

ANALYSIS OF THE STATEMENT OF FINANCING

The Statement of Financing is designed to provide the bridge between accrual based (i.e. financial accounting) information in the Statement of Net Cost and obligation based (i.e. budgetary accounting) information in the Statement of Budgetary Resources by reporting on the differences and reconciling the two statements. This reconciliation is needed to insure that there is a proper relationship between proprietary and budgetary accounts in the financial management system. In addition to the information it will provide, this statement will provide additional assurance about the reliability of the system that produces the accounting and budgetary information.

It is well known that the predominant form of accounting in the Federal government has been budgetary accounting. The advent of recent Federal financial management initiatives, starting with the CFO Act of 1990, started to introduce the concept of financial accounting to the Federal government. At times, this has created confusion among those who are only familiar with one presentation of Federal accounting. This statement will assist those who work with the budget to understand the financial statements and the cost information they provide. Therefore, this statement serves as a bridge between the two different bases of accounting. There are certain differences, such as timing differences, between budget numbers and financial statement numbers that will never change. The Statement of Financing will also serve to define and supply this information.

The Statement of Financing begins with the amount of budgetary obligations incurred (\$470.7 billion) from the status section of the Statement of Budgetary Resources. The statement then provides a series of reconciling items netting approximately \$47.4 billion, most of which is attributed to timing differences related to Medicare and Medicaid accruals, in order to work toward the bottom line - the net cost of operations of \$428.3 billion. This amount does not equal the Net Cost of Operations appearing on the Statement of Net Costs because the Statement of Financing does not include the eliminating entries that are included in the Consolidated Statement of Net Costs.