

II.4.7 Statement of Financing

Section II.4.7 – Statement of Financing (SOF) Table of Contents
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II.4.7.1 Introduction:

The SOF is the bridge between an entity's budgetary and financial (i.e., proprietary) accounting. The SOF articulates the relationship between net obligations derived from an entity's budgetary accounts and net cost of operations derived from the entity's proprietary accounts by identifying and explaining key differences between the two numbers.

Most entity transactions are recorded in both budgetary and proprietary accounts. However, because different accounting bases are used for budgetary and proprietary accounting, some transactions may appear in only one set of accounts (e.g., accrual of environmental and disposal liabilities which is recorded only in the proprietary records). Furthermore, not all obligations or offsetting collections may result in expenses or exchange revenue (e.g., purchase of a building is capitalized on the balance sheet in the proprietary accounts but obligated and outlaid in the budgetary accounts).

The statement is structured to first identify total resources used by an entity during the period (budgetary and other) and then makes adjustments to the resources based upon how they were used to finance net obligations or net cost. Budgetary resources reported in this statement are those resources as defined in OMB Circular No. A-11 and also reported on the SBR. Other resources reported in this statement are also reflected in the SCNP.

Preparers of financial statements should refer to *FASAB's Implementation Guide to SFFAS No. 7* for more detailed guidance useful in preparing the SOF. Preparers of financial statements have flexibility as to the level of detail presented, e.g., the information should be presented for the reporting entity as a whole and, if the preparer elects, for the major sub-organizations or responsibility segments or for the major budget accounts.

The budgetary information used to calculate net obligations (i.e., lines 1-4) must be presented on a combined basis in the SOF to enable a direct tie to the SBR.

II.4.7.2 Illustrative Statement - Statement of Financing

Department/Agency/Reporting Entity STATEMENT OF FINANCING (Page 1 of 2) For the Years Ended September 30, 2xxx (CY) and 2xxx (PY) (in dollars/thousands/millions)		
	2xxx (CY)	2xxx (PY)
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	\$ xxx	\$ xxx
2. Less: Spending authority from offsetting collections and recoveries	<u>xxx</u>	<u>xxx</u>
3. Obligations net of offsetting collections and recoveries	xxx	xxx
4. Less: Offsetting receipts	<u>xxx</u>	<u>xxx</u>
5. Net obligations	xxx	xxx
Other Resources		
6. Donations and forfeitures of property	xxx	xxx
7. Transfers in/out without reimbursement (+/-)	xxx	xxx
8. Imputed financing from costs absorbed by others	xxx	xxx
9. Other (+/-)	<u>xxx</u>	<u>xxx</u>
10. Net other resources used to finance activities	<u>xxx</u>	<u>xxx</u>
11. <i>Total resources used to finance activities</i>	x,xxx	x,xxx
Resources Used to Finance Items not Part of the Net Cost of Operations		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided (+/-)	xxx	xxx
13. Resources that fund expenses recognized in prior periods	xxx	xxx
14. Budgetary offsetting collections and receipts that do not affect net cost of operations		
14a. Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	xxx	xxx
14b. Other	xxx	xxx
15. Resources that finance the acquisition of assets	xxx	xxx
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations (+/-)	<u>xxx</u>	<u>xxx</u>
17. <i>Total resources used to finance items not part of the net cost of operations</i>	<u>xxx</u>	<u>xxx</u>
18. <i>Total resources used to finance the net cost of operations</i>	x,xxx	x,xxx

Department/Agency/Reporting Entity STATEMENT OF FINANCING (Page 2 of 2) For the Years Ended September 30, 2xxx (CY) and 2xxx (PY) (in dollars/thousands/millions)		
	2xxx (CY)	2xxx (PY)
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
19. Increase in annual leave liability	xxx	xxx
20. Increase in environmental and disposal liability	xxx	xxx
21. Upward/Downward reestimates of credit subsidy expense (+/-)	xxx	xxx
22. Increase in exchange revenue receivable from the public	xxx	xxx
23. Other (+/-)	<u>xxx</u>	<u>xxx</u>
24. Total components of Net Cost of Operations that will require or generate resources in future periods	xxx	xxx
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	xxx	xxx
26. Revaluation of assets or liabilities (+/-)	xxx	xxx
27. Other (+/-)	<u>xxx</u>	<u>xxx</u>
28. Total components of Net Cost of Operations that will not require or generate resources	<u>xxx</u>	<u>xxx</u>
29. Total components of net cost of operations that will not require or generate resources in the current period	<u>x,xxx</u>	<u>x,xxx</u>
30. Net Cost of Operations	\$ <u>x,xxx</u>	\$ <u>x,xxx</u>

II.4.7.3 Resources Used to Finance Activities

This section reflects the budgetary resources obligated and other resources used to finance the activities of the agency. The obligations of budgetary resources are net of offsetting collections, recoveries and offsetting receipts. The other resources are financing sources that increase net position but are not budgetary resources.

Budgetary Resources Obligated

Obligations incurred. This line item will agree with the obligations incurred (line 8) as reported on the SBR. This line item will include all budget accounts, including non-budgetary financing accounts.

Less: Spending authority from offsetting collections and recoveries. This line item will agree with the spending authority from offsetting collections (line 3D) and recoveries (line 2) as

reported on the SBR. This line item will include all budget accounts, including non-budgetary financing accounts.

Obligations net of offsetting collections and recoveries. This line item is the difference between the two preceding lines.

Less: Offsetting receipts. This line item will agree with the offsetting receipts (19C) as reported on the SBR.

Net obligations. This line item is the difference between the two preceding lines. Net obligations reflect obligations incurred net of offsetting collections, recoveries, and offsetting receipts.

Other Resources. The line items in this section will agree with the corresponding line items as reported on the SCNP: Donations and forfeitures of property (line 6), Transfers in/out without reimbursement (line 7 only), Imputed financing from costs absorbed by others (line 8) and Other (line 9). These resources increase net position but are not budgetary resources as reported on the SBR or defined as such in the OMB Circular No. A-11.

II.4.7.4 Resources Used to Finance Items Not Part of the Net Cost of Operations

This section adjusts total resources used to finance the activities of the entity to account for items that were included in net obligations and other resources but were not part of the net cost of operations. This section would include items in which the expense was recognized in a prior period but the budgetary resource and obligation are recognized in the current period (e.g., upward/downward reestimates of subsidy expense accrued in the prior period but obligated in the current period). It would also include budgetary resources and obligations recognized in the current period that do not affect the net cost of operations (e.g., the acquisition of assets reflected in net obligations but not in net cost of operations for the period).

Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided. This amount reflects undelivered orders or adjustments thereof, reflected in net obligations but not part of net cost of operations. This line item is typically a reduction to *Total resources used to finance activities*.

Resources that fund expenses recognized in prior periods. This line item reflects the obligation of resources that were part of the net cost of operations in a prior period. The expense would have been reported on this statement in a prior period as a *Component Requiring or Generating Resources in Future Periods* (Section II.4.7.5). An example includes the liquidation of a liability with budgetary resources provided in the current period. Such activities include decreases in annual leave and environmental clean-up liabilities.

Budgetary offsetting collections and receipts that do not affect net cost of operations. This line item reflects offsetting collections and receipts that are not reported as exchange revenue on the SNC. Gross offsetting collections and receipts are offset against obligations incurred to

determine net obligations in the *Resources Used to Finance Activities* section of this statement. Since not all of offsetting collections and receipts are exchange revenue, an adjustment is needed on this line. The adjustment reflects the portion of offsetting collections and receipts that are not reported on the SNC.

Credit program collections which increase liabilities for loan guarantees or allowances for subsidy. Certain collections in the financing account represent budgetary resources but do not affect net cost. These collections do, however, adjust amounts on the balance sheet. For example, the accounting for subsidy expense illustrates this reconciling item. In determining net obligations, in the *Resources Used to Finance Activities* section, subsidy expense is reflected as both a component of obligations incurred and offsetting collections. The program account obligates the subsidy expense and the financing account collects and retains the subsidy until disbursement of a loan or default claim. The subsidy expense is reflected as both an obligation on the SBR and an expense on the SNC. The collection, however, is reflected as an offsetting collection on the SBR but reflected as a contra-asset or liability on the Balance Sheet.

Other. Other transactions generating differences between net obligations and net cost of operations that are reflected on this line include the collection of exchange revenue receivable from the public and advances received for work not yet performed.

Resources that finance the acquisition of assets. This line item reflects budgetary resources obligated that are not expenses as reported on the SNC. An example of this activity includes purchases of capitalized assets.

Other resources or adjustments to net obligated resources that do not affect net cost of operations. This line item includes activities not otherwise classified above. This activity may include non-cash recoveries of prior year obligations. Recoveries are budgetary resources that offset obligations on the SBR, but are not a proprietary financing source used to offset costs on the Statement of Net Cost.

Other examples include donations of property, forfeitures of property and transfers of property. These examples are reported as Other resources in the first section of this statement but are not reported on the SNC or SBR.

II.4.7.5 Components Requiring or Generating Resources in Future Periods

The costs of the Federal Government are not always funded in the period the costs are incurred. This section identifies items that are recognized as a component of the net cost of operations for the period but the budgetary resources (and related obligation) will not be provided (or incurred) until a subsequent period.

Increase in annual leave liability. This line item includes the expense related to the increase in annual leave liability for which the budgetary resources will be provided in a subsequent period.

Increase in environmental and disposal liability. This line item includes the expense related to the increase in environmental and disposal liability for which the budgetary resources will be provided in a subsequent period.

Upward/downward reestimates of credit subsidy expense. This line item includes the expense recognized as a result of an upward/downward reestimate of credit program subsidy cost, for which the budgetary resources (or obligation) will be provided (or incurred) in a subsequent period. While budgetary resources are not provided in the current period, credit subsidy reestimates should be reflected as liabilities covered by budgetary resources since the budget authority to fund the reestimates is permanent and indefinite and no further Congressional action is needed to provide the resources.

Increase in exchange revenue receivable from the public. Exchange revenue from the public is reflected as it is earned as a component of the net cost of operations for the period, but will normally not be reflected in net obligations until it is received. Budgetary resources are normally not recognized from the public until collected in accordance with the OMB Circular No. A-11.

Other. This line item includes activities not otherwise classified above.

II.4.7.6 Components Not Requiring or Generating Resources

This section includes items recognized as part of the net cost of operations for the period but will not generate or require the use of resources.

Depreciation and Amortization. This line item includes the depreciation and amortization of assets reflected as a component of net cost of operations for the period. For capitalized assets, budgetary resources are obligated when the asset is acquired, not when it is depreciated.

Revaluation of assets or liabilities. This line item includes gains and losses recognized during the revaluation of assets or liabilities.

Other. This line item includes activities not otherwise classified above.

II.4.7.7 Net Cost of Operations

This amount is the sum of the line items Total resources used to finance net cost of operations and Total components of net cost of operations that will not require or generate resources in the current period. This line item will agree with the net cost of operations as reported on the Statement of Net Cost.

II.4.8 Statement of Custodial Activity**Section II.4.8 – Statement of Custodial Activity (SCA)
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II.4.8.1 Introduction

The SCA is required for entities that collect nonexchange revenue for the General Fund of the Treasury, a trust fund, or other recipient entities. In addition, the Statement of Custodial Activity is required for selected exchange revenues specified in SFFAS 7, including oil and gas revenues. The collecting entities do not recognize as revenue those collections that have been or should be transferred to others as revenues. Rather, they shall account for sources and disposition of the collections as custodial activities on the SCA.

An exception to requiring preparation of the SCA is made when collecting entities have custodial collections that are immaterial and incidental to their primary mission. In these cases, the sources and disposition of the collections may be disclosed in accompanying footnotes.

Custodial collections are normally nonexchange revenues, such as taxes and duties collected by the Internal Revenue Service and the U.S. Customs and Border Protection. Exchange revenue is normally reported on the SNC. However, SFFAS 7 identified certain exceptional circumstances in which the entity recognizes virtually no costs in connection with earning the revenue that it collects (see paragraph 45 of SFFAS No. 7). In these identified situations, the exchange revenue is reported in the SCA rather than on the SNC. Information on the sections of the SCA is presented below. Also see SFFAS No. 7 and the related implementation guide.