, Fiscal Year 2011* provides a narrative analysis and tables showing trends in federal grants to SLGs since 1960. See <http://www.whitehouse.gov/omb/budget/Overview/>.
- *Consolidated Federal Funds Report* presents data on federal expenditures or obligations in state, county, and subcounty areas. It includes federal government payments to all types of recipients including governments within a geographic area. See <http://www.census.gov/govs/cffr/>
- *Treasury Bulletin* provides information on the amount of U.S. Treasury Securities held by SLGs and SLG pension funds. See <http://www.fms.treas.gov/bulletin/index.html>.

Also, when determining whether to require the reporting of information, previous Boards considered who used the information and for what purposes.<sup>30</sup> IFD type information appears to be of particular interest to researchers and SLG leaders. Researchers use geographically classified budgetary flow data to determine the nature and amount of federal funds flowing into particular state and local economies and to assess the economic effects of the federal activity. Also, to assist in their budget and policy planning, SLG leaders want to know the amount of federal dollars flowing to geographic locations, the types of programs being supported, the costs of the programs, and how well the programs worked in those areas. They consider whether such programs would

### Unemployment Insurance

The Unemployment Insurance Program was created in 1935 to provide temporary partial wage replacement to workers who lost their jobs. The program is administered through a unique system of Federal and State partnerships established in Federal law but administered through conforming State laws by State agencies. DOL interprets and enforces Federal law requirements and provides broad policy guidance and program direction, while program details such as benefit eligibility, duration, and amount of benefits are established through individual State unemployment insurance statutes and administered through State unemployment insurance agencies.

The program is financed through the collection of Federal and State unemployment taxes that are credited to the UTF and reported as Federal tax revenue. The fund was established to account for the receipt, investment, and disbursement of unemployment taxes. Federal unemployment taxes are used to pay for Federal and State administration of the Unemployment Insurance Program, veterans' employment services, State employment services, and the Federal share of extended unemployment insurance benefits. Federal unemployment taxes are also used to maintain a loan account within the UTF, from which insolvent State accounts may borrow funds to pay unemployment insurance benefits.

\*\*\*\*\*

To be minimally solvent, a State's reserve balance should provide for one year's projected benefit payment needs based on the highest levels of benefit payments experienced by the State over the last 20 years. A ratio of 1.0 or greater indicates a state is minimally solvent. States below this level are vulnerable to exhausting their funds in a recession. States exhausting their reserve balance borrow funds from the Federal Unemployment Account (FUA) to make benefit payments. During fiscal year 2010, the balances in the FUA were depleted and the FUA borrowed from the Treasury General Fund.

Source: FY 2010 CFR, page 179 and 181.

<sup>30</sup> SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*.

be helpful in their area. The U.S. Census Bureau notes that the Bureau of Economic Analysis, Office of Management and Budget, Congress, and state government and private researchers use the flow data to evaluate federal revenues from state areas versus federal expenditures to those areas.<sup>31</sup>

Additionally, analysts seek IFD stock data such as the federal debt held by SLGs and SLG pension funds. For instance, CNBC's Web site provides a slide show presentation on federal debt holdings and the amount held by SLGs and SLG pension funds is noted. See the following link:

[http://www.cnbc.com/id/29880401/The\\_Biggest\\_Holders\\_of\\_US\\_Government\\_Debt?slide=10](http://www.cnbc.com/id/29880401/The_Biggest_Holders_of_US_Government_Debt?slide=10).

FASAB has acknowledged the need for IFD type information and requires the reporting of some IFD data in stewardship investments as well as social insurance. Stewardship investments are items treated as expenses for determining net costs, but should be highlighted due to their "substantial investment and long-term benefit nature." Stewardship investments include

- Nonfederal Physical Property - grants provided for properties financed by the Federal Government, but owned by the state and local governments.
- Costs incurred for education and training programs that are designed to increase or maintain national economic productive capacity and research efforts to provide future benefits or returns. These include:
  - Human Capital - education and training programs financed by the Federal Government for the benefit of the public.
  - Research and Development - basic and applied research and development.<sup>32</sup>

The guidance provides definition, measurement, and minimum reporting criteria, and for Human Capital and Research and Development, FASAB requires information on outcomes. However, the guidance does not require geographical classifications and it focuses on accrual accounting rather than reporting budgetary amounts.<sup>33</sup> See Figure 17: Example Non-Federal Physical Property Presentation for an example of an investment in non-federal physical property presentation, Figure 18: Example Investment in Human Capital Presentation, for an example of an investment in human capital presentation, and Figure 19: Example Investment in Research and Development for an example of an investment in research and development presentation.

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<sup>31</sup> U.S. Census Bureau Web site found at [http://www.census.gov/govs/cffr/about\\_the\\_data.html](http://www.census.gov/govs/cffr/about_the_data.html).

<sup>32</sup> SFFAS 8, *Supplementary Stewardship Reporting*.

<sup>33</sup> Ibid.

**Figure 17: Example Non-Federal Physical Property Presentation**

These materials are not audited  
(Dollars in millions, unless otherwise noted)

### 1. Non-Federal Physical Property

Annually, VA provides funding to state governments for the purchase, construction, or major renovation of physical property owned by

the state. In most cases these grant programs involve matching funds from the states.

Grant Program Costs					
Years Ended September 30,	2010	2009	2008	2007	2006
State Extended Care Facilities	\$ 242	\$ 163	\$ 162	\$ 138	\$ 85
State Veterans Cemeteries	49	40	37	46	18
<b>Total Grant Program Costs</b>	<b>\$ 291</b>	<b>\$ 203</b>	<b>\$ 199</b>	<b>\$ 184</b>	<b>\$ 103</b>

The Extended Care Facilities Grant Program assists states in acquiring facilities to provide domiciliary, nursing home, and other day health care for Veterans, and to expand, remodel, or alter existing buildings to provide domiciliary, nursing home, hospital, and day health care for Veterans in state homes. VA participates in two grant-in-aid programs for states. VA may participate in up to 65 percent of the cost of construction or acquisition of state nursing homes or domiciliaries or in renovations of existing state homes. Over the last 5 fiscal years, the State Home Construction Grant Program has awarded grants in excess of \$790. VA also provides per diem payment for the care of eligible Veterans in state homes.

Since the cemetery program was established in 1980, VA has awarded grants totaling more than \$438 to 40 states and territories. The program provides up to 100 percent of the cost to establish, expand, or improve state Veterans cemeteries. States provide the land and agree to operate the cemeteries.

Source: Department of Veterans Affairs Fiscal Year 2010 Performance and Accountability Report

**Figure 18: Example Investment in Human Capital Presentation**

<b>INVESTMENT IN HUMAN CAPITAL</b> <b>For the Year Ended September 30, 2010</b> (in Millions)					
Responsibility Segment Program	2010	2009	2008	2007	2006
<b>Administration for Children and Families</b>					
Administration on Developmental Disabilities	\$ 9	\$ 10	\$ 8	\$ 8	\$ 7
<b>National Institutes of Health</b>					
Research Training and Career Development	1,915	1,862	1,792	1,756	1,747
<b>Totals</b>	<b>\$ 1,924</b>	<b>\$ 1,872</b>	<b>\$ 1,800</b>	<b>\$ 1,764</b>	<b>\$ 1,754</b>

Investments in Human Capital are expenses incurred by Federal education and training programs for the public, which are intended to maintain or increase national productive capacity. Two operating divisions of the Department conduct education and training programs under this category: Administration for Children and Families (ACF) and National Institutes of Health (NIH).

#### *Administration for Children and Families*

The ACF is able to estimate Investment in Human Capital for the Administration for Developmental Disabilities (ADD) using existing data collection activities. Under ADD, 34 grants are anticipated to be awarded for Projects of National Significance (PNS). As of September 30, 2010, all of the 34 PNS grants have been awarded for FY 2010. PNS grants are awarded to public or private, non-profit institutions to enhance the independence, productivity, integration and inclusion into the community of people with developmental disabilities. These monies also support the development of national and State policy to serve this community. Grants awarded total \$9 million as of September 30, 2010.

#### *National Institutes of Health*

The NIH Research Training and Career Development Program addresses the need for trained personnel to conduct medical research. The primary goal of the support that NIH provides for graduate training and career development is to produce new, highly trained investigators who are likely to perform research that will benefit the nation's health. NIH's ability to maintain the momentum of recent scientific progress and international leadership in medical research depends upon the continued development of new, highly trained investigators.

Source: Department of Health and Human Services Fiscal Year 2010 Agency Financial Report

**Figure 19: Example Investment in Research and Development**

**INVESTMENT IN RESEARCH AND DEVELOPMENT**  
As of September 30, 2010  
(in Millions)

Responsibility Segments	2010				Total				
	Basic	Applied	Developmental	Total	2009	2008	2007	2006	Grand Total
ACF	\$ -	\$ 9	\$ -	\$ 9	\$ 16	\$ 25	\$ 16	\$ 39	\$ 105
AHRQ	263	-	-	263	203	184	198	175	1,023
CDC	-	465	-	465	755	440	563	478	2,701
FDA	42	-	6	48	36	67	40	37	228
HRSA	-	-	-	-	-	-	-	28	28
NIH	18,805	12,537	-	31,342	27,889	27,302	25,131	25,780	138,444
<b>Totals</b>	<b>\$ 19,110</b>	<b>\$ 13,011</b>	<b>\$ 6</b>	<b>\$ 32,127</b>	<b>\$ 28,899</b>	<b>\$ 28,018</b>	<b>\$ 26,948</b>	<b>\$ 26,537</b>	<b>\$ 142,529</b>

The many research and development programs in the HHS include the following:

#### Administration for Children and Families

The ACF oversees research and development programs that contribute to a better understanding of how to improve the economic and social well-being of families and children, so that they may lead healthier and more productive lives.

#### Agency for Healthcare Research and Quality (AHRQ)

The AHRQ is the lead Federal agency charged with improving the quality, safety, efficiency, and effectiveness of health care for all Americans. AHRQ supports health services research that will improve the quality of health care and promote evidence-based decision making.

#### Food and Drug Administration (FDA)

The FDA has two programs that meet the requirements of research and development investments: Orphan Products Development (OPD) Program and FDA Research Grants Program. While the FDA's center components conduct scientific studies, FDA does not consider this type of research as "research and development" because it is used to support FDA's regulatory policy and decision making processes.

The OPD Program was established by the *Orphan Drug Act* (P.L. 97-414, as amended) with the purpose of identifying orphan products and facilitating their development. An orphan product is a drug, biological product, medical device, or medical food that is intended to treat a rare disease or condition (i.e., one with a prevalence of fewer than 200,000 people in the United States).

The FDA Research Grants Program is a grants program whose purpose is to assist public and non-public institutions and for-profit organizations to establish, expand, and improve research, demonstration, education, and information dissemination activities concerned with a wide variety of FDA areas.

#### Centers for Disease Control and Prevention (CDC)

Infectious Diseases, Occupational Safety and Health, Health Promotion, and Environmental Health and Injury Prevention were the primary areas where CDC's research and development was invested.

#### National Institutes of Health (NIH)

The NIH Research Program includes all aspects of the medical research continuum, including basic and disease-oriented research, observational and population-based research, behavioral research, and clinical research, including research to understand both health and disease states, to move laboratory findings into medical applications, to assess new treatments or compare different treatment approaches; and health services research. NIH regards the expeditious transfer of the results of its medical research for further development and commercialization of products of immediate benefit to improved health as an important mandate.

Source: Department of Health and Human Services Fiscal Year 2010 Agency Financial Report

## Other Government Entities

Other national governments provide their citizens and parliament with geographically categorized flows of the national government. For example, Canada provides data on transfer payments by type and by province and territory. See Figure 20: Example of Geographical Flows.

**Figure 20: Example of Geographical Flows**

MAJOR TRANSFER PAYMENTS BY PROVINCE AND TERRITORY  
(in millions of dollars)

	Old age security benefits <sup>(1)</sup>	Employment insurance benefits	Fiscal arrangements	Alternative payments for standing programs	Canada health transfer	Canada social transfer	Other major transfers <sup>(2)</sup>	Children's benefits	Total
Newfoundland and Labrador .....	696	1,082	2		51.5	163	581		3,039
	673	978	2		36.3	161	30		2,207
Prince Edward Island .....	172	252	341		10.5	45	36		951
	167	227	322		10.0	44	11		871
Nova Scotia .....	1,154	898	1,467		70.2	301	2		4,524
	1,119	766	1,467		67.4	299	59		4,384
New Brunswick .....	963	947	1,691		56.0	241	67		4,469
	933	816	1,586		52.9	235	45		4,144
Quebec .....	9,625	4,792	7,764	(2,703)	5,829	2,519	15		27,841
	9,244	3,942	7,701	(2,974)	5,512	2,444	439		26,308
Ontario .....	12,826	7,609	355		9,975	4,204	106		35,075
	12,339	5,536	8		8,914	4,090	724		31,611
Manitoba .....	1,271	577	2,066		90.7	392	59		5,272
	1,243	450	2,066		87.5	388	66		5,088
Saskatchewan .....	1,158	479	2		82.7	335	26		2,827
	1,146	364	2		82.3	370	296		3,001
Alberta .....	2,814	2,109	4		1,956	1,189	95		8,167
	2,727	1,190	4		1,831	1,183	191		7,126
British Columbia .....	4,670	2,728	3		3,361	1,433	504		12,699
	4,484	1,945	3		3,048	1,348	247		11,075
Total provinces .....	35,349	21,473	13,695	(2,703)	24,737	10,822	1,491		104,864
	34,075	16,214	13,161	(2,974)	22,669	10,562	2,108		95,815
Northwest Territories .....	20	37	864		3.0	14	163		1,128
	19	30	805		3.3	15	1		903
Nunavut .....	9	22	1,022		2.8	11	461		1,553
	9	17	944		2.8	12	9		1,019
Yukon Territory .....	21	34	612		2.5	11	8		711
	20	28	564		2.9	11	12		664
International .....	218	20							238
	204	19							223
Sub-total .....	35,617	21,586	16,193	(2,703)	24,820	10,858	2,123		108,494
	34,327	16,308	15,474	(2,974)	22,759	10,600	2,130		98,624
Accrual and other adjustments .....	(10)						5,699		5,689
			(336)			(32)	(1,106)		(1,474)
Sub-total .....	35,607	21,586	16,193	(2,703)	24,820	10,858	7,822		114,183
	34,327	16,308	15,138	(2,974)	22,759	10,568	1,024		97,150
Add: tax credits and repayments .....	(954)							12,340	11,386
	(950)							11,901	10,951
Total Expenses .....	34,653	21,586	16,193	(2,703)	24,820	10,858	7,822	12,340	125,569
	33,377	16,308	15,138	(2,974)	22,759	10,568	1,024	11,901	108,101

Amounts in roman type are 2009-2010 transfer payments.

Amounts in italic type are 2008-2009 transfer payments.

<sup>(1)</sup> Includes the guaranteed income supplement and the spouse's allowance.

<sup>(2)</sup> Includes the contributions under the Gas Tax Fund of \$1,873 million and payments to provinces for assistance with sales tax harmonization of \$5,899 million.

Source: Public Accounts of Canada 2010, Volume I



Additionally, the United Kingdom (UK) provides statistical reports called country and regional analysis (CRA) to help users assess the impact of regional policy. The reports include functional classifications of expenditures by region. Figure 21: Example of Defense Expenditures by Region illustrates the presentation of expenditures for defense by region and how much relates to current and capital expenditures. Internally, UK department leaders are asked to review the reports and consider the following questions:

- Are you satisfied that the regional distribution of your spending is fair?
- Do your regional spending plans support balanced economic development?
- Do you understand why spending per head is higher in some regions than others?
- Does this higher spending produce better outputs and outcomes?<sup>34</sup>

**Figure 21: Example of Defense Expenditures by Region**

**Table 9.6 Identifiable expenditure on defence by country and region, 2004–05 to 2009–10**

	Defence						of which: current						of which: capital						£ million
	National Statistics						National Statistics						National Statistics						
	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10	
	outturn	outturn	outturn	outturn	outturn	plans	outturn	outturn	outturn	outturn	outturn	plans	outturn	outturn	outturn	outturn	outturn	plans	
North East	5	3	5	4	3	2	2	4	4	3	3	2	3	0	1	0	0	0	
North West	7	7	9	9	8	6	4	7	8	9	8	6	3	1	1	0	0	0	
Yorkshire and the Humber	6	4	6	10	6	5	4	5	5	9	6	5	1	0	0	0	0	0	
East Midlands	6	5	7	7	7	6	4	4	6	7	7	6	2	1	1	0	0	0	
West Midlands	6	7	8	8	7	6	3	6	7	8	7	6	3	1	1	0	0	0	
East	7	9	10	10	10	9	5	8	9	10	10	9	2	1	0	0	0	0	
London	11	12	13	12	11	9	8	10	12	12	11	9	4	2	1	0	0	0	
South East	12	11	13	13	12	10	7	10	11	12	12	10	5	1	2	0	0	0	
South West	10	9	9	9	8	7	7	7	8	9	8	7	3	2	1	0	0	0	
England	70	67	80	82	74	61	44	61	71	79	72	59	26	7	8	3	2	2	
Scotland	6	6	7	7	5	9	6	6	7	7	5	9	–	–	0	–	–	0	
Wales	3	3	3	4	3	4	3	3	3	4	3	4	–	–	0	–	–	0	
Northern Ireland	0	0	0	0	0	0	0	0	0	0	0	0	–	0	0	–	–	0	
UK identifiable expenditure	78	77	91	93	82	75	53	70	82	90	81	73	26	7	8	3	2	2	
Outside the UK	0	–	–	24	9	5	–	–	–	–	–	–	0	–	–	24	9	5	
Total identifiable expenditure	78	77	91	117	91	80	53	70	82	90	81	73	26	7	8	27	10	7	
Non-identifiable spending	29,676	30,841	32,058	33,477	36,506	37,759	28,066	29,776	31,168	30,941	33,041	34,997	1,610	1,066	891	2,536	3,464	2,762	
Total Expenditure on Services	29,755	30,918	32,149	33,594	36,596	37,839	28,119	29,846	31,250	31,031	33,122	35,070	1,636	1,072	899	2,563	3,475	2,769	

Source: Public Expenditure Statistical Analysis 2010

<sup>34</sup> Country and Regional Analysis Guidance 2011, Annex A: Why CRA Data Matter & CRA Best Practice



## Conclusion/Recommendation

Extensive federal reports and Web sites have been developed to provide IFD type information and other national governments provide information on the flow of funds to particular geographical areas of their nation. FASAB has recognized the need to provide IFD type information in financial reports as well. FASAB requires information about the solvency of state unemployment insurance funds and some accrual basis information about funds used to support investments by others. This information helps achieve the stewardship objective of financial reporting.

Information about the risks arising from partnerships with SLGs to achieve federal program objectives may be needed. Delivery of goods and services intended to solve public problems has become increasingly complex. More and more often partners are engaged to effectively implement and run programs financed by federal funds. The capacity of partners to weather financial hardships, and to effectively administer programs, is increasingly relevant to the federal government and US citizens. Financial and operating risks arising from such partnerships—explicit and implicit—should be considered and perhaps reported in general purpose financial reports. Guidance may be needed to:

- State the objectives of risk disclosures
- Identify key indicators or measures of risk
- Frame decisions about “significant risk” using a holistic approach
- Develop narrative explanations to help users understand
- Determine at what level information should be presented (e.g., program, SLG entity, or other)\_

While investment information is not required to be presented by SLG area, it provides information on the impact of the federal government on the nation. Also, researchers and analysts are able to access other IFD data currently presented geographically and on a budgetary basis, such as social security payments, Medicare benefits, federal purchases of goods and services, and federal employee wages and salaries in particular SLG areas. Among other things, the data is useful in assessing the effects of the federal government on the economy of geographic areas and what areas may be most impacted if federal programs and funds were removed or redistributed. The Board supports “special purpose” reports and requiring this information in RSI could help enhance the quality of the data being used. To provide the additional IFD information, further concepts and guidance would be needed. The guidance could include criteria for

- defining and measuring IFD elements,
- attributing flows and stocks to geographical areas,

- determining what performance information might be provided, and
- developing narrative explanations to help users understand
  - the relationship between the IFD information and the financial statements,
  - the methodology and assumptions used in presenting IFD information, and
  - anomalies in the data that may lead to misleading conclusions or may be challenging for readers to understand.

The Board had considered a project on reclassifying stewardship investments, which is the last item of required supplementary stewardship information (RSSI).<sup>35</sup> FASAB could consider reclassifying stewardship investments and the removal of the RSSI category as part of an IFD reporting project.

### **Recommendation 6: Enhance the Information Value of the Reconciliation of Net Operating Cost and Unified Budget Deficit Statement through Re-labeling**

#### Summary of the Task Force's Recommendation

Change the labels on the Reconciliation of Net Operating Cost and Unified Budget Deficit Statement so that the statement better helps readers understand the differences between the most commonly reported measure of government results – the deficit – and the accrual basis results. For example, headings such as “add excess of expenses over budget outlays,” should be added to help readers understand which amounts are included or not included in the Unified Budget Deficit.

#### Staff Analysis

The Reconciliation of Net Operating Cost and Unified Budget Deficit Statement is a statement of interest to budget analysts because it shows the extent of differences between budgetary and accrual accounting. SFFAS 24 states

The financial report of the Government as a whole should provide a financial statement reconciling net operating revenue (or cost) and the annual unified budget surplus (or deficit). The financial statement should highlight:

- The components of net operating revenue (or cost) that are not part of the unified budget surplus (or deficit), including the accrued and amortized expenses not included in budget outlays and the accrued or other revenue not included in budget receipts; and

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<sup>35</sup> See <http://www.fasab.gov/projectsstewardinvestments.html> for a discussion on the project.

- The components of the unified budget surplus (or deficit) that are not part of net operating revenue (or cost), including budget receipts and outlays that are not included in net operating revenue (or cost). (par.10)

Also, while FASAB did not intend to be prescriptive,<sup>36</sup> SFFAS 24, Appendix B: Illustrative Statement: Reconciliation provides an example of the statement. See Figure 22: SFFAS 24 Illustrative Reconciliation of Net Operating Cost and Unified Budget Deficit.

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<sup>36</sup> SFFAS 24, par. 11.

**Figure 22: SFFAS 24 Illustrative Reconciliation of Net Operating Cost and Unified Budget Deficit**

(Hypothetical data)		
RECONCILIATION OF NET OPERATING REVENUE (OR COST)		
AND UNIFIED BUDGET SURPLUS (OR DEFICIT)		
for the period ending Sept. 30, 20X2		
(in billions of dollars)		
[Footnotes below would be to notes to the financial statements and are not provided for this illustration.]		
	FY 20X2	FY 20X1
<b>Net operating revenue or (cost)</b>	46.0	(50.0)
<b>Components of net operating revenue (or cost) not part of the of the budget surplus:</b>		
<b>Add</b> excess of accrual-basis expenses over budget outlays:		
Civilian & military employee benefits (Note X1)		
Pensions and retired pay	75.5	74.0
Retiree health benefits	14.6	14.7
Other benefits	4.7	4.6
Subtotal – civilian & military employee benefits	94.8	93.3
Veteran compensation (Note X1)	62.5	59.0
Environmental clean-up (Note X2)	19.6	18.5
Other benefit programs (Note X3)	4.0	4.5
Other	18.5	17.5
Subtotal – excess of accrual-basis expenses over budget outlays	199.4	192.8
<b>Add</b> amortized expenses not included in budget outlays:		
Depreciation (Note X7)	15.4	15.0
<b>Add</b> other expenses that are not reported as budget outlays:		
Premiums paid on buyback of Treasury debt (Note X10)	5.5	1.6
<b>Subtract</b> excess of accrual-basis revenue over budget receipts:		
Accrued tax revenue (Note X5)	(0.6)	(0.7)
Other accrued revenue (Note X8)	-	1.0
<b>Subtract</b> other revenue and gains that are not budget receipts:		
Other revenue and gains	(2.3)	(2.2)
Subtotal components of net operating revenue (cost) not part of budget surplus	217.4	207.5
<b>Components of the budget surplus that are not part of net operating revenue (or cost):</b>		
<b>Add</b> budget receipts not included in net operating revenue (or cost):		
Principal repayments on pre-credit reform loans	24.0	24.5
Decrease in accounts receivable (Note X3)	2.7	3.0
<b>Subtract</b> budget outlays not included in net operating revenue (or cost):		
Acquisition of capital assets (Note X7)	(31.6)	(43.0)
Acquisition of inventory (Note X6)	(11.9)	(12.0)
Acquisition of other assets	(5.4)	(7.0)
Subtotal – components of the budget surplus that are not part of net operating revenue (or cost)	(22.2)	(34.5)
<b>Other:</b>		
Prior period adjustment (Note X17)	(4.2)	-
<b>Unified budget surplus (deficit) – actual</b>	<b>237.0</b>	<b>123.0</b>

Source: SFFAS 24, Selected Standards for the Consolidated Financial Report of the U.S. Government, Appendix B: Illustrative Statement Reconciliation [Highlight added]

The illustrative Reconciliation of Net Operating Cost and Unified Budget Deficit Statement includes labels that inform the reader which items to “add” or “subtract.” This helps indicate which net operating cost items are included or not included in the unified budget amount. The task force believed that without such labels, a user may not be clear on whether items such as depreciation expense and property, plant, and

equipment disposals and revaluations (see Figure 23: Current Reconciliation of Net Operating Cost and Unified Budget Deficit) are or are not included in the unified budget deficit amount.

**Figure 23: Current Reconciliation of Net Operating Cost and Unified Budget Deficit**

United States Government		
Reconciliations of Net Operating Cost and Unified Budget Deficit		
for the Years Ended September 30		
(In billions of dollars)	2010	2009
Net operating cost.....	(2,080.3)	(1,253.7)
Components of Net Operating Cost Not Part of the Budget Deficit:		
Increase in Liability for Military Employee Benefits (Note 15):		
Increase in military pension liabilities.....	85.6	23.0
Increase in military health liabilities.....	78.9	5.2
(Decrease) in other military benefits.....	(0.3)	(2.8)
Increase in liability for military employee benefits.....	164.2	25.6
Increase/(decrease) in liability for veteran's compensation (Note 15):		
Increase/(decrease) in liabilities for veterans.....	115.9	(101.2)
Increase/(decrease) in liabilities for survivors.....	107.0	(46.9)
Increase/(decrease) in liabilities for burial benefits.....	0.9	(1.1)
Increase/(decrease) in liability for veteran's compensation.....	223.8	(149.2)
Increase in liabilities for civilian employee benefits (Note 15):		
Increase in civilian pension liabilities.....	103.5	74.6
Increase in civilian health liabilities.....	3.3	10.4
Increase in other civilian benefits.....	8.3	3.4
Increase in liabilities for civilian employee benefits.....	115.1	88.4
(Decrease) in environmental and disposal liabilities (Note 16):		
(Decrease)/increase in Energy's environmental and disposal liabilities ..	(17.5)	1.8
(Decrease) in all others' environmental and disposal liabilities.....	(3.0)	(2.8)
(Decrease) in environmental and disposal liabilities.....	(20.5)	(1.0)
Depreciation expense.....	57.5	59.5
Property, plant, and equipment disposals and revaluations .....	(9.8)	6.5
Increase in benefits due and payable .....	3.5	16.4
Increase in insurance and guarantee program liabilities.....	9.4	81.1
Increase in other liabilities.....	62.4	12.1
Seigniorage and sale of gold .....	(0.4)	(0.4)
(Decrease) in accounts payable .....	(0.3)	(0.1)
(Increase)/decrease in net accounts and taxes receivable .....	(7.1)	5.8
TARP yearend downward re-estimate.....	(23.6)	(110.0)
Decrease/(increase) in Beneficial interest in trust.....	2.7	(23.5)
Increase in liabilities to Government-Sponsored Enterprises .....	268.0	78.1
Increase in valuation loss on investments in Government-Sponsored Enterprises .....	8.1	37.9
Components of the budget deficit that are not part of net operating cost:		
Capitalized Fixed Assets:		
Department of Defense .....	(59.4)	(81.5)
All other agencies.....	(33.1)	(30.9)
Total capitalized fixed assets.....	(92.5)	(112.4)
Effect of prior year TARP downward re-estimate.....	110.0	-
(Increase)/decrease in inventory.....	(1.6)	5.0
(Increase) in investments in Government-Sponsored Enterprises.....	(52.5)	(95.8)
(Increase) in debt and equity securities.....	(5.8)	(22.4)
(Increase) in other assets.....	(24.7)	(89.2)
Principal repayments of precredit reform loans .....	8.0	(10.1)
All other reconciling items.....	(7.7)	14.3
Unified budget deficit.....	(1,294.1)	(1,417.1)

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

Source: 2010 Financial Report of the U.S. Government

## Other Government Entities

As noted earlier, rather than a reconciliation, Canada provides budget information on an accrual basis and presents a budget-to-actual comparison. See Figure 9: Canada's Statement of Operations and Accumulated Deficit. Additionally, as noted earlier, GASB requires budget-to-actual comparison schedules as RSI for the general fund and for each major special revenue fund that has a legally adopted annual budget.<sup>37</sup> The schedules are to be prepared on a budgetary basis. Also, GASB requires a schedule that reconciles the budgetary and accrual basis amounts,<sup>38</sup> but is not prescriptive on format. See Figure 16: Example Reconciliation of Budgetary and GAAP.

## Conclusion/Recommendation

FASAB has provided guidance for the Reconciliation of Net Operating Cost and Unified Budget Deficit Statement and the guidance permits flexibility in presentation. Additional FASAB guidance may not be the best means to address the task force's concern.

### **Recommendation 7: Reclassify the Information in the Statement of Changes in Cash Balance from Unified Budget and Other Activities**

#### Summary of the Task Force's Recommendation

Reclassify the information on changes in the cash balance from the unified budget and other activities. The Statement of Changes in Cash Balance from Unified Budget and Other Activities is currently a basic financial statement. The information it provides should be presented instead as a schedule in the notes or in RSI because its main value is to provide an operational context for the financial statements. This would reduce the number of basic financial statements without reducing availability of currently reported information.

#### Staff Analysis

SFFAC 6 states that "the Board specifies what information should be presented as basic information and what information should be presented as RSI." Accordingly, SFFAC 6 provides principles to assist FASAB in determining the category (basic information or RSI) of information and the task force noted the following

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. (par. 73E.d.)

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<sup>37</sup> GASB 34, par. 130.

<sup>38</sup> GASB 34, par. 131.

SFFAS 24 provides guidance on the Statement of Changes in Cash Balance from Unified Budget and Other Activities and states

The Government as a whole should provide a financial statement explaining how the annual unified budget surplus or deficit relates to the change in the Government's cash. The financial statement should highlight:

- The components of the unified budget surplus or deficit that are not part of the annual change in cash, including non-cash budget outlays; and
- Items affecting the Government's cash balance that are not included in the budget outlays or receipts. The statement should prominently display the cash inflow and outflow related to the changes in debt held by the public and interest accrued and interest paid on debt held by the public.

The Statement of Changes in Cash Balance from Unified Budget and Other Activities relates to the federal government's financing activities and is likely useful to credit market analysts. See Figure 24: Statement of Changes in Cash Balance from Unified Budget and Other Activities for an example. However, credit market analysts are likely to need this information more timely than annually and would rely on other sources such as the *Daily Treasury Statement* (see <http://www.fms.treas.gov/dts/>), the *Monthly Treasury Statement of Receipts and Outlays of the U.S. Government* (<http://www.fms.treas.gov/mts/index.html>) and the *Monthly Statement on the Public Debt of the U.S.* (see <http://www.treasurydirect.gov/govt/reports/pd/mspd/mspd.htm>).

**Figure 24: Statement of Changes in Cash Balance from Unified Budget and Other Activities**

United States Government Statements of Changes in Cash Balance from Unified Budget and Other Activities for the Years Ended September 30		
(In billions of dollars)	2010	2009 (Restated)
Unified budget deficit .....	(1,294.1)	(1,417.1)
Adjustments for noncash outlays included in the budget:		
Interest accrued by Treasury on debt held by the public .....	206.8	171.9
TARP yearend downward re-estimate .....	(86.4)	110.0
TARP Subsidy expense/(income) (Note 5)....	(24.2)	41.4
Other Federal entity subsidy expense/(income) (Note 4) .....	(9.4)	(44.5)
Subtotal .....	86.8	278.8
Items affecting the cash balance not included in the Budget:		
Net Transactions from financing activity:		
Borrowings from the public .....	8,525.5	8,931.0
Repayment of debt held by the public .....	(7,054.5)	(7,185.8)
Agency securities .....	0.7	-
Subtotal .....	1,471.7	1,745.4
Transactions from monetary and other activity:		
Interest paid by Treasury on debt held by the public .....	(201.2)	(170.7)
Net TARP direct loans and equity investments activity .....	111.8	(291.0)
Net GSE—mortgage backed securities activity .....	9.1	(170.0)
Net loan receivable activity .....	(160.3)	(93.0)
Allocations of special drawing rights .....	(1.0)	48.3
Other .....	12.6	38.0
Subtotal .....	(229.0)	(638.4)
Cash and other monetary assets (Note 2):		
(Decrease)/increase in cash and other monetary assets .....	35.4	(31.3)
Balance, beginning of period .....	393.2	424.5
Balance, end of period .....	428.6	393.2

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

For fiscal year 2009, \$110 billion of noncash outlays related to TARP downward re-estimates were included in the budget. For budgetary purposes, the effect of the yearend downward re-estimates (reduction of net outlays) is not recognized until the subsequent fiscal year. As such, for fiscal year 2010, the budget deficit reflected a reduction of noncash outlays for this \$110 billion. Also, \$23.6 billion of primarily noncash outlays related to fiscal year 2010 year end re-estimates were included in the current or prior year budget.



## Other Government Entities

Canada provides users with a statement of change in net debt. The statement is intended to show the reasons for the increase or decrease in net debt and the difference between the deficit and the change in debt for the year.

**Figure 25: Statement of Change in Net Debt**

### GOVERNMENT OF CANADA

#### Statement of Change in Net Debt for the Year Ended March 31, 2010

(in millions of dollars)

	2010		2009
	Budget (Note 2)	Actual	Actual
NET DEBT AT BEGINNING OF YEAR .....	525,213	525,213	516,281
CHANGE IN NET DEBT DURING THE YEAR —			
ANNUAL DEFICIT .....	33,680	55,598	5,755
CHANGE DUE TO TANGIBLE CAPITAL ASSETS —			
Acquisition of tangible capital assets .....	6,300	7,136	6,249
Amortization of tangible capital assets .....	-4,430	-4,418	-4,176
Proceeds from disposal of tangible capital assets .....	-150	-297	-608
Net loss (-) or gain on disposal of tangible capital assets, including adjustments .....		-693	686
TOTAL CHANGE DUE TO TANGIBLE CAPITAL ASSETS .....	1,720	1,728	2,151
CHANGE DUE TO INVENTORIES .....		-156	100
CHANGE DUE TO PREPAID EXPENSES .....		300	608
NET INCREASE IN NET DEBT DUE TO OPERATIONS .....	35,400	57,470	8,614
OTHER COMPREHENSIVE INCOME (-) OR LOSS (Notes 4 and 11) .....		-211	318
NET INCREASE IN NET DEBT .....	35,400	57,259	8,932
NET DEBT AT END OF YEAR .....	560,613	582,472	525,213

The accompanying notes are an integral part of these statements.  
Details (unaudited) can be found in other sections of this volume.

Source: Public Accounts of Canada 2010, Volume I

Canada also provides a statement of cash flow. See Figure 26: Statement of Cash Flow. The statement shows the Canadian government's cash provided by or used for operating, capital investment, investing, and financing activities.

**Figure 26: Statement of Cash Flow****GOVERNMENT OF CANADA****Statement of Cash Flow  
for the Year Ended March 31, 2010**

(in millions of dollars)

	2010	2009
<b>OPERATING ACTIVITIES —</b>		
<b>ANNUAL DEFICIT</b> .....	-55,598	-5,755
Items not affecting cash —		
Share of annual profit in enterprise Crown corporations and other government business enterprises .....	-2,306	-4,773
Amortization of tangible capital assets .....	4,418	4,176
Net loss or gain (-) on disposal of tangible capital assets, including adjustments .....	693	-686
Change in inventories and prepaid expenses .....	-144	-708
Change in pension and other future benefits .....	6,850	4,948
Change in foreign exchange accounts .....	4,759	-9,410
Net change in other accounts .....	3,876	6,097
<b>CASH USED BY OPERATING ACTIVITIES</b> .....	-37,452	-6,111
<b>CAPITAL INVESTMENT ACTIVITIES —</b>		
Acquisition of tangible capital assets .....	-7,136	-6,249
Proceeds from disposal of tangible capital assets .....	297	608
<b>CASH USED BY CAPITAL INVESTMENT ACTIVITIES</b> .....	-6,839	-5,641
<b>INVESTING ACTIVITIES —</b>		
Enterprise Crown corporations and other government business enterprises —		
Equity transactions .....	-3,226	1,495
Issuances of loans and advances .....	-119,755	-132,057
Repayments of loans and advances .....	99,921	60,688
Issuances of other loans, investments and advances .....	-21,174	-6,910
Repayments of other loans, investments and advances .....	16,620	5,041
<b>CASH USED BY INVESTING ACTIVITIES</b> .....	-27,614	-71,743
<b>TOTAL CASH USED BEFORE FINANCING ACTIVITIES</b> .....	-71,905	-83,495
<b>FINANCING ACTIVITIES —</b>		
Issuances of Canadian currency borrowings .....	554,892	531,668
Repayments of Canadian currency borrowings .....	-499,383	-415,801
Issuances of foreign currencies borrowings .....	22,212	24,500
Repayments of foreign currencies borrowings .....	-24,351	-23,616
<b>CASH PROVIDED BY FINANCING ACTIVITIES</b> .....	53,370	116,751
<b>NET DECREASE (-) OR INCREASE IN CASH</b> .....	-18,535	33,256
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b> .....	46,985	13,729
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 8)</b> .....	28,450	46,985
<b>SUPPLEMENTARY INFORMATION</b>		
Cash used for interest .....	15,887	17,666

The accompanying notes are an integral part of these statements.  
Details (unaudited) can be found in other sections of this volume.

Source: Public Accounts of Canada 2010, Volume I

## Conclusion/Recommendation

Given the limited audience for the Statement of Changes in Cash Balance from Unified Budget and Other Activities the Board could consider amending SFFAS 24 to require the information as a schedule in RSI. As RSI, the information would remain a required component of a financial report and users would continue to have information that could help them develop an understanding of the government's operations.

## Recommendation 8: Re-orient the Balance Sheet Display and Enhance the Related MD&A Discussion

### Summary of the Task Force's Recommendation

Change the format of the balance sheet such that the "bottom line" is "net position." This would focus users' attention on how the comparative values of assets and liabilities produce the resulting net position. Related discussions in MD&A should highlight why and how the assets of the government are important to the ongoing operations of the government and also identify and categorize the stakeholders that are reliant on the government meeting its liabilities and obligations.

### Staff Analysis

SFFAC 5 defines net position as the "arithmetic difference between the total assets and total liabilities recognized in the federal government's or a component entity's balance sheet."<sup>39</sup> Also, with respect to the balance sheet, SFFAC 2 states

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. (par. 57)

SFFAC 2 provides an example format of an entity balance sheet which shows "total liabilities and net position" as the bottom line<sup>40</sup> and the format of the current balance sheet presented in the CFR is consistent with the conceptual guidance. See Figure 27: Balance Sheet. This format is typically used by for-profit entities. They present liabilities and equity as the bottom line.

In addition, FASAB developed guidance to help users understand social insurance in the context of other measures presented in the basic financial statements. The guidance requires a discussion and analysis of assets, liabilities, and net position in management's discussion and analysis (MD&A). SFFAS 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis*, states

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<sup>39</sup> SFFAC 5, par. 50.

<sup>40</sup> SFFAC 2, Appendix 1-A:Balance Sheet

Component entities that present a SOSI [Statement of Social Insurance] and the government-wide entity should discuss critical measures from their basic statements in a separate section of their management's discussion and analysis (MD&A). They should explain the significance of key amounts, the major changes in those amounts during the reporting period, and the causes thereof. In particular, the entity should explain why the changes occurred and what they imply for the program's operation. The entity should explain how costs and commitments incurred during the period were or will be financed. The entity should describe important existing and currently-known demands, risks, uncertainties, events, and conditions—both favorable and unfavorable—that affect the amounts reported in the basic financial statements. The discussion should go beyond a mere description of existing conditions and should encompass the possible future effects of anticipated future events, conditions, and trends regarding social insurance programs. (par. 23)

The standard also states that the government-wide entity should present and explain total assets, total liabilities, and net position from the statement of financial position.<sup>41</sup>

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<sup>41</sup> SFFAS 37, par.24.b.

**Figure 27: Balance Sheet**

**United States Government  
Balance Sheets  
as of September 30**

(In billions of dollars)	2010	2009
<b>Assets:</b>		
Cash and other monetary assets (Note 2) .....	428.6	393.2
Accounts and taxes receivable, net (Note 3).....	94.6	87.4
Loans receivable and mortgage backed securities, net (Note 4)...	688.6	538.9
TARP direct loans and equity investments, net (Note 5) .....	144.7	239.7
Beneficial interest in trust (Note 6) .....	20.8	23.5
Inventories and related property, net (Note 7).....	286.2	284.6
Property, plant, and equipment, net (Note 8) .....	828.9	784.1
Debt and equity securities (Note 9).....	98.9	93.1
Investments in Government-Sponsored Enterprises (Note 11) .....	109.2	64.7
Other assets (Notes 10 and 12) .....	183.3	158.7
<b>Total assets</b> .....	<b>2,883.8</b>	<b>2,667.9</b>
Stewardship land and heritage assets (Note 27)		
<b>Liabilities:</b>		
Accounts payable (Note 13) .....	72.9	73.2
Federal debt securities held by the public and accrued interest (Note 14).....	9,060.0	7,582.7
Federal employee and veteran benefits payable (Note 15) .....	5,720.3	5,283.7
Environmental and disposal liabilities (Note 16).....	321.3	341.8
Benefits due and payable (Note 17).....	164.3	160.8
Insurance and guarantee program liabilities (Note 18) .....	175.6	166.2
Loan guarantee liabilities (Note 4).....	65.8	69.4
Liabilities to Government-Sponsored Enterprises (Note 11).....	359.9	91.9
Other liabilities (Notes 10 and 19) .....	416.5	354.1
<b>Total liabilities</b> .....	<b>16,356.6</b>	<b>14,123.8</b>
Contingencies (Note 22) and Commitments (Note 23)		
<b>Net position:</b>		
Earmarked funds (Note 24) .....	646.9	752.7
Non-earmarked funds .....	(14,119.7)	(12,208.6)
<b>Total net position</b> .....	<b>(13,472.8)</b>	<b>(11,455.9)</b>
<b>Total liabilities and net position</b> .....	<b>2,883.8</b>	<b>2,667.9</b>

Source: 2010 Financial Report of the U.S. Government

In contrast, an illustration of the balance sheet recommended by the task force is provided in Figure 28: Illustrative Balance Sheets. It presents a negative net position of over \$13 trillion as the bottom line for fiscal year 2010 rather than “total liabilities and net position” of over \$2 trillion presented under existing concepts.

**Figure 28: Illustrative Balance Sheets**

<b>United States Government Balance Sheets as of September 30</b>		
(In billions of dollars)	2010	2009
<b>Assets:</b>		
Cash and other monetary assets (Note 2) .....	428.6	393.2
Accounts and taxes receivable, net (Note 3).....	94.6	87.4
Loans receivable and mortgage backed securities, net (Note 4)...	688.6	538.9
TARP direct loans and equity investments, net (Note 5) .....	144.7	239.7
Beneficial interest in trust (Note 6) .....	20.8	23.5
Inventories and related property, net (Note 7).....	286.2	284.6
Property, plant, and equipment, net (Note 8) .....	828.9	784.1
Debt and equity securities (Note 9) .....	98.9	93.1
Investments in Government-Sponsored Enterprises (Note 11) .....	109.2	64.7
Other assets (Notes 10 and 12) .....	183.3	158.7
Total assets .....	2,883.8	2,667.9
Stewardship land and heritage assets (Note 27)		
<b>Liabilities:</b>		
Accounts payable (Note 13) .....	72.9	73.2
Federal debt securities held by the public and accrued interest (Note 14) .....	9,060.0	7,582.7
Federal employee and veteran benefits payable (Note 15) .....	5,720.3	5,283.7
Environmental and disposal liabilities (Note 16).....	321.3	341.8
Benefits due and payable (Note 17).....	164.3	160.8
Insurance and guarantee program liabilities (Note 18) .....	175.6	166.2
Loan guarantee liabilities (Note 4).....	65.8	69.4
Liabilities to Government-Sponsored Enterprises (Note 11).....	359.9	91.9
Other liabilities (Notes 10 and 19) .....	416.5	354.1
Total liabilities .....	16,356.6	14,123.8
Contingencies (Note 22) and Commitments (Note 23)		
<b>Net position:</b>		
Earmarked funds (Note 24) .....	646.9	752.7
Non-earmarked funds .....	(14,119.7)	(12,208.6)
Total net position .....	(13,472.8)	(11,455.9)

"The balance sheet compares the government's assets and liabilities, and Net Position is the result. To understand why the government's Net Position changed from last year to this year, go to the [Statement of Operations and Changes in Net Position](#)."



### Other Government Entities

Canada provides users with a Statement of Financial Position. The statement presents information in a format that presents accumulated deficit or surplus as the bottom line. Accumulated deficit or surplus is the residual of assets minus liabilities and is intended to be an indicator of net resources the Canadian government has available to provide future services. See Figure 29: Statement of Financial Position. Also, Canada's discussion and analysis of assets focused on the distinction between financial assets

and non-financial assets. Financial assets are used to determine the amount of net debt.

**Figure 29: Statement of Financial Position**

**GOVERNMENT OF CANADA**

**Statement of Financial Position  
as at March 31, 2010**

(in millions of dollars)

	2010	2009
<b>LIABILITIES</b>		
<i>ACCOUNTS PAYABLE AND ACCRUED LIABILITIES—</i>		
Other accounts payable and accrued liabilities (Note 16) .....	58,284	49,379
Taxes payable .....	48,251	50,845
Environmental liabilities (Note 16) .....	6,602	6,342
Interest and matured debt .....	6,853	6,919
Allowance for guarantees (Note 16) .....	535	514
<i>TOTAL ACCOUNTS PAYABLE AND ACCRUED LIABILITIES .....</i>	<i>120,525</i>	<i>113,999</i>
<i>INTEREST-BEARING DEBT—</i>		
Unmatured debt (Note 5) .....	559,126	514,020
Pension and other future benefits —		
Public sector pensions (Note 6) .....	142,843	139,909
Other employee and veteran future benefits (Note 6) .....	54,227	50,311
<i>Total pension and other future benefits .....</i>	<i>197,070</i>	<i>190,220</i>
Other liabilities (Note 7) .....	6,587	5,923
<i>TOTAL INTEREST-BEARING DEBT .....</i>	<i>762,783</i>	<i>710,163</i>
<i>TOTAL LIABILITIES .....</i>	<i>883,308</i>	<i>824,162</i>
<b>FINANCIAL ASSETS</b>		
<i>CASH AND ACCOUNTS RECEIVABLE—</i>		
Cash and cash equivalents (Note 8) .....	28,450	46,985
Taxes receivable (Note 9) .....	69,063	71,911
Other accounts receivable (Note 9) .....	3,692	3,251
<i>TOTAL CASH AND ACCOUNTS RECEIVABLE .....</i>	<i>101,205</i>	<i>122,147</i>
<i>FOREIGN EXCHANGE ACCOUNTS (Note 10) .....</i>	<i>46,950</i>	<i>51,709</i>
<i>LOANS, INVESTMENTS AND ADVANCES—</i>		
Enterprise Crown corporations and other government business enterprises (Notes 4, 11 and 16) .....	129,523	104,049
Other loans, investments and advances (Note 12) .....	23,158	21,044
<i>TOTAL LOANS, INVESTMENTS AND ADVANCES .....</i>	<i>152,681</i>	<i>125,093</i>
<i>TOTAL FINANCIAL ASSETS .....</i>	<i>300,836</i>	<i>298,949</i>
<b>NET DEBT .....</b>	<b>582,472</b>	<b>525,213</b>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets (Note 13) .....	55,054	53,326
Inventories .....	6,192	6,348
Prepaid expenses .....	2,129	1,829
<i>TOTAL NON-FINANCIAL ASSETS .....</i>	<i>63,375</i>	<i>61,503</i>
<b>ACCUMULATED DEFICIT (Note 4) .....</b>	<b>519,097</b>	<b>463,710</b>
<b>CONTRACTUAL OBLIGATIONS AND CONTINGENT LIABILITIES (Notes 15 and 16)</b>		

The accompanying notes are an integral part of these statements.  
Details (unaudited) can be found in other sections of this volume.

Source: Public Accounts of Canada 2010, Volume I

Concerning the format of a statement intended to present financial position for SLGs, GASB states

The statement of net assets should report all financial and capital resources. Governments are encouraged to present the statement in a format that displays assets less liabilities equal net assets, although the traditional balance sheet format (assets equal liabilities plus net assets) may be used. Regardless of the format used, however, the statement of net assets should report the difference between assets and liabilities as net assets, not fund balances or equity.<sup>42</sup>

Also, GASB believes that the statement should focus users' attention on the net assets remaining at the end of the period or the "bottom line." In the Basis for Conclusions for GASB 34, GASB states

The Board encourages, rather than requires, the use of the net assets format in the statement of net assets and permits the use of the balance sheet format as an alternative. The Board believes the net assets format (assets less liabilities equal net assets) focuses users' attention more clearly on the net assets remaining at year-end. However, because the same information is presented in either format, the Board concluded that the balance sheet format (assets equal liabilities plus net assets) should also be allowed.<sup>43</sup>

See Figure 30: Illustrative Statement of Net Assets for GASB's illustrative statement.

Regarding MD&A, GASB 34 states that the MD&A should include

- A brief discussion of the basic financial statements, including the relationships of the statements to each other, and the significant differences in the information they provide. This discussion should include analyses that assist readers in understanding why measurements and results reported in fund financial statements either reinforce information in government-wide statements or provide additional information. (par. 11.a.)
- Condensed financial information derived from government-wide financial statements comparing the current year to the prior year. (par.11.b.)

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<sup>42</sup> GASB 34, par. 30.

<sup>43</sup> GASB 34, par. 320.



Figure 30: Illustrative Statement of Net Assets

A-1

**Sample City  
Statement of Net Assets  
December 31, 2002**

Alternatively, the internal balances could be reported on separate lines as assets and liabilities. A notation would need to be added to inform the reader that the "Total" column is adjusted for those amounts (see I-1).

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Units
<b>ASSETS</b>				
Cash and cash equivalents	\$ 13,597,899	\$ 10,279,143	\$ 23,877,042	\$ 303,935
Investments	27,365,221	—	27,365,221	7,428,952
Receivables (net)	12,833,132	3,609,615	16,442,747	4,042,290
Internal balances	175,000	(175,000)	—	—
Inventories	322,149	126,674	448,823	83,697
Capital assets, net (Note 1)	170,022,760	151,388,751	321,411,511	37,744,786
<b>Total assets</b>	<b>224,316,161</b>	<b>165,229,183</b>	<b>389,545,344</b>	<b>49,603,660</b>
<b>LIABILITIES</b>				
Accounts payable	6,783,310	751,430	7,534,740	1,803,332
Deferred revenue	1,435,599	—	1,435,599	38,911
Noncurrent liabilities (Note 2):				
Due within one year	9,236,000	4,426,286	13,662,286	1,426,639
Due in more than one year	83,302,378	74,482,273	157,784,651	27,106,151
<b>Total liabilities</b>	<b>100,757,287</b>	<b>79,659,989</b>	<b>180,417,276</b>	<b>30,375,033</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	103,711,386	73,088,574	176,799,960	15,906,392
Restricted for:				
Capital projects	11,705,864	—	11,705,864	492,445
Debt service	3,020,708	1,451,996	4,472,704	—
Community development projects	4,811,043	—	4,811,043	—
Other purposes	3,214,302	—	3,214,302	—
Unrestricted (deficit)	(2,904,429)	11,028,624	8,124,195	2,829,790
<b>Total net assets</b>	<b>\$ 123,558,874</b>	<b>\$ 85,569,194</b>	<b>\$ 209,128,068</b>	<b>\$ 19,228,627</b>

*Net assets restricted for capital projects* includes approximately \$13 million of capital debt for which the proceeds have not yet been used to construct capital assets.

Source: GASB 34, Basic Financial Statements-Management's Discussion and Analysis-for State and Local Governments

### Conclusion/Recommendation

FASAB should consider amending its conceptual guidance to clarify the purpose and format of the balance sheet. Stating the purpose of the balance sheet would help determine how net position should be displayed and help constituents understand how they should interpret the figure. In addition, the guidance would help users understand why the federal balance sheet may differ from for-profit entities. Also, additional MD&A guidance may be needed based on the Board's determinations. Managers would likely be expected to explain significant changes in net position and other balance sheet amounts.

## **Recommendation 9: Explain the Difference between Net Position and Fiscal Gap**

### Summary of the Task Force's Recommendation

Add explanatory text to the balance sheet to help readers understand the difference between net position and fiscal gap. Net position shown in the balance sheet provides a current view of the federal government's financial health by focusing on present resources (assets) and obligations (liabilities). Fiscal gap is a broader "forward-looking view" that focuses on the imbalance between present as well as future resources and obligations.

### Staff Analysis

The broad reporting objectives call for point-in-time and forward looking information. SFFAC 1 states that federal financial reporting should "assist report users in evaluating the management of the entity's assets and liabilities and the efficiency and effectiveness of the government's management of its assets and liabilities." In addition, federal financial reporting should help users assess the government's financial condition and financial position and determine whether "future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due."<sup>44</sup>

To meet these objectives, SFFAC 2 discusses the need for a balance sheet and SFFAS 36, *Comprehensive Long-Term Projections for the U.S. Government*, requires fiscal gap information. In particular SFFAS 36 requires

The basic financial statement, Long-Term Fiscal Projections for the U.S. Government, should state the projection period and display the following projected amounts as both present value dollars and as a percentage of the present value of GDP for the projection period indicated:

- a. receipts, disaggregated by major programs such as Medicare, Social Security, and all other receipts, and total receipts; [footnote omitted]
- b. non-interest spending, disaggregated by major programs such as Medicare, Medicaid, Social Security, and all other non-interest spending, total non-interest spending; and
- c. the difference between projected receipts and projected non-interest spending. (par. 36)

After the initial year of implementation, the basic financial statement should also present comparative amounts for the current year and prior year, and the net change for each line item from the prior year as both present value dollars and as a percentage of the present value of GDP for the projection period indicated. (par. 37)

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<sup>44</sup> SFFAC 1, par. 134-144

Fiscal gap information should be provided, either on the face of the financial statement or in the disclosures. (par. 38)

In addition, SFFAS 17, *Accounting for Social Insurance*, requires long-term projections.

While the reporting objectives require a range of information, the CFR needs to be understandable. SFFAC 4 states

The CFR should be a general purpose statement of accountability to the public. A general purpose report should be easily understandable to the "average citizen"[footnote omitted] who has a reasonable understanding of Federal Government activities and is willing to study the information with reasonable diligence... [footnote omitted]

Also, the content and structure of the CFR should be clear and complete to citizens and citizen intermediaries,<sup>45</sup> and SFFAC 3 states that the MD&A should

...make federal financial statements understandable to a wide audience, not just to users who are specialized analysts or members of the entity's management.<sup>46</sup>

The Board believes that management should anticipate potential misunderstandings of the financial statements and consider the problems that may arise because some users may be accustomed to seeing private-sector financial statements or may have been budget-oriented versus accrual-accounting oriented.<sup>47</sup>

Moreover, the MD&A of earlier CFRs included an exhibit to help users understand the relationship among the financial statements. See Figure 31: Navigating the Government's Financial Statements. However, the standards for MD&A reporting, SFFAS 15, are not prescriptive regarding what should be reported to help users understand the financial statements and how different items of information relate to each other.

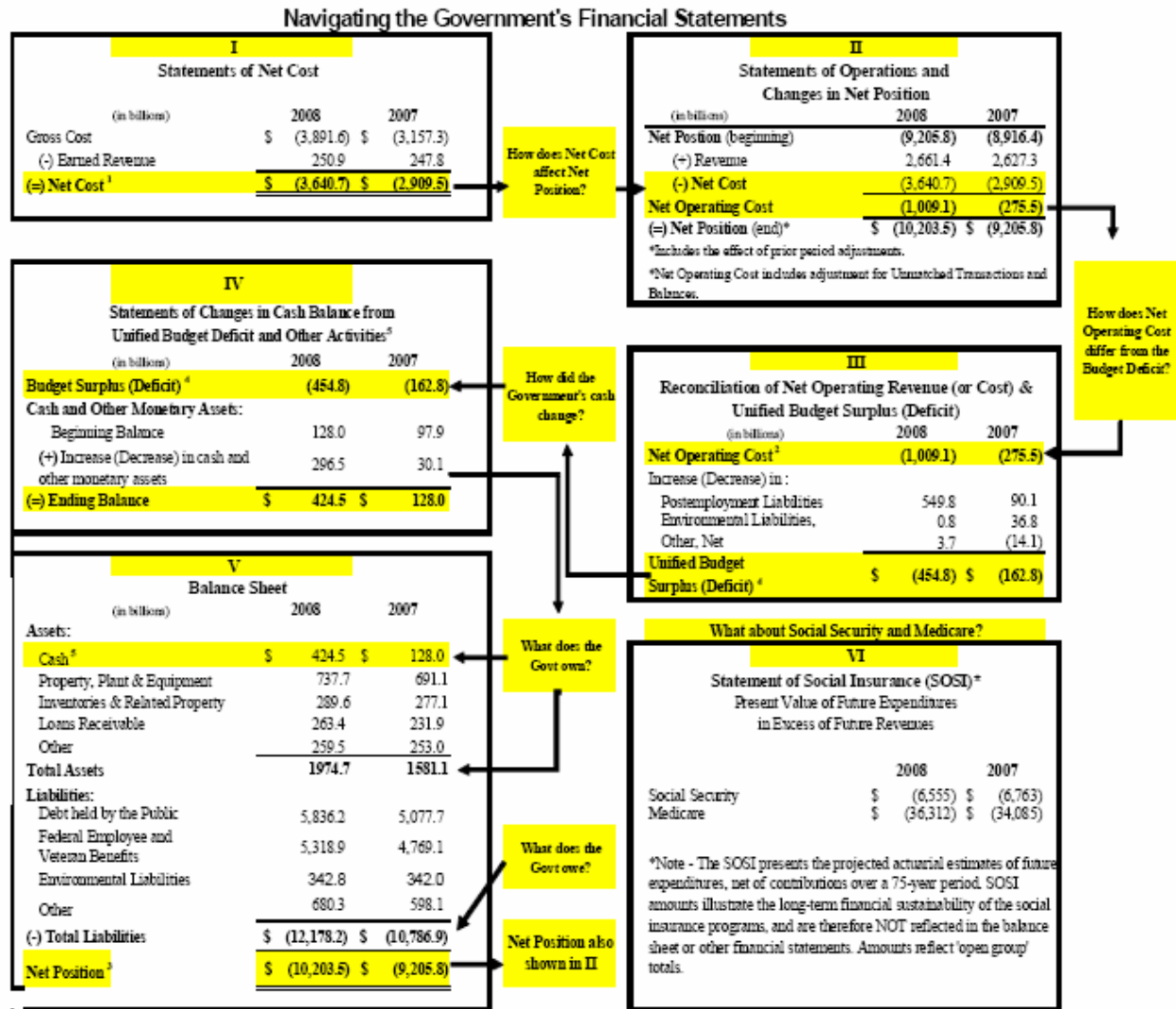
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<sup>45</sup> SFFAC 4, par. 9.

<sup>46</sup> SFFAC 3, par. 37.

<sup>47</sup> SFFAC 3, par. 37.

Figure 31: Navigating the Government's Financial Statements



1. The Statements of Net Cost presents the Government's net operating expense, which, when combined with tax and other revenue in the Statement of Operations and Changes in Net Position, yields the Government's Net Operating Cost and shows how the Government's Net Position changed during the year.

2. The Net Position from the Statement of Operations and Changes in Net Position agrees to the Net Position on the Balance Sheet, which is based on the difference between the Government's reported assets and liabilities.

3. The 'Reconciliation Statement' shows the primary differences between the Government's accrual-based Net Operating Cost and cash-based unified budget deficit.

4. The Reconciliation of Net Operating Revenue (or Cost) and Unified Budget Surplus (or Deficit) shows the differences between the Government's spending deficit and its Net Operating Cost.

5. The Statement of Changes in Cash Balance from Unified Budget and Other Activities explains why the unified budget deficit normally would not result in an equivalent change in the Government's Cash and Monetary Assets. The ending balance of Cash and Other Monetary Assets on this statement is the same as it is on the Balance Sheet.

Source: Financial Report of the U.S. Government 2008

The CFR also includes narrative descriptions of each financial statement presented.

## Other Government Entities

Canada provides users with a brief description of its four basic financial statements. Also, GASB requires a brief discussion of the basic financial statements in the MD&A. The discussion should include

...the relationships of the statements to each other, and the significant differences in the information they provide. This discussion should include analyses that assist readers in understanding why measurements and results reported in fund financial statements either reinforce information in government-wide statements or provide additional information.<sup>48</sup>

## Conclusion/Recommendation

The complex nature of the federal government requires different financial statements that present different items of information using different bases and long-term projections. The Board's conceptual guidance for the MD&A acknowledges that additional information should be presented to assist users in understanding these statements. However, the MD&A standards permit wide discretion in what management discusses.

With the addition of statements presenting long-term projections such as social insurance and fiscal gap, the Board should consider what additional information should be presented (narrative or tabular) that would help users understand the financial statements and how they relate to each other. The guidance could include discussing: the purpose of each financial statement; interrelationships among components of financial statements; and significant differences in the information provided.

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<sup>48</sup> GASB 34, par. 11.a.