



August 1, 2008

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information: Comment Letters Received through July 24, 2008 - Tab G¹

MEETING OBJECTIVE

To review the comments received in response to the exposure draft (ED) proposing amendments to SFFAC 2, *Entity and Display*, and discuss staff recommendations for a final draft concepts statement in light of the responses (see page 13 for the issues considered in preparing the draft statement).

BRIEFING MATERIAL

This Tab includes the following attachments:

Attachment 1 – Staff Summary of Responses.

Attachment 2 – Staff Analysis

Attachment 3 – Tracked Changes Version of Draft Concepts Statement

¹ 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.

Attachment 4 – Clean Version of Draft Concepts Statement

Attachment 5 – Summary of Board Views

Attachment 6 - Comment Letters Received

BACKGROUND

The ED proposed amendments to SFFAC 2 that provide conceptual guidance for distinguishing basic information, required supplementary information, and other accompanying information. See Attachment 5 for a summary of Board views during the project.

SUMMARY OF OUTREACH EFFORTS

The ED, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*, was issued March 26, 2008, with comments requested by June 26, 2008. Upon release of the exposure draft, notices and press releases were provided to:

- a) The Federal Register;
- b) *FASAB News*;
- c) *The Journal of Accountancy*, *AGA Today*, *the CPA Journal*, *Government Executive*, *the CPA Letter*, and *Government Accounting and Auditing Update*;
- d) The CFO Council, the Presidents Council on Integrity and Efficiency, Financial Statement Audit Network, and the Federal Financial Managers Council; and
- e) Committees of professional associations generally commenting on exposure drafts in the past.

This broad announcement was followed by direct mailings of the exposure draft to:

- a) Subcommittee on Federal Financial Management, Government Information, and International Security, Committee on Homeland Security and Governmental Affairs, United States Senate
- b) Subcommittee on Government Management, Organization, and Procurement, Committee on Oversight and Government Reform, House of Representatives

To encourage responses, a reminder notice was provided on June 24, 2008 to our Listserv.

RESULT

As of July 24, 2008, we have received 19 responses from the following sources:

	FEDERAL (Internal)	NON-FEDERAL (External)
Users, academics, others		3
Auditors	3	1
Preparers and financial managers	12	
Totals	15	4

The comment letters are provided as Attachment 6. The comment letters include a table of contents and identify respondents in the order their responses are received.

STAFF SUMMARY AND ANALYSIS

Staff has summarized and analyzed the questions. The staff's summary is intended to support your consideration of the comments and not to substitute for reading the individual letters. Attachment 1, at page 4 of this memo, provides the staff summary. The summary presents:

- a) a Tally Of Responses By Question,
- b) a Quick Table Of Responses By Question,
- c) a Listing Of Additional Comments From Respondents.

Attachment 2, at page 13 of this memo, provides the staff analysis including an overall summary of responses, a list of issues identified with staff analysis and recommendations.

Should you have questions or need additional information, please contact Ross at (202) 512-2512 or by email at simmsr@fasab.gov as soon as possible before the meeting.

ATTACHMENT 1 – STAFF SUMMARY OF RESPONSES

Tally of Responses by Question

QUESTION	YES/AGREE	NO/DISAGREE	NO COMMENT
Q1.The Statement identifies a process and criteria to consider in deciding whether information should be considered basic information, required supplementary information or other accompanying information (See the section, Distinguishing Basic Information, RSI, and OAI, beginning on page 13 of the exposure draft).			
a. Do you agree with the process presented? If not, please explain your reasons.	17*	1	1
b. Do you agree with the factors presented for distinguishing basic information from required supplementary information (See Table 1: Factors to Consider in Distinguishing Basic Information from RSI)?	18**	0	1
c. Are there additional factors that should be considered? If so, what are they, and how would you describe them?	4	14	1

* The process presented in the ED includes Table 1: Factors to Consider in Distinguishing Basic Information from RSI. Two respondents supported the intent of the process, but noted concerns with the factors in Table 1.

** Two respondents believed that the factors were reasonable or useful, but broad and subject to interpretation.

ATTACHMENT 1 – STAFF SUMMARY OF RESPONSES

Quick Table of Responses by Question

The following table provides a brief overview of the comments by question number. See the above table, “Tally of Responses by Question” for the text of the questions.

RESPONDENT	Q1. a. The Process	Q1.b. The Factors	Q1.c. Additional Factors
1 RRB	Yes	Yes	No
2 USPS-OIG	Yes But need more specifics	Yes But need clarification	Yes Criteria from Financial Accounting Standards Board Statement of Financial Accounting Concepts No. 5, <i>Recognition and Measurement in Financial Statements of Business Enterprises</i>

RESPONDENT	Q1. a. The Process	Q1.b. The Factors	Q1.c. Additional Factors
3 SSA	Yes	Yes	No
4 NASA-OIG	Yes	Yes	No
5 DoC	Yes	Yes	No
6 DoEd	Yes	Yes	No
7 FISC	Yes But distinguishing basic and RSI rests solely with the standards setter. This should be clearer. Also, the factors in Table 1 are subject to interpretation and allow others to judge the Board's thinking.	Yes Some contain ambiguities	No But need to define link to the reporting objectives

RESPONDENT	Q1. a. The Process	Q1.b. The Factors	Q1.c. Additional Factors
8 FMSB	Support intent But distinguishing basic and RSI rests solely with the standards setter. This should be clearer. Also, the factors in Table 1 are subject to interpretation and allow others to judge the Board's thinking.	Reasonable But subject to interpretation and some factors contain ambiguities	No But need to define link to the reporting objectives
9 DoE	Yes	Yes	No
10 DoD	Support intent Basic versus RSI criteria is subject to interpretation. Also, consolidate RSI and OAI or include OAI in separate report.	Yes But subject to interpretation	No
11 Mgmt Concepts	Yes	Yes	No

RESPONDENT	Q1. a. The Process	Q1.b. The Factors	Q1.c. Additional Factors
12 DoL	Yes	Yes	No
13 HHS-OIG	Yes	Yes But relative values should be assigned to factors to facilitate scoring the information	Yes Statutory and regulatory requirements, such as information required by OMB
14 LoC	No If information is truly essential, it should be classified as basic	Yes Some factors could be clarified or removed	Yes Basis of accounting used, number of future time periods, impact of market factors and market volatility
15 CFOC	Yes But distinguishing basic and RSI rests solely with the standards setter. This should be clearer. The factors in Table 1 are subject to interpretation and allow others to judge the Board's thinking.	Yes But some contain ambiguities, some seem more important than others, some are vague and do not add value to the process	Yes Need link to reporting objectives

RESPONDENT	Q1. a. The Process	Q1.b. The Factors	Q1.c. Additional Factors
16 DoI	Yes But the presence of Table 1 could allow personal judgment and/or interpretation of the Board's intent, and the ED does not discuss required supplementary stewardship information (RSSI).	Yes But lacks hierarchy, subject to interpretation, intended purpose needs clarification	No
17 EPA	No Comment	No Comment	No Comment
18 Treasury	Yes	Useful But very broad, few details to assist in using the factors	No
19 KPMG	Yes	Yes "Level of importance" factors should be clarified	No

Summary of Additional Comments by Respondent

Respondent	Additional Comments
2 USPS	Consider codifying federal accounting standards like the FASB.
6 DoEd	Change references to the Statement of Financing
7 FISC	Various editorial suggestions
8 FMSB	<ol style="list-style-type: none"> 1. Change references to the Statement of Financing. The statement is no longer considered a basic statement. 2. Clarify language stating that RSI and OAI may be “integrated” and labeled “unaudited” (par. 9 of ED). Simply labeling the information “unaudited” does not mean there is no risk or no work is necessary to evaluate risk.

Respondent	Additional Comments
<p>10 DoD</p>	<ol style="list-style-type: none"> 1. Clarify whether the Balance Sheet is being renamed to Statement of Financial Position. 2. Clarify par. 19 and 77 regarding intra-entity transactions and balances. It appears to indicate that intra-entity eliminations are not required. 3. Explicitly state whether RSSI is not required and previously reported RSSI is RSI.
<p>13 HHS</p>	<p>Clarify instances where financial statements may be presented as RSI or OAI and editorial suggestions.</p>
<p>14 LoC</p>	<p>Consider whether basic versus RSI designations has unintended consequences, e.g. requiring more reliable, less relevant basic information that may have less value to readers</p>
<p>15 CFOC</p>	<ol style="list-style-type: none"> 1. Expand par. 73C to include information that the FASAB considers important for presentation but below the level of essential. 2. Reevaluate the usefulness of the statement of financing. The statement should rank no higher than RSI based on the factors in Table 1 of the ED. 3. Various suggestions to improve readability

Respondent	Additional Comments
<p>16 Dol</p>	<ol style="list-style-type: none"> 1. References to statement of financing should be consistent with Office of Management and Budget (OMB) Circular A-136. 2. Statement of Financial Position should be referred to as Balance Sheet. 3. Consider whether Table 1 should be presented as a decision tree, hierarchy, or precise algorithm for classifying items. 4. Consider whether RSSI should be included. 5. Clarify whether the statement of program performance measures is the same as the footnote disclosure for the statement of net cost (par. 16). 6. Suggested edits for improving clarity.
<p>17 EPA</p>	<p>Does the FASAB believe that OMB Circular A-136 conforms to the ED? A-136 identifies information to present as RSSI, RSI, and OAI.</p>
<p>19 KPMG</p>	<ol style="list-style-type: none"> 1. Recommend changes to paragraphs 55 and 55A. They convey more importance on the auditing function than discussed in Table 1. 2. Suggest changes to SFFAC 2 not addressed in the ED. 3. Editorial suggestions.

ATTCHMENT 2 – STAFF ANALYSIS

Overall Summary

Respondents generally agree with the Board’s proposed concepts for distinguishing basic information, RSI, and OAI. Nineteen constituents commented on the ED and 18 responded to the questions asked. Of those that responded to the questions, all but one **agreed** with the overall process for distinguishing basic information, RSI, and OAI and all of them **agreed** with the intent of the factors for distinguishing basic information and RSI (Table 1: Factors to Consider in Distinguishing Basic Information from RSI).

Issue Raised -- Staff Analysis and Recommendations

Broad Issue: Clarifying the Factors

Although respondents generally agreed with the conceptual guidance for distinguishing basic information, RSI, and OAI, some noted concerns regarding the clarity of the factors for distinguishing basic information and RSI. The concerns were as follows:

- 10 respondents (#2, USPS-OIG; #7, FISC; #8 FMSB; #10, DoD; #13, HHS-OIG; #14, LoC; #15, CFOC; #16, DoI; #18, Treasury; #19, KPMG) believed that the factors for distinguishing basic information and RSI needed clarification, should be presented as a type of hierarchy, or some removed from consideration. For example, some respondents (#7, FISC and #15, CFOC) commented

Generally, the factors convey important thought processes that should be considered by any standards setting body. However, certain questions contain ambiguities that are difficult to understand and define.

- 5 respondents (#7, FISC; # 8, FMSB; #10, DoD; #15, CFOC; #16, DoI) believed that the factors for distinguishing basic information and RSI were subject to interpretation, which affects the clarity of the process.
- 3 respondents (#7, FISC; #8, FMSB; and #15, CFOC) noted that the conceptual guidance could more clearly state that distinguishing basic information and RSI rests solely with the standards setter. Subjective factors should not be exposed to interpretation by those outside of standards-setting. The factors for distinguishing basic information and RSI are written in a way that permits individuals to judge the Board’s thinking.

- 4 respondents (#2, USPS-OIG; #13, HHS-OIG; #14, LoC; #15, CFOC) believed that additional factors should be considered.
- 1 respondent (#14, LoC) questioned the need for the RSI category.
- 1 respondent (#2, USPS) believed that more specific criteria are needed to assist those other than the FASAB.

These concerns are incorporated in Table 1: Analysis of Factors. The table presents each factor and, for each factor, the respondent's comment, a staff analysis, and a staff recommendation. In addition, the table includes additional factors proposed by respondents. Overall, staff suggests adding examples to paragraph 73E of the ED. This paragraph explains the factors that may be considered. Also, staff suggests retaining the existing factors rather than adding new ones. The main idea of the factors proposed by some respondents were either incorporated by the existing factors or would be more useful for issues not intended to be addressed by the ED. In addition, staff made edits to enhance the readability of the statement. These edits are indicated in the tracked changes version of the draft concepts statement.

Table 1: Analysis of Factors

Ref.	Factor	Comment	Staff Analysis	Staff Recommendation
A.	<Relevance to fair presentation>	Assign the factor a weight or value, some factors seem more important than others (#13, HHS-OIG), #15, CFOC)	The purpose of the ED is to provide conceptual guidance for developing future standards. It is intended to guide the Board in deciding issues such as what information should be a part of the financial statements prepared in conformity with GAAP (basic information) and what information should <i>accompany</i> financial statements prepared in conformity with GAAP (RSI). The ED provides a general framework for guiding members in deciding whether an item of information should be considered basic information or RSI. A general framework permits future Boards some level of flexibility in developing standards and the framework would not necessarily need to be revised as changes in the environment occurred. Adding examples will help clarify the Board's intent for the factors.	No change
B.	<Connection with elements of financial reporting>	Assign the factor a weight or value, some factors seem more important than others (#13, HHS-OIG), #15, CFOC)	See discussion for factor A.	No change
C.	<Use of various types of financial data or financial transaction data>	Assign the factor a weight or value, some factors seem more important than others (#13, HHS-OIG), #15, CFOC) It is unclear what this factor really means. The ability to use financial data does not seem to have any relevance to the determination of presentation importance. (#15, CFOC)	See discussion for factor A. The factor calls for considering the nature of the data and the information processing system involved. Some may view basic information as consisting of a high level of financial data or data derived from the double-entry transaction processing.	Add the following example: Members may deliberate the nature of the data used or the type of system used to process the information. The higher the level of financial data used or data derived from a system for processing financial transactions, the more likely the item may be considered basic information.

Ref.	Factor	Comment	Staff Analysis	Staff Recommendation
D.	<Level of importance the Board wishes to be communicated in the financial report>	<p>The Board should reference sources where it has communicated this preference. (#2, USPS-OIG)</p> <p>Is the intent for the Concept Statement to be a common foundation for board deliberations but not for use by other users, auditors or preparers? This seems inconsistent in approach from all other standards. We suggest the board consider replacing the term Board with entity or auditor as appropriate. (#8, FMSB)</p> <p>Level of importance is very difficult to understand because the board would not have even considered an agenda item unless it was important to understanding the financial statements. In addition, how does one convey importance in the basic or required supplementary information? We present facts and other information that will assist in understanding the data not its importance. (#8, FMSB)</p> <p>The review process for “scoring” the information would begin with this factor and Level of importance the Board wishes to be communicated in the auditor’s report. (#13, HHS-OIG)</p> <p>Level of importance is difficult to understand because the board would not have even considered an agenda item unless it was important to understanding the financial statements. In addition, how does one convey importance in the basic or required supplementary information? Facts and other information are presented that will assist in understanding the data, not its importance. (#15, CFOC)</p> <p>Some factors seem more important than others (#15, CFOC)</p> <p>Not clearly written and does not define what is sought. (#18, Treasury)</p>	<p>See discussion for factor A.</p> <p>For most factors the Board considers the nature of the information. However, for this factor and the related factor F, the Board considers the effect of its decision on preparers and auditors.</p> <p>Preparers and auditors may influence users’ perceptions about the importance of information within a financial report. Preparers may influence users’ perceptions by determining how information is presented in the report. For example, some users may pay less attention to information labeled as “supplementary.” Also, an auditor’s report may influence a user’s perception. The auditor would issue a qualified or adverse opinion if basic information were missing or materially misstated. By designating information as basic information or RSI, the Board can have some bearing on the level of importance conveyed in the financial report and auditor’s report.</p>	<p>Add the following discussion:</p> <p>In addition to the nature of the information, the Board may take into account the effect of categorizing an item as basic information or RSI in the financial report and what the auditor’s report would communicate if the item is missing or materially misstated. Users may pay less attention to items categorized as “supplementary” or may be concerned about what the auditor’s report states about the fair presentation of the financial statements. The more important the item, the more likely it would be a part of the financial statements and notes prepared in conformity with GAAP, and if the item is missing or materially misstated, the matter would be conveyed in the auditor’s report on the fair presentation of the financial statements.</p>

Ref.	Factor	Comment	Staff Analysis	Staff Recommendation
E.	<Significance, relevance, or importance of the item in light of Objectives>	Assign the factor a weight or value, some factors seem more important than others (#13, HHS-OIG), #15, CFOC)	See discussion for factor A.	No change

Ref.	Factor	Comment	Staff Analysis	Staff Recommendation
F.	< Level of importance the Board wishes to be communicated in the auditor's report >	<p>The Board should reference sources where it has communicated this preference. (#2, USPS-OIG)</p> <p>Is the intent for the Concept Statement to be a common foundation for board deliberations but not for use by other users, auditors or preparers? This seems inconsistent in approach from all other standards. We suggest the board consider replacing the term Board with entity or auditor as appropriate. (#8, FMSB)</p> <p>The board does not set level of importance for auditors but does draw scrutiny by requiring information to be presented. This importance may be better stated as requirements defined in a standard are reviewed and validated by the audit scrutiny that ensures compliance with the requirements in standards. (#8, FMSB)</p> <p>The review process for "scoring" the information would begin with this factor and Level of importance the Board wishes to be communicated in the financial report. (#13, HHS-OIG)</p> <p>Please reconsider whether it is appropriate for the Board to influence the format or content of the independent auditor's report. Perhaps the factor could be reworded as, "Level of importance the Board wishes to communicate to the auditor." (#14, LoC)</p> <p>This factor does not seem relevant by itself, but is implicitly covered by the factor, "Level of importance the Board wishes to be communicated in the financial report." Information defined as basic will get the highest audit attention, while RSI gets less, and Other Information gets the least. Accordingly, the Board needs only to determine how important the information is to the report and audit attention will follow. Information that is not deemed essential should not be made basic to get higher audit attention. (#15, CFOC)</p> <p>Some factors seem more important than others. (#15, CFOC)</p>	<p>See discussion for factor A.</p> <p>For most factors the Board considers the nature of the information. However, for this factor and the related factor D, the Board considers the effect of its decision on preparers and auditors.</p> <p>Preparers and auditors may influence users' perceptions about the importance of information within a financial report. Preparers may influence users' perceptions by determining how information is presented in the report. For example, some users may pay less attention to information labeled as "supplementary." Also, an auditor's report may influence a user's perception. The auditor would issue a qualified or adverse opinion if basic information were missing or materially misstated. By designating information as basic information or RSI, the Board can have some bearing on the level of importance conveyed in the financial report and auditor's report.</p>	<p>Add the following discussion:</p> <p>In addition to the nature of the information, the Board may take into account the effect of categorizing an item as basic information or RSI in the financial report and what the auditor's report would communicate if the item is missing or materially misstated. Users may pay less attention to items categorized as "supplementary" or may be concerned about what the auditor's report states about the fair presentation of the financial statements. The more important the item, the more likely it would be a part of the financial statements and notes prepared in conformity with GAAP, and if the item is missing or materially misstated, the matter would be conveyed in the auditor's report on the fair presentation of the financial statements.</p>

Ref.	Factor	Comment	Staff Analysis	Staff Recommendation
G.	<Relevance to measuring financial condition or changes in financial condition>	Assign the factor a weight or value, some factors seem more important than others (#13, HHS-OIG), #15, CFOC)	See discussion for factor A.	No change
H.	<Extent to which the information interests a wide audience (rather than specialists)>	<p>This factor is virtually impossible to ascertain or define. Reporting should always use ease of understanding by non-specialist and any approach developed for specific technical audiences has no place in widely published government documents. (#8, FMSB)</p> <p>Assign the factor a weight or value, some factors seem more important than others (#13, HHS-OIG), #15, CFOC)</p> <p>Although this factor seems in line with good common sense, it may appear counter-intuitive when applied to some of the financial statements and footnotes. Perhaps the factor could be reworded as, "Extent to which the information may interest a wider audience (rather than specialists)."(#14, LoC)</p> <p>This factor is virtually impossible to ascertain or define. Reporting should always promote ease of understanding by non-specialists and any approach developed for specific technical audiences has no place in widely published government documents. (#15, CFOC)</p> <p>We do not believe the audience should determine whether information is Basic and therefore audited, or RSI and "subject to procedures specified by auditing standards," but not audited. (#18, Treasury)</p>	<p>See discussion for factor A.</p> <p>This factor focuses on the extent of "interest" in information rather than its understandability. Also, the factor has been considered in past Board decisions, such as the decision to require the Statement of Social Insurance as a part of basic information. The factor is not used or intended to distinguish financial statements from notes to financial statements</p>	<p>Add the following example:</p> <p>The extent to which the information interests a wide audience (rather than specialists). If an item of information on the sustainability of federal programs 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.</p>

Ref.	Factor	Comment	Staff Analysis	Staff Recommendation
I.	<Extent to which there are not alternative sources of reliable information>	<p>Provide one or more examples. (#2, USPS-OIG)</p> <p>Assign the factor a weight or value, some factors seem more important than others (#13, HHS-OIG), #15, CFOC)</p> <p>To improve the syntax of the factor, perhaps the factor could be reworded as, "Extent to which there is a lack of alternative sources of reliable information." (#14, LoC)</p>	See discussion for factor A.	No change.
J.	<Agreement on criteria that permit comparable and consistent reporting>	<p>Provide one or more examples. (#2, USPS-OIG)</p> <p>Although this is an admirable factor it is very difficult to determine and develop while setting standards as many elements of standards are based upon judgment and estimates. These judgments and estimates have been practiced for many years now and comparability and consistency have proven difficult in many of the existing standards especially when you consider the government-wide consolidated reports. In fact, this intent should be pursued aggressively in the technical agenda item related to reviewing all existing standards. (#8, FMSB)</p> <p>Although this is an admirable factor it is very difficult to determine and develop while setting standards as many elements of standards are based upon judgment and estimates. These judgments and estimates have been practiced for many years and comparability and consistency have proven difficult in many of the existing standards especially when you consider the government-wide consolidated reports. In fact, this intent should be pursued aggressively in the technical agenda item related to reviewing all existing standards. (#15, CFOC)</p> <p>Assign the factor a weight or value, some factors seem more important than others (#13, HHS-OIG), #15, CFOC)</p>	See discussion for factor A.	<p>Add example as follows:</p> <p>If specific criteria for measuring an item do not exist, preparers may have great discretion in developing their calculations and auditors may lack criteria necessary to express an opinion. The item of information may be a candidate for RSI.</p>

Ref.	Factor	Comment	Staff Analysis	Staff Recommendation
K.	<Experience among users, preparers, and auditors with the information>	<p>We are concerned that there might be instances of such experience but with inconsistent treatment. (#2, USPS-OIG)</p> <p>Assign the factor a weight or value, some factors seem more important than others (#13, HHS-OIG), #15, CFOC)</p> <p>Please consider removing... if basic information is truly essential, but the information is experimental in nature and requires the resolution of accounting issues, then the information should still be classified as basic and an adjustment should be made instead by delaying the required implementation date. The information should not be classified as RSI during an interim period; instead, early implementation of reporting basic information should be allowed or encouraged. Generally, most preparers and auditors will lack experience in dealing with new requirements. (#14, LoC)</p> <p>Experience varies among users and therefore, should not be considered when determining whether to include in RSI or basic information – the global pool of ‘users’ is too wide. Even experience among preparers and auditors varies and cannot be used as a basis of determining where the information should be included. Furthermore, this will only further deepen the schism between management and OIG communities due to the lack of objective ratings on these factors. (#15, CFOC)</p>	<p>See discussion for factor A.</p> <p>Some view RSI as a cost-beneficial alternative to basic information when the information is experimental in nature. When there is not sufficient experience to develop measurement criteria, auditors may have concerns about expressing an opinion on the information. They may express qualifications or explanations in their report. RSI would encourage reporting while more experience is gained and specific criteria developed.</p>	<p>Add example:</p> <p>The Board considers the views of expert users, preparers, and auditors in developing measurement criteria for basic information. If the level of experience regarding an item is low, input on specific criteria may not be available. Categorizing the information as RSI may be an alternative until the needed experience is gained.</p>
L.	<Extent to which the information is aggregated (lacking detail)>	<p>Assign the factor a weight or value, some factors seem more important than others (#13, HHS-OIG), #15, CFOC)</p> <p>This factor does not seem to fit the model of higher scores leading to basic information. The more (higher extent) that information is only available in aggregate and not in detail, the least likely it would fit basic information. Suggest rewording as “Extent to which information is generally available in detail,” where the better the availability of detail, the easier it would be to provide basic information. (#15, CFOC)</p>	<p>See discussion for factor A.</p> <p>This factor considers the cost of requiring detailed basic information rather than RSI.</p>	<p>Add example:</p> <p>The greater the extent of detail necessary to make the information useful to readers, the cost of requiring basic information increases and the more likely the item may be considered to be RSI.</p>

Ref.	Factor	Comment	Staff Analysis	Staff Recommendation
M.	<Benefit/cost ratio of using resources to ensure accuracy>	Should be expanded to include "using resources to compile the information as well as to ensure the accuracy of the information." (#8, FMSB) Assign the factor a weight or value, some factors seem more important than others (#13, HHS-OIG), #15, CFOC)	See discussion for factor A. The suggested change helps clarify the factor.	Suggest rewording factor as follows: Benefit/cost ratio of using resources to compile the information as well as ensure accuracy
N.	<Connection with basic financial statements>	Assign the factor a weight or value, some factors seem more important than others (#13, HHS-OIG), #15, CFOC)	See discussion for factor A.	No change
O.	<Reliability and/or precision possible>	Assign the factor a weight or value, some factors seem more important than others (#13, HHS-OIG), #15, CFOC)	See discussion for factor A.	No change
P.	<Reliability and/or precision needed>	Assign the factor a weight or value, some factors seem more important than others (#13, HHS-OIG), #15, CFOC)	See discussion for factor A.	No change
Q.	Proposed: The basis of accounting used to compile the information: e.g., cash, budgetary, or proprietary basis. (#14, LoC)	The basis of accounting may indicate RSI versus basic (or Other Accompanying Information, OAI) depending upon the nature of the information. Some types of information may be more relevant and reliable under one particular basis of accounting as opposed to another basis of accounting. (#14, LoC)	See discussion for factor A. The basis of accounting concerns "when" items of information should be reported. However, each factor should provide criteria to assist in determining "where" information should be reported – basic information or RSI.	No change

Ref.	Factor	Comment	Staff Analysis	Staff Recommendation
R.	Proposed: The number of future time periods involved in accounting information affected by future projections. (#14, LoC)	As time periods extend farther into the future, information may be considered to be less relevant and reliable. (#14, LoC)	See discussion for factor A. The number of future periods involved in accounting information is an issue that concerns uncertainty. This issue is embodied in existing factors such as factors O and P. Also, the Board considers forward-looking information to achieve the reporting objectives. For example, the stewardship objective calls for long-range projections. "Federal financial reporting should assist 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." SFFAC 1, par. 134.	No change
S.	Proposed: The impact of market factors and market volatility (or the lack of a market) that may affect particular reportable items (e.g., the effect of changes in prices for commodities, foreign currencies, interest rates, and inflation). (#14, LoC)		See discussion for factor A. The impact of market factors and market volatility is a matter that involves uncertainty. Uncertainty is embodied in existing factors, such as factors O and P.	No change
T.	Proposed: Clear tie-in for this information with SFFAC1 related to the objectives of Federal Financial Reporting such as assists in the understanding of budget integrity, operating performance, stewardship, and systems and control. (#15, CFOC)		See discussion for factor A. The reporting objectives, budgetary integrity, operating performance, stewardship, and systems and control, are considered in factor E.	No change



Federal Accounting Standards Advisory Board

Attachment 3

**Distinguishing Basic Information, Required Supplementary
Information, and Other Accompanying Information**

Statement of Federal Financial Accounting Concepts 6

Tracked Changes Version

Formatted: Centered

November XX, 2008

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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

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

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

- "Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board."
- "Mission Statement: Federal Accounting Standards Advisory Board", Exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB's website at: www.fasab.gov.

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STATEMENTS OF FEDERAL FINANCIAL ACCOUNTING CONCEPTS

This Statement of Federal Financial Accounting Concepts (SFFAC) is the sixth in a series of concepts statements intended to set forth objectives and fundamentals on which financial accounting and reporting standards will be based. The objectives identify the goals and purposes of financial reporting. The fundamentals are the underlying concepts of financial accounting—concepts that guide the selection of transactions, events, and circumstances to be accounted for; their recognition and measurement; and the means of summarizing and communicating them to interested parties.

The Federal Accounting Standards Advisory Board's (FASAB or "the Board") conceptual framework enhances the consistency of standards and serves the public interest by providing structure and direction to federal financial accounting and reporting. The most direct beneficiaries of the FASAB's concepts statements are the Board itself and preparers and auditors of federal financial reports. The statements guide the Board's development of accounting and reporting standards by providing the Board with a common foundation and basic reasoning on which to consider the merits of alternatives.

Knowledge of the objectives and concepts the Board considers should help users and others who are affected by or interested in federal financial accounting and reporting standards to understand better the purposes, content, and qualitative characteristics of information provided by federal financial accounting and reporting. That knowledge should enhance the usefulness of, and confidence in, federal financial accounting and reporting.

Concepts statements enhance preparers' and auditors' understanding of the common foundation and reasoning employed in considering alternatives. The generally accepted accounting principles (GAAP) hierarchy provides that statements of federal financial accounting standards constitute level A (the highest level) guidance. Statements of federal financial accounting concepts are not GAAP. Instead, concepts statements constitute "other literature" and may only be relied upon by financial statement preparers and auditors to resolve specific accounting issues in the absence of GAAP literature. In developing and amending accounting standards, the Board looks to concepts statements for guiding principles and also considers relevant existing standards and guidance issued by the Board and other standard setting bodies. Until the Board amends existing standards, the Board expects practice to be governed by the accounting principles embodied in the four levels of the GAAP hierarchy. Thus, the

Board distinguishes between material presented in concepts which are used to guide Board deliberations on future GAAP and accounting principles presented in standards which constitute current GAAP.

For federal entities, in the absence of specific authoritative literature applicable to a transaction or event, it should be possible to report the event or transaction by selecting an established accounting principle for an analogous transaction or event that appears appropriate when applied in a similar manner. In the unusual case where an analogy cannot be drawn to established authoritative literature, the American Institute of CPAs permits consideration of other literature including concepts statements. Consideration of individual concepts statements will be helpful but often may not provide sufficient guidance in resolving emerging issues. Therefore, the Board encourages careful study of the conceptual framework and established practice in resolving such issues.

Statements in this series describe concepts and relations that will underlie future federal financial accounting standards and practices and in due course will serve as a basis for evaluating existing standards and practices. The series of concepts statements comprises:

- SFFAC 1, *Objectives of Federal Financial Reporting* (includes the qualitative characteristics of information in financial reports)
- SFFAC 2, *Entity and Display*
- SFFAC 3, *Management's Discussion and Analysis*
- SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*
- SFFAC 5, *Elements of Accrual-Basis Financial Statements and Basic Recognition Criteria*
- SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*

Like other pronouncements of the FASAB, Statements of Federal Financial Accounting Concepts remain in effect until amended, superseded, or withdrawn by appropriate action under the Board's Rules of Procedure.

Summary

This Statement amends SFFAC 2, *Entity and Display*, to provide guidance for use by the Board in determining whether information should be basic information, required supplementary information (RSI), or other accompanying information (OAI). Although each of these categories communicates information to readers of financial reports, each may be subjected to different procedures and reporting requirements under generally accepted government auditing standards. The Statement defines the categories as follows:

Basic information is essential for the financial statements and notes to be presented in conformity with generally accepted accounting principles (GAAP).

RSI is information that a body that establishes GAAP requires to accompany basic information.

OAI is information that accompanies both basic information and required supplementary information, but is not required by a body that establishes GAAP.

The Statement describes the process the Board may apply in selecting one of these categories for communicating an item of information. The process begins with determining what information should be required. A candidate for required information is consistent with the reporting objectives and meets qualitative characteristics and cost-benefit considerations discussed in Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*.

Information that meets the criteria for required information is a candidate for basic information or RSI. To help distinguish basic information from RSI, this Statement provides a list of factors that the Board may consider. For example, members may consider the relevance of the item to fair presentation. Information that is highly relevant to fair presentation may be considered basic information.

Information that does not meet the criteria for required information is a candidate for OAI. Entities may report OAI to support required information or to comply with laws or administrative directives. The Board may encourage OAI to help advance overall federal financial reporting.

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Introduction

Purpose

1. The existing conceptual framework provides guidance on what information should be reported and identifies a number of methods that may be used to communicate this information within a general purpose federal financial report (GPFFR).¹ For example, Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, provides guidance on the information that should be reported and SFFAC 2, *Entity and Display*, discusses the **financial statements** and other methods that may be used to provide the information and which entities should prepare them. In addition, SFFAC 3, *Management's Discussion and Analysis*, describes the **management's discussion and analysis** (MD&A) of significant topics.
2. Given the various alternatives for communicating information, this Statement expands the existing conceptual framework. This Statement amends SFFAC 2 to discuss a process and **factors, the Board, considers** when deciding whether the information should be considered basic information, required supplementary information (RSI), or other accompanying information (OAI). Discussing each of these categories may help those engaged in federal financial reporting to better understand the nature of the information being communicated and their importance to the financial reporting objectives.

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¹ The term general purpose federal financial report, abbreviated "GPFFR" is used throughout this Statement as a generic term to refer to the report that contains the entity's financial statements that are prepared pursuant to generally accepted accounting principles. In the federal government, the report is known as the Performance and Accountability Report or the Annual Financial Report.

Concepts
Scope

3. This Statement specifically affects SFFAC 2, par. 2, 3, 55, 69, 72, 74, 76, 77, 78, 79, 81, and 108, and footnotes 11, 12, 12a, 14, and 17. Also, this Statement affects the section of SFFAC 2 titled, "Displaying Financial Information."

Definitions

4. Required Information: Information that consists of basic and required supplementary information.
- a. Basic Information: Information that is essential for financial statements and notes to be presented in conformity with generally accepted accounting principles (GAAP).
 - b. Required Supplementary Information: Information that a body that establishes GAAP requires to accompany basic information.
5. Other Accompanying Information: Information that accompanies both basic information and required supplementary information, but is not required by a body that establishes GAAP.

Amending SFFAC 2 to Distinguish Basic Information, RSI, and Other Accompanying Information

6. SFFAC 2, par. 2 is amended as follows.

The purpose of this statement of accounting concepts is to provide guidance as to what would be encompassed by a Federal Government entity's financial report. The statement specifies the types of entities for which there ought to be financial reports (hereinafter called reporting entities), establishes guidelines for defining the makeup of each type of reporting entity, identifies types of financial reports for communicating the information for each type of reporting entity, ~~and suggests the types of information each type of report would convey, and identifies~~ **process and factors**, ~~the Board may consider in determining whether information should be basic~~

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information, required supplementary information (RSI), or other accompanying information (OAI).

7. SFFAC 2, par. 3 is amended as follows.

A statement of financial accounting concepts is intended to guide the members of the Federal Accounting Standards Advisory Board (FASAB) as they deliberate and recommend accounting standards for the Federal Government. The concepts in this Statement are consistent with those established in SFFAC 1 which are not superseded or modified by this Statement. The concepts in this Statement also are generally consistent with current practice and do not imply radical change. However, they are expected to guide the Board's future deliberations. In addition, concepts statements constitute "other literature" and may only be relied upon by financial statement preparers and auditors to resolve specific accounting issues in the absence of GAAP literature. It also would be useful to the Office of Management and Budget (OMB), when it carries out its statutory responsibilities for specifying who should prepare financial statements and the form and content of those statements; and as broad guidance for preparers, auditors, and users of financial statements of Federal agencies. A statement of financial accounting concepts does not, in and of itself, represent standards that would be considered generally accepted accounting principles for Federal agencies to be followed for the preparation of financial statements.

8. SFFAC 2, par. 55 is amended as follows.

To enhance confidence in the reliability of information presented in financial statements, the statements are often, but not always, audited by Inspectors General, independent accounting firms, or the ~~General Accounting Office~~ Government Accountability Office. Some financial reporting by management, both within and outside the financial statements, is audited, or is ~~reviewed~~ subject to certain procedures required by generally accepted government auditing standards (GAGAS), but not audited; and some information is presented by management without audit or ~~review being subjected to certain procedures by persons independent of those who prepared the statements or information auditors.~~

9. The following paragraphs are added to SFFAC 2, following paragraph 55.

55A. In developing accounting standards, the Board considers whether information should be categorized as basic information, required supplementary information (RSI), or other accompanying information (OAI). Distinguishing these categories is important because each category is subject to different procedures and reporting requirements under GAGAS. When an auditor is engaged to audit an entity's financial statements, basic information is subject to testing for fair presentation in conformity with GAAP. However, RSI and OAI are unaudited, but subject to certain procedures specified by GAGAS for RSI and OAI, respectively. To assist users in analyzing the different types of information within financial reports, these

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differences must be conveyed, and can be accomplished in a variety of ways. The traditional approach is to separate the categories of information. However, the information may be integrated if the RSI and OAI are clearly labeled as “unaudited.”

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- 55B. Classification of the information as basic information, RSI, or OAI does not constrain the form of presentation. For example, financial statements may be presented as basic financial statements, RSI, or OAI. Information can be required or encouraged to be in the form of financial statements, narrative, graphs, or tables. To clearly communicate the intended status, the Board must specify whether the information is to be considered basic information, RSI, or OAI. Selecting a category may involve a process which is described in paragraphs 73A to 73G.

10. SFFAC 2, footnote 11 is rescinded.
11. SFFAC 2, footnote 12 is rescinded.
12. SFFAC 2, paragraph 72 is rescinded.
13. SFFAC 2, footnote 12a is amended as follows:

~~The Statement of Financing may be presented as a financial statement or as a schedule in the notes to financial statements. The OMB will provide guidance regarding details of how the information will be displayed for the Statement of Financing, including whether it shall be presented as a basic financial statement or as a schedule in the notes to the basic financial statements.~~

14. SFFAC 2, paragraphs 69, 74, 79 and 108 are amended to conform the term “management discussion and analysis” to the term established in SFFAC 3 - “management’s discussion and analysis” – each time it appears in these paragraphs.
15. The following headings, paragraphs, and table are added to SFFAC 2, following paragraph 73.

Distinguishing Basic Information, RSI, and OAI

Determining Required Information

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

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Determining Basic Information versus RSI

73B. Information that meets the criteria for required information is a candidate for basic information or RSI. Basic information is information which is essential for the financial statements and notes to be presented in conformity with GAAP. The FASAB standards are the core^{12.1} of GAAP and auditors may be engaged to express an opinion as to whether basic financial statements and notes are presented in conformity with those criteria.

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73C. RSI is information that a body that establishes GAAP requires to accompany basic information. It may be experimental in nature to permit the communication of information that is relevant and important to the reporting objectives while more experience is gained through resolution of accounting issues. Also, the information may be expressed in other than financial measures or may not be subject to reliable estimation. As issues are resolved, the information may be considered basic at some point in the future.

73D. Assessing whether required information is a candidate for basic information or RSI may involve the Board's consideration of a range of factors which are listed in Table 1: *Factors to Consider in Distinguishing Basic Information from RSI* on page 15. The factors are not listed in a particular order and some may convey similar ideas. In addition, different members may assign different weight to each factor. Thus, the factors provide a general framework for each

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^{12.1} The first and highest level of the GAAP hierarchy comprises standards and interpretations. Lower level GAAP may not conflict with standards or interpretations.

member's judgment and are not considered to present a decision tree, hierarchy, or precise algorithm for classifying items.

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73E. For example, members may consider the relevance of the information to fair presentation. If the information has a high relevance to fair presentation it may be a candidate for basic information communicated by financial statements and notes to the financial statements. The financial statements and notes could not be considered fairly presented if the information is missing or materially misstated. Some other examples members may consider are:

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• The level of financial data used or data from an information system for processing financial transactions. Members may deliberate the nature of the data used or the type of system used to process the information. The higher the level of financial data used or data derived from a system for processing financial transactions, the more likely the item may be considered basic information.

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• Level of importance the Board wishes to be communicated in the financial report or the auditor's report. In addition to the nature of the information, the Board may take into account the effect of categorizing an item as basic information or RSI in the financial report and what the auditor's report would communicate if the item is missing or materially misstated. Users may pay less attention to items categorized as "supplementary" or may be concerned about what the auditor's report states about the fair presentation of the financial statements. The more important the item, the more likely it would be a part of the financial statements and notes prepared in conformity with GAAP, and if the item is missing or materially misstated, the matter would be conveyed in the auditor's report on the fair presentation of the financial statements.

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• The extent to which the information interests a wide audience (rather than specialists). If an item of information on the sustainability of federal programs 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.

- Extent to which there is a lack of alternative sources of reliable information. If organizations routinely publish an item of information that is scrutinized by independent advisors, it may be more likely to be considered RSI than basic information.
- Agreement on criteria that permit comparable and consistent reporting. If there is a lack of specific criteria for measuring an item, preparers may have great discretion in developing their calculations and auditors may lack criteria necessary for their work and expressing an opinion. The item of information may be a candidate for RSI.
- Experience among users, preparers, and auditors with the information. The Board considers the views of expert users, preparers, and auditors in developing measurement criteria for basic information. If the level of experience regarding an item is low, input on specific criteria may not be available. Categorizing the information as RSI may be an alternative until the needed experience is gained.
- Extent to which the information is aggregated (lacking detail). The greater the extent of detail necessary to make the information useful to readers, the cost of requiring basic information increases and the more likely the item may be considered to be RSI.

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OAI

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

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73G. Although the FASAB does not require OAI to be presented, the FASAB may at times encourage voluntary reporting of items to help in the development of information that may enhance overall federal financial reporting. For example, the FASAB may consider an item to

be relevant to entity operations but, for the moment, does not meet other criteria for Required Information.

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

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

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16. SFFAC 2, paragraph 74 is amended as follows.

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

- management's discussion and analysis;
- ~~balance sheet~~ statement of financial position (commonly referred to as balance sheet);
- statement of net costs;
- statement of changes in net position;
- statement of custodial activities, when appropriate;
- statement of budgetary resources;
- statement of financing; [footnote retained but not presented]
- statement of program performance measures; [footnote retained but not presented]
- accompanying footnotes;
- required ~~supplemental~~ supplementary information ~~pertaining to physical, human, and research and development capital and selected claims on future resources, when appropriate;~~ and
- other ~~supplemental financial and management information, when appropriate~~ accompanying information.

17. SFFAC 2, footnote 14 is amended as follows.

Such components are similar to responsibility segments as referred to in ~~FASAB Exposure Draft SFFAS 4, "Managerial Cost Accounting for the Federal Government" (see pages 26-30) Concepts and Standards, par. 78-81.~~ Responsibility segments are used to accumulate costs and outputs for major lines of activity.

18. SFFAC 2, paragraph 76 is amended as follows.

Furthermore, there are frequently instances when one or more of the suborganizations conduct a very visible or critical activity and there is a high level of public interest, e.g., ~~Internal Revenue Service tax collection activity; maintains~~ large and complex accounts with large fund flows activity, e.g., Defense Business Operations Fund; has major responsibilities for the appropriate use of earmarked taxes activity, e.g., Health Care Financing Administration; or its financial viability is of special concern to the Executive Branch or the Congress, e.g., deposit insurance funds. In those situations, it may be desirable for the sub-organization to prepare and issue a separate financial statement that is consistent with the concepts presented in this concepts statement. [footnote retained but

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not presented] In doing so, it would need to identify the parent entity and describe the sub-organization's relationship to the parent.

19. SFFAC 2, paragraph 77 is amended as follows.

The components of any reporting entity are likely to conduct transactions with other components in the reporting entity, other Federal entities, and persons and organizations outside the Federal Government. Likewise, they are likely to have assets due from and liabilities due to other Federal components and entities and to non-Federal persons and organizations. In reporting the transactions and balances of a Federal reporting entity in its entirety, it is conceptually desirable, although not always practicable, to eliminate the intra-entity transactions and balances. ~~Factors to consider are the utility of the information for the entity in its entirety if the intra-entity balances are not eliminated, the misunderstanding that might result if the balances are not eliminated, and the cost benefit of making the eliminations.~~

20. SFFAC 2, footnote 17 (presented below) is deleted.

~~A reporting entity that eliminates none of the intra-entity transactions or balances and still desires to present the information for its individual components in separate columns could do so by preparing and issuing a **combining financial statement**. If the individual columns are added to a total column without elimination of the intra-entity transactions or balances, the total column would have to be labeled "Memorandum Only" to signify that it is not net of eliminations. Recognizing that the U. S. Standard General Ledger does not presently provide accounts for identifying intra-entity transactions, the decision as to when the information for a reporting entity other than the Federal Government as a whole should be presented in a consolidating financial statement rather than a combining financial statement would be specified by OMB in a Form and Content Bulletin.~~

21. SFFAC 2, paragraph 78 is amended as follows.

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

22. SFFAC 2, paragraph 79 is amended as follows.

In addition to budgetary integrity, operating performance, and systems and control information, Readers of the financial statements for the entire government are likely to be concerned primarily with whether the government has been a proper steward. This can best be achieved with the preparation and issuance of the following:

- management's discussion and analysis;

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- ~~balance sheet~~ statement of financial position (commonly referred to as balance sheet);
 - ~~statement of operations or~~ net costs;
 - statement of operations and changes in net position;
 - reconciliation of net operating revenue (or cost) and unified budget surplus (or deficit);
 - statement of changes in cash balance from unified budget and other activities;
 - comparison of budgeted and actual use of resources;
 - statement of program performance measures;
 - accompanying footnotes;
 - ~~required supplemental~~ supplementary information pertaining to physical, human, and research and development capital and selected claims on future resources; and
 - ~~other supplemental financial and management information, when appropriate~~ accompanying information.

23. SFFAC 2, paragraph 81 is rescinded.

Appendix A: Basis for Conclusions

This appendix discusses some factors considered significant by members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Some factors were given greater weight than other factors.

Project History

- A1. The FASAB developed a core set of accounting standards and initial concepts statements on reporting objectives and entity and display early in its first six years of operation. Concepts were developed as initial standards were developed. In 2003, the Board began to actively review and add to or modify its concepts statements as needed. The Board's desire to evaluate its concepts after more than twelve years of successful progress is stimulated by a realization that (a) some critical concepts that have been relied on are not yet included in a concepts statement, (b) certain aspects of the concepts are not widely understood or accepted, and (c) an expansion or modification of its concepts statements will help the Board communicate more effectively with the growing community of federal financial report users, preparers, and auditors.
- A2. As part of the overall project to review and expand its conceptual framework, the FASAB began deliberations on this Statement in October 2006. The FASAB noted that, in the past, it had relied on certain concepts to distinguish between basic information, RSI, and OAI. However, those concepts had not been incorporated into a concepts statement. This Statement amends SFFAC 2 to include those concepts. The Board believes that this Statement is an important part of its conceptual framework and will provide more consistent, useful, and enduring guidance to the Board.
- A3. The Board focused on this Statement, in part, because of the issues that developed regarding how to communicate complex information in the most useful manner to financial report users. There are several broad financial reporting objectives each with sub-objectives that require financial and non-financial information. In addition, reporting information to achieve those objectives raises the issue of how the information should be classified. This Statement provides guidance on addressing such issues and selecting the means of communicating information necessary to help achieve the reporting objectives.

A4. The Board published the exposure draft (ED), *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*, on March 26, 2008, with comments requested by June 26, 2008. Upon release of the exposure draft, notices and press releases were provided to: The Federal Register, *FASAB News*, *The Journal of Accountancy*, *AGA Today*, *the CPA Journal*, *Government Executive*, *the CPA Letter*, and *Government Accounting and Auditing Update*, The CFO Council, the Presidents Council on Integrity and Efficiency, Financial Statement Audit Network, and the Federal Financial Managers Council, and committees of professional associations generally commenting on exposure drafts in the past.

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A5. This broad announcement was followed by direct mailings of the exposure draft to the Subcommittee on Federal Financial Management, Government Information, and International Security, Committee on Homeland Security and Governmental Affairs, United States Senate, and the Subcommittee on Government Management, Organization, and Procurement, Committee on Oversight and Government Reform, House of Representatives.

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A6. The Board received 19 responses from the following sources:

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	<u>FEDERAL (Internal)</u>	<u>NON-FEDERAL (External)</u>
<u>Users, academics, others</u>		<u>3</u>
<u>Auditors</u>	<u>3</u>	<u>1</u>
<u>Preparers and financial managers</u>	<u>12</u>	
<u>Totals</u>	<u>15</u>	<u>4</u>

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A7. In general, respondents agreed with the process and factors for distinguishing the categories of information. However, many respondents believed that some of the factors listed in Table 1: Factors to Consider in Distinguishing Basic Information from RSI, needed clarification. The list was intended to provide a general framework for Board members. A general framework would permit flexibility for future boards as federal financial reporting evolves. The Board added brief examples to paragraph 73E to help explain its intent for the factors.

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- A8. Some respondents were not clear whether distinguishing between basic information and RSI was the responsibility of the FASAB or individuals. To clarify that the FASAB determines the category of required information rather than individuals, the Board modified the language in paragraph 73D by substituting “member” or “members” for “individual” or “individuals.”
- A9. In addition, some respondents suggested changes to or expressed concern regarding the reporting model, such as removing the statement of financing. As part of the Board’s overall conceptual framework initiative, the Board has started a project to revisit the reporting model. The respondent’s views will be considered as part of that project.
- A10. One respondent commented that if information is truly essential, but experimental in nature, the information should be categorized as basic information rather than RSI and the required implementation date delayed.

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Appendix B: Concepts as Amended

This Appendix reproduces SFFAC 2, as if amended. The paragraph numbers are based on the original numbers in the statement. The strikethrough, underlined text, and the insertion of Table 1: *Factors to Consider in Distinguishing Basic Information from RSI* indicates the proposed amendments.

INTRODUCTION

1. A basic postulate of accounting is that accounting information pertains to entities, i.e., circumscribed legal, administrative, fiduciary, or other organizational structures. Another basic postulate is that entities use financial reports to communicate financial and related information about the entity to persons concerned with the entity.
2. The purpose of this statement of accounting concepts is to provide guidance as to what would be encompassed by a Federal Government entity's financial report. The statement specifies the types of entities for which there ought to be financial reports (hereinafter called reporting entities), establishes guidelines for defining the makeup of each type of reporting entity, identifies types of financial reports for communicating the information for each type of reporting entity, ~~and suggests the types of information each type of report would convey,~~ and identifies the **process and factors** the Board **may consider** in determining whether information should be basic **information**, **required** supplementary information (RSI), or other accompanying information (OAI).
3. A statement of financial accounting concepts is intended to guide the members of the Federal Accounting Standards Advisory Board (FASAB) as they deliberate ~~and recommend~~ accounting standards for the ~~Federal~~ Government. The concepts in this Statement are consistent with those established in SFFAC 1 which are not superseded or modified by this Statement. The concepts in this Statement also are generally consistent with current practice and do not imply radical change. However, they are expected to guide the Board's future deliberations. In addition, concepts statements constitute "other literature" and may only be relied upon by financial statement preparers and auditors to resolve specific accounting issues in the absence of GAAP literature. It also would be useful to the Office of Management and Budget (OMB), when it carries out its statutory responsibilities for specifying who should prepare financial statements and the form and content of those statements; ~~and as broad guidance for preparers, auditors, and users of financial statements of Federal agencies. A statement of financial accounting concepts does not, in and of itself, represent standards that would be considered generally accepted accounting principles~~

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for Federal agencies to be followed for the preparation of financial statements.

4. This statement does not try to define which reporting entities must prepare and issue financial statements. That authority and responsibility resides with the Congress, OMB, and other oversight organizations and resource providers.

Paragraphs 5 – 53 are omitted. They address the reporting objectives, the structure of the federal government and reporting entities.

DISPLAYING FINANCIAL INFORMATION

54. Financial information is typically provided by or for a reporting entity through financial statements. Financial statements represent the principal means of communicating accounting information about an entity's resources, obligations, revenues, costs, etc. to those outside the entity. However, financial statements, and particularly those prepared for governmental and other not-for-profit organizations, may also contain information from sources other than accounting records. Also, management may communicate information to those outside the entity by means of financial reporting other than financial statements, either because the information is required to be disclosed by statute, regulation, or custom; or because management believes the information would be useful to those outside the entity and discloses it voluntarily.
55. To enhance confidence in the reliability of information presented in financial statements, the statements are often, but not always, audited by Inspectors General, independent accounting firms, or the ~~General Accounting Office~~ Government Accountability Office. Some financial reporting by management, both within and outside the financial statements, is audited, or is ~~reviewed~~ subject to certain procedures required by generally accepted government auditing standards (GAGAS), but not audited; and some information is presented by management without audit or ~~review~~ being subjected to certain procedures by ~~persons independent of those who prepared the statements or information~~ auditors.
- 55A. In developing accounting standards, the Board considers whether information should be ~~categorized as~~ basic information, required supplementary information (RSI), or other accompanying information (OAI). Distinguishing

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

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- 55B. Classification of the information as basic information, RSI, or OAI does not constrain the form of presentation. For example, financial statements may be presented as basic financial statements, RSI, or OAI. Information can be required or encouraged to be in the form of financial statements, narrative, graphs, or tables. To clearly communicate the intended status, the Board must specify whether the information is to be considered basic information, RSI, or OAI. Selecting a category may involve a process which is described in paragraphs 73A to 73G.

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56. In the Federal Government, there are several types of reporting entities (organizations, suborganizations, programs, and the government as a whole) and several financial reporting objectives (budgetary integrity, operating performance, stewardship, and systems and control). Each of the reporting objectives can be met to a certain degree by the statements prepared by or for one type of reporting entity and to a greater or lesser degree by the statements prepared by or for the other types of reporting entities. For example, the objective of budgetary integrity can be best met with the program and financing schedules prepared for individual budget accounts. The objective of operating performance can be best met with financial statements from organizations/suborganizations and programs (although financial statements at this level can also help readers evaluate the reporting entity's budgetary integrity). The objective of stewardship can be best met with a financial statement for the entire government. Meeting the financial reporting objectives in their totality requires financial statements from all of the types of reporting entities.

Paragraphs 57 – 67 are omitted. They describe types of financial statements.

Other Information

68. Financial information is also conveyed with **accompanying footnotes**, which

are an integral part of the financial statements. Footnotes typically provide additional disclosures that are necessary to make the financial statements more informative and not misleading.

69. It is also necessary to convey more general information about the reporting entity. This could entail such matters as a brief description of the reporting entity; its missions, goals, and objectives; the programs it provides and the major recipients for the program; its major sources of funding; the manner in which the reporting entity is organized; its personnel resources; highlights of the entity's accomplishments during the reporting period; selected measures of program performance abstracted from the statement of program performance; problems encountered or targets missed and the reasons why; financial highlights and trends; expected problems and challenges; future targets the entity is setting for itself; and any other information the agency head or CFO considers necessary to fully and fairly provide an understanding of the entity's financial affairs. This type of information is typically presented in what has come to be known as a **management's discussion and analysis** or **overview** of the reporting entity.
70. The third objective of Federal financial reporting is that it "should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial conditions have changed and may change in the future."¹⁰ This objective requires a reporting of information concerning investments in education, training, research, and development and certain types of property, plant, and equipment that can affect the nation's future wealth, and to the claims on future budgetary resources resulting from prior decisions and actions.
71. The information pertaining to the aforementioned investments, certain types of property, plant, and equipment,¹¹ and claims on future budgetary resources is maintained in part in the entities' general ledgers and, in part, external to the general ledgers. Some of the information is recorded in units other than

¹⁰ A complete discussion of the third objective for Federal financial reporting, which is called the "stewardship objective," is contained on pages 41-45 in Statement of Federal Financial Accounting Concepts No. 1, "Objectives of Federal Financial Reporting

¹¹ ~~The Board is currently considering accounting standards for Federally-owned property, plant, and equipment. These standards will address placement of information related to various types of PP&E. The Board is considering placing information about some types of PP&E in footnotes with information about other types in required supplemental information. The Board's proposals will be presented in an exposure draft on stewardship reporting.~~

dollars, e.g., acres, millions of square feet. Finally, some of the information is not subject to the types of controls present in a system of double entry recordkeeping. Accordingly, a more suitable way to fulfill the third reporting objective would be to display the appropriate information as **required supplemental supplementary information** rather than attempting to include it in financial statements.¹²

- ~~72. Finally, some reporting entities desire or need to report information to support information in the overview or to enhance the understanding of the entity's operations or financial condition. That additional information would not always be appropriate for the overview or the financial statements or accompanying footnotes. Examples are delivery times, turnover, and wastage of inventories; condition, maintenance, and expected replacement of physical capital; and delinquency, aging, and default rates for loan portfolios. This information is typically reported as **supplemental financial and management information**. It can be reported in the form of schedules, charts, tables, and/or narrative text.~~
73. The fourth objective, systems and controls, is fulfilled, in part, by the act of preparing the financial statements. Other ways the fourth objective could be fulfilled through the audited financial reporting process is by a management assertion that would accompany the financial statements and/or an auditor's attestation on the financial statements. The management assertion would be an acknowledgment of its responsibility for the accuracy of the information in the financial statements, the completeness and fairness of the presentation of the information, the accuracy of the information in all material respects, and the reporting of the information in a manner designed to fairly present financial position and results of operations. The assertion could also include a statement regarding the adequacy of the entity's systems and controls, accompanied by the auditor's concurrence with the assertion.

Distinguishing Basic Information, RSI, and OAI

Determining Required Information

¹² ~~Required supplemental information is information that would be reported outside the principal financial statements that the Federal Accounting Standards Advisory Board considers an essential part of a reporting entity's financial reporting, and therefore recommends authoritative guidelines for the measurement and presentation of the information. It is analogous to the required supplementary information discussed in Statement on Auditing Standards AU Section 558.06, which addresses pronouncements of the FASAB, Financial Accounting Standards Board and the Governmental Accounting Standards Board~~

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

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73B. Information that meets the criteria for required information is a candidate for basic information or RSI. Basic information is that which is essential for the financial statements and notes to be presented in conformity with GAAP. The FASAB standards are the core^{12.1} of GAAP and auditors express an opinion as to whether basic financial statements and notes are presented in conformity with those criteria.

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73C. RSI is information that a body that establishes GAAP requires to accompany basic information. It may be experimental in nature to permit the communication of information that is relevant and important to the reporting objectives while more experience is gained through resolution of accounting issues. Also, the information may be expressed in other than financial measures or may not be subject to reliable estimation. As issues are resolved, the information may be considered basic at some point in the future.

73D. Assessing whether information is a candidate for basic information or RSI may involve the Board's consideration of a range of factors which are listed in Table 1: *Factors to Consider in Distinguishing Basic from RSI*. The factors are not listed in a particular order and some may convey similar ideas. In addition, different members may assign different weight to each factor. Thus, the factors provide a general framework for each member's judgment and are not considered to present a decision tree, hierarchy, or precise algorithm for classifying items.

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73E. For example, one may consider the relevance of the information to fair presentation. If the information has a high relevance to fair presentation it may be a candidate for basic information communicated by financial statements and notes to the financial statements. The financial statements and notes

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^{12.1} The first and highest level of the GAAP hierarchy comprises standards and interpretations. Lower level GAAP may not conflict with standards or interpretations.

could not be considered fairly presented if the information is missing or materially misstated. Some other examples members may consider are:

- The level of financial data used or data from an information system for processing financial transactions. Members may deliberate the nature of the data used or the type of system used to process the information. The higher the level of financial data used or data derived from a system for processing financial transactions, the more likely the item may be considered basic information.
- Level of importance the Board wishes to be communicated in the financial report or the auditor's report. In addition to the nature of the information, the Board may take into account the effect of categorizing an item as basic information or RSI in the financial report and what the auditor's report would communicate if the item is missing or materially misstated. Users may pay less attention to items categorized as "supplementary" or may be concerned about what the auditor's report states about the fair presentation of the financial statements. The more important the item, the more likely it would be a part of the financial statements and notes prepared in conformity with GAAP, and if the item is missing or materially misstated, the matter would be conveyed in the auditor's report on the fair presentation of the financial statements.
- The extent to which the information interests a wide audience (rather than specialists). If an item of information on the sustainability of federal programs 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.
- Extent to which there is a lack of alternative sources of reliable information. If organizations routinely publish an item of information that is scrutinized by independent advisors, it may be more likely to be considered RSI than basic information.
- Agreement on criteria that permit comparable and consistent reporting. If there is a lack of specific criteria for measuring an item, preparers may have great discretion in developing their calculations and auditors may lack criteria necessary for their

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work and expressing an opinion. The item of information may be a candidate for RSI.

- Experience among users, preparers, and auditors with the information. The Board considers the views of expert users, preparers, and auditors in developing measurement criteria for basic information. If the level of experience regarding an item is low, input on specific criteria may not be available. Categorizing the information as RSI may be an alternative until the needed experience is gained.
- Extent to which the information is aggregated (lacking detail). The greater the extent of detail necessary to make the information useful to readers, the cost of requiring basic information increases and the more likely the item may be considered to be RSI.

OAI

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

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

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

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

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Financial Reporting for an Organizational Entity

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

- management's discussion and analysis;
- ~~balance sheet~~ statement of financial position (commonly referred to as balance sheet);
- statement of net costs;
- statement of changes in net position;
- statement of custodial activities, when appropriate;
- statement of budgetary resources;
- statement of financing;^{12a}
- statement of program performance measures;¹³
- accompanying footnotes;
- required ~~supplemental~~ supplementary information ~~pertaining to physical, human, and research and development capital and selected claims on future resources, when appropriate~~; and
- other ~~supplemental financial and management information, when appropriate~~ accompanying information.

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

^{12a} The Statement of Financing may be presented as a financial statement or as a schedule in the notes to financial statements. The OMB will provide guidance regarding details of the information will be displayed for the Statement of Financing, including whether it shall be presented as a basic financial statement or as a schedule in the notes to the basic financial statements.

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

entity, but also provide information pertaining to their individual significant components.¹⁴ The information for the individual components could be provided with separate columns in consolidating financial statements¹⁵ (with the information for the less significant components, and possibly the entity's management component, aggregated into a single separate column), in separate financial statements for each significant component, or in the accompanying footnotes. The significant components can be suborganizations or programs. If they are suborganizations, information regarding programs should be provided in some manner.

76. Furthermore, there are frequently instances when one or more of the suborganizations conduct a very visible or critical activity and there is a high level of public interest, e.g., ~~Internal Revenue Service tax collection activity; maintains large and complex accounts with large fund flows activity, e.g., Defense Business Operations Fund; has major responsibilities for the appropriate use of earmarked taxes activity, e.g., Health Care Financing Administration;~~ or its financial viability is of special concern to the Executive Branch or the Congress, e.g., deposit insurance funds. In those situations, it may be desirable for the sub-organization to prepare and issue a separate financial statement that is consistent with the concepts presented in this concepts statement.¹⁶ In doing so, it would need to identify the parent entity and describe the sub-organization's relationship to the parent.

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77. The components of any reporting entity are likely to conduct transactions with other components in the reporting entity, other Federal entities, and persons and organizations outside the Federal Government. Likewise, they are likely to have assets due from and liabilities due to other Federal components and entities and to non-Federal persons and organizations. In reporting the transactions and balances of a Federal reporting entity in its entirety, it is conceptually desirable, although not always practicable, to eliminate the intra-entity transactions and balances. ~~Factors to consider are the utility of the information for the entity in its entirety if the intra-entity balances are not eliminated, the misunderstanding that might result if the balances are not eliminated, and the cost benefit of making the~~

¹⁴ Such components are similar to responsibility segments as referred to in FASAB Exposure Draft SFFAS 4, "Managerial Cost Accounting for the Federal Government" (see pages 26-30) Concepts and Standards, par. 78-81. Responsibility segments are used to accumulate costs and outputs for major lines of activity.

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

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

eliminations.¹⁷

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

Financial Reporting for the Entire Government

79. In addition to budgetary integrity, operating performance, and systems and control information, Readers of the financial statements for the entire government are likely to be concerned primarily with whether the government has been a proper steward. This can best be achieved with the preparation and issuance of the following:

- management's discussion and analysis;
- balance sheet statement of financial position (commonly referred to as balance sheet);
- statement of operations or net costs;
- statement of operations and changes in net position;
- reconciliation of net operating revenue (or cost) and unified budget surplus (or deficit);

¹⁷—A reporting entity that eliminates none of the intra-entity transactions or balances and still desires to present the information for its individual components in separate columns could do so by preparing and issuing a **combining financial statement**. If the individual columns are added to a total column without elimination of the intra-entity transactions or balances, the total column would have to be labeled "Memorandum Only" to signify that it is not net of eliminations. Recognizing that the U. S. Standard General Ledger does not presently provide accounts for identifying intra-entity transactions, the decision as to when the information for a reporting entity other than the Federal Government as a whole should be presented in a consolidating financial statement rather than a combining financial statement would be specified by OMB in a Form and Content Bulletin.

- statement of changes in cash balance from unified budget and other activities;
- comparison of budgeted and actual use of resources;
- statement of program performance measures;
- accompanying footnotes;
- required ~~supplemental~~ supplementary information pertaining to ~~physical, human, and research and development capital and selected claims on future resources;~~ and
- other ~~supplemental financial and management information, when appropriate~~ accompanying information.

80. The readers should be made aware of whether the financial statements for the entire government exclude any significant entities that are included in the budget or include significant entities that are not included in the budget.

~~81. Readers of the financial statements for the entire government are also likely to be concerned with the results of the budget process. This interest can be fulfilled by providing a comparison of budgeted and actual use of resources, presented on the same basis as the budget is accounted for; and a reconciliation of accrual-based operating results to the budget-based operating results. The budget would be the amounts included in the President's Budget or the Mid-session Review of the budget, whichever is appropriate.~~

82. The financial statements for the entire government could also be used to provide information on Presidential initiatives or crosscutting programs that is not available in financial statements for individual organizations or programs.

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

Paragraphs 84 – 112 are omitted.

Appendix C: Abbreviations

AICPA	American Institute of Certified Public Accountants
AU	Audit Standards codified and published by the AICPA
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
<u>GAGAS</u>	<u>Generally Accepted Government Auditing Standards</u>
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GPFRR	General Purpose Federal Financial Report
MD&A	Management's Discussion and Analysis
<u>OAI</u>	<u>Other Accompanying Information</u>
RSI	Required Supplementary Information
SFAS	Statement of Financial Accounting Standards
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

Appendix C: Glossary

Basic Information: Information that is essential for financial statements and notes to be presented in conformity with generally accepted accounting principles (GAAP).

Other Accompanying Information: Information that accompanies both basic information and required supplementary information, but is not required by a body that establishes GAAP.

Required Information: Information that consists of basic and required supplementary information.

Required Supplementary Information: Information that a body that establishes GAAP requires to accompany basic information.

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www.fasab.gov

Totals	15	43
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In general, respondents agreed with the process and factors for distinguishing the categories of information. However, many respondents believed that some of the factors listed in Table 1: Factors to Consider in Distinguishing Basic Information from RSI, needed clarification. The list was intended to provide a general framework for Board members. A general framework would permit flexibility for future boards as federal financial reporting evolves. The Board added brief examples to paragraph 73E to help explain its intent for the factors.

Some respondents were not clear whether distinguishing between basic information and RSI was the responsibility of the FASAB or individuals. To clarify that the FASAB determines the category of required information rather than individuals, the Board modified the language in paragraph 73D by substituting “member” or “members” for “individual” or “individuals.”

In addition, some respondents suggested changes to or expressed concern regarding the reporting model, such as removing the statement of financing. As part of the Board’s overall conceptual framework initiative, the Board has started a project to revisit the reporting model. The respondent’s views will be considered as part of that project.

One respondent commented that if information is truly essential, but experimental in nature, the information should be categorized as basic information rather than RSI and the required implementation date delayed.

he level of financial data used or data from an information system for processing financial transactions. Members may deliberate the nature of the data used or the type of system used to process the information. If the item involves a high level of financial data or data derived from a system for processing financial transactions, it may be considered basic information. Level of importance the Board wishes to be communicated in the financial report or the auditor’s report. In addition to the nature of the information, the Board may take into account the effect of categorizing an item as basic information or RSI in the financial report and what the auditor’s report would communicate if the item is missing or materially misstated. Users may pay less attention to items categorized as “supplementary” or may be concerned about what the auditor’s report states about the fair presentation of the financial statements. The more important the item, the more likely it would be a part of the financial statements and notes prepared in conformity with GAAP, and if the item is missing or materially misstated, the matter would be

conveyed in the auditor's report on the fair presentation of the financial statements.

The extent to which the information interests a wide audience (rather than specialists). If an item of information on the sustainability of federal programs 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.

E

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xtent to which there is a lack of alternative sources of reliable information. If organizations such as the OMB and CBO routinely publish an item of information that is scrutinized by Congress and private sector analysts, it may be a candidate for RSI.

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xtent to which there is a lack of alternative sources of reliable information. If organizations such as the OMB and CBO routinely publish an item of information that is scrutinized by Congress and private sector analysts, it may be a candidate for RSI.

A

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Federal Accounting Standards Advisory Board

Attachment 4

**Distinguishing Basic Information, Required Supplementary
Information, and Other Accompanying Information**

Statement of Federal Financial Accounting Concepts 6

Clean Version

November XX, 2008

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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

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

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

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

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STATEMENTS OF FEDERAL FINANCIAL ACCOUNTING CONCEPTS

This Statement of Federal Financial Accounting Concepts (SFFAC) is the sixth in a series of concepts statements intended to set forth objectives and fundamentals on which financial accounting and reporting standards will be based. The objectives identify the goals and purposes of financial reporting. The fundamentals are the underlying concepts of financial accounting—concepts that guide the selection of transactions, events, and circumstances to be accounted for; their recognition and measurement; and the means of summarizing and communicating them to interested parties.

The Federal Accounting Standards Advisory Board's (FASAB or "the Board") conceptual framework enhances the consistency of standards and serves the public interest by providing structure and direction to federal financial accounting and reporting. The most direct beneficiaries of the FASAB's concepts statements are the Board itself and preparers and auditors of federal financial reports. The statements guide the Board's development of accounting and reporting standards by providing the Board with a common foundation and basic reasoning on which to consider the merits of alternatives.

Knowledge of the objectives and concepts the Board considers should help users and others who are affected by or interested in federal financial accounting and reporting standards to understand better the purposes, content, and qualitative characteristics of information provided by federal financial accounting and reporting. That knowledge should enhance the usefulness of, and confidence in, federal financial accounting and reporting.

Concepts statements enhance preparers' and auditors' understanding of the common foundation and reasoning employed in considering alternatives. The generally accepted accounting principles (GAAP) hierarchy provides that statements of federal financial accounting standards constitute level A (the highest level) guidance. Statements of federal financial accounting concepts are not GAAP. Instead, concepts statements constitute "other literature" and may only be relied upon by financial statement preparers and auditors to resolve specific accounting issues in the absence of GAAP literature. In developing and amending accounting standards, the Board looks to concepts statements for guiding principles and also considers relevant existing standards and guidance issued by the Board and other standard setting bodies. Until the Board amends existing standards, the Board expects practice to be governed by the accounting principles embodied in the four levels of the GAAP hierarchy. Thus, the

Board distinguishes between material presented in concepts which are used to guide Board deliberations on future GAAP and accounting principles presented in standards which constitute current GAAP.

For federal entities, in the absence of specific authoritative literature applicable to a transaction or event, it should be possible to report the event or transaction by selecting an established accounting principle for an analogous transaction or event that appears appropriate when applied in a similar manner. In the unusual case where an analogy cannot be drawn to established authoritative literature, the American Institute of CPAs permits consideration of other literature including concepts statements. Consideration of individual concepts statements will be helpful but often may not provide sufficient guidance in resolving emerging issues. Therefore, the Board encourages careful study of the conceptual framework and established practice in resolving such issues.

Statements in this series describe concepts and relations that will underlie future federal financial accounting standards and practices and in due course will serve as a basis for evaluating existing standards and practices. The series of concepts statements comprises:

- SFFAC 1, *Objectives of Federal Financial Reporting* (includes the qualitative characteristics of information in financial reports)
- SFFAC 2, *Entity and Display*
- SFFAC 3, *Management's Discussion and Analysis*
- SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*
- SFFAC 5, *Elements of Accrual-Basis Financial Statements and Basic Recognition Criteria*
- SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*

Like other pronouncements of the FASAB, Statements of Federal Financial Accounting Concepts remain in effect until amended, superseded, or withdrawn by appropriate action under the Board's Rules of Procedure.

Summary

This Statement amends SFFAC 2, *Entity and Display*, to provide guidance for use by the Board in determining whether information should be basic information, required supplementary information (RSI), or other accompanying information (OAI). Although each of these categories communicates information to readers of financial reports, each may be subjected to different procedures and reporting requirements under generally accepted government auditing standards. The Statement defines the categories as follows:

Basic information is essential for the financial statements and notes to be presented in conformity with generally accepted accounting principles (GAAP).

RSI is information that a body that establishes GAAP requires to accompany basic information.

OAI is information that accompanies both basic information and required supplementary information, but is not required by a body that establishes GAAP.

The Statement describes the process the Board may apply in selecting one of these categories for communicating an item of information. The process begins with determining what information should be required. A candidate for required information is consistent with the reporting objectives and meets qualitative characteristics and cost-benefit considerations discussed in Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*.

Information that meets the criteria for required information is a candidate for basic information or RSI. To help distinguish basic information from RSI, this Statement provides a list of factors that the Board may consider. For example, members may consider the relevance of the item to fair presentation. Information that is highly relevant to fair presentation may be considered basic information.

Information that does not meet the criteria for required information is a candidate for OAI. Entities may report OAI to support required information or to comply with laws or administrative directives. The Board may encourage OAI to help advance overall federal financial reporting.

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Introduction

Purpose

1. The existing conceptual framework provides guidance on what information should be reported and identifies a number of methods that may be used to communicate this information within a general purpose federal financial report (GPFRR).¹ For example, Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, provides guidance on the information that should be reported and SFFAC 2, *Entity and Display*, discusses the **financial statements** and other methods that may be used to provide the information and which entities should prepare them. In addition, SFFAC 3, *Management's Discussion and Analysis*, describes the **management's discussion and analysis** (MD&A) of significant topics.
2. Given the various alternatives for communicating information, this Statement expands the existing conceptual framework. This Statement amends SFFAC 2 to discuss a process and factors the Board considers when deciding whether the information should be considered basic information, required supplementary information (RSI), or other accompanying information (OAI). Discussing each of these categories may help those engaged in federal financial reporting to better understand the nature of the information being communicated and their importance to the financial reporting objectives.

¹ The term general purpose federal financial report, abbreviated "GPFRR" is used throughout this Statement as a generic term to refer to the report that contains the entity's financial statements that are prepared pursuant to generally accepted accounting principles. In the federal government, the report is known as the Performance and Accountability Report or the Annual Financial Report.

Concepts**Scope**

3. This Statement specifically affects SFFAC 2, par. 2, 3, 55, 69, 72, 74, 76, 77, 78, 79, 81, and 108, and footnotes 11, 12, 12a, 14, and 17. Also, this Statement affects the section of SFFAC 2 titled, "Displaying Financial Information."

Definitions

4. Required Information: Information that consists of basic and required supplementary information.
 - a. Basic Information: Information that is essential for financial statements and notes to be presented in conformity with generally accepted accounting principles (GAAP).
 - b. Required Supplementary Information: Information that a body that establishes GAAP requires to accompany basic information.
5. Other Accompanying Information: Information that accompanies both basic information and required supplementary information, but is not required by a body that establishes GAAP.

Amending SFFAC 2 to Distinguish Basic Information, RSI, and Other Accompanying Information

6. SFFAC 2, par. 2 is amended as follows.

The purpose of this statement of accounting concepts is to provide guidance as to what would be encompassed by a Federal Government entity's financial report. The statement specifies the types of entities for which there ought to be financial reports (hereinafter called reporting entities), establishes guidelines for defining the makeup of each type of reporting entity, identifies types of financial reports for communicating the information for each type of reporting entity, ~~and suggests the types of information each type of report would convey, and identifies process and factors the Board may consider in determining whether information should be basic~~

information, required supplementary information (RSI), or other accompanying information (OAI).

7. SFFAC 2, par. 3 is amended as follows.

A statement of financial accounting concepts is intended to guide the members of the Federal Accounting Standards Advisory Board (FASAB) as they deliberate ~~and recommend~~ accounting standards for the Federal Government. The concepts in this Statement are consistent with those established in SFFAC 1 which are not superseded or modified by this Statement. The concepts in this Statement also are generally consistent with current practice and do not imply radical change. However, they are expected to guide the Board's future deliberations. In addition, concepts statements constitute "other literature" and may only be relied upon by financial statement preparers and auditors to resolve specific accounting issues in the absence of GAAP literature. It also would be useful to the Office of Management and Budget (OMB), when it carries out its statutory responsibilities for specifying who should prepare financial statements and the form and content of those statements; ~~and as broad guidance for preparers, auditors, and users of financial statements of Federal agencies. A statement of financial accounting concepts does not, in and of itself, represent standards that would be considered generally accepted accounting principles for Federal agencies to be followed for the preparation of financial statements.~~

8. SFFAC 2, par. 55 is amended as follows.

To enhance confidence in the reliability of information presented in financial statements, the statements are often, but not always, audited by Inspectors General, independent accounting firms, or the ~~General Accounting Office~~ Government Accountability Office. Some financial reporting by management, both within and outside the financial statements, is audited, or is ~~reviewed~~ subject to certain procedures required by generally accepted government auditing standards (GAGAS), but not audited; and some information is presented by management without audit or ~~review~~ being subjected to certain procedures by ~~persons independent of those who prepared the statements or information~~ auditors.

9. The following paragraphs are added to SFFAC 2, following paragraph 55.

55A. In developing accounting standards, the Board considers whether information should be categorized as basic information, required supplementary information (RSI), or other accompanying information (OAI). Distinguishing these categories is important because each category is subject to different procedures and reporting requirements under GAGAS. When an auditor is engaged to audit an entity's financial statements, basic information is subject to testing for fair presentation in conformity with GAAP. However, RSI and OAI are unaudited, but subject to certain procedures specified by GAGAS for RSI and OAI, respectively. To assist users in analyzing the different types of information within financial reports, these

differences must be conveyed and can be accomplished in a variety of ways. The traditional approach is to separate the categories of information. However, the information may be integrated if the RSI and OAI are clearly labeled as “unaudited.”

- 55B. Classification of the information as basic information, RSI, or OAI does not constrain the form of presentation. For example, financial statements may be presented as basic financial statements, RSI, or OAI. Information can be required or encouraged to be in the form of financial statements, narrative, graphs, or tables. To clearly communicate the intended status, the Board must specify whether the information is to be considered basic information, RSI, or OAI. Selecting a category may involve a process which is described in paragraphs 73A to 73G.

10. SFFAC 2, footnote 11 is rescinded.
11. SFFAC 2, footnote 12 is rescinded.
12. SFFAC 2, paragraph 72 is rescinded.
13. SFFAC 2, footnote 12a is amended as follows:

The Statement of Financing may be presented as a financial statement or as a schedule in the notes to financial statements. The OMB will provide guidance regarding details of how the information will be displayed for the Statement of Financing, including whether it shall be presented as a basic financial statement or as a schedule in the notes to the basic financial statements.

14. SFFAC 2, paragraphs 69, 74, 79 and 108 are amended to conform the term “management discussion and analysis” to the term established in SFFAC 3 - “management’s discussion and analysis” – each time it appears in these paragraphs.
15. The following headings, paragraphs, and table are added to SFFAC 2, following paragraph 73.

Distinguishing Basic Information, RSI, and OAI

Determining Required Information

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

Determining Basic Information versus RSI

- 73B. Information that meets the criteria for required information is a candidate for basic information or RSI. Basic information is information which is essential for the financial statements and notes to be presented in conformity with GAAP. The FASAB standards are the core^{12.1} of GAAP and auditors may be engaged to express an opinion as to whether basic financial statements and notes are presented in conformity with those criteria.
- 73C. RSI is information that a body that establishes GAAP requires to accompany basic information. It may be experimental in nature to permit the communication of information that is relevant and important to the reporting objectives while more experience is gained through resolution of accounting issues. Also, the information may be expressed in other than financial measures or may not be subject to reliable estimation. As issues are resolved, the information may be considered basic at some point in the future.
- 73D. Assessing whether required information is a candidate for basic information or RSI may involve the Board's consideration of a range of factors which are listed in Table 1: *Factors to Consider in Distinguishing Basic Information from RSI* on page 15. The factors are not listed in a particular order and some may convey similar ideas. In addition, different members may assign different weight to each factor. Thus, the factors provide a general framework for each

^{12.1} The first and highest level of the GAAP hierarchy comprises standards and interpretations. Lower level GAAP may not conflict with standards or interpretations.

member's judgment and are not considered to present a decision tree, hierarchy, or precise algorithm for classifying items.

73E. For example, members may consider the relevance of the information to fair presentation. If the information has a high relevance to fair presentation it may be a candidate for basic information communicated by financial statements and notes to the financial statements. The financial statements and notes could not be considered fairly presented if the information is missing or materially misstated. Some other examples members may consider are:

- The level of financial data used or data from an information system for processing financial transactions. Members may deliberate the nature of the data used or the type of system used to process the information. The higher the level of financial data used or data derived from a system for processing financial transactions, the more likely the item may be considered basic information.
- Level of importance the Board wishes to be communicated in the financial report or the auditor's report. In addition to the nature of the information, the Board may take into account the effect of categorizing an item as basic information or RSI in the financial report and what the auditor's report would communicate if the item is missing or materially misstated. Users may pay less attention to items categorized as "supplementary" or may be concerned about what the auditor's report states about the fair presentation of the financial statements. The more important the item, the more likely it would be a part of the financial statements and notes prepared in conformity with GAAP, and if the item is missing or materially misstated, the matter would be conveyed in the auditor's report on the fair presentation of the financial statements.
- The extent to which the information interests a wide audience (rather than specialists). If an item of information on the sustainability of federal programs 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.

-
- Extent to which there is a lack of alternative sources of reliable information. If organizations routinely publish an item of information that is scrutinized by independent advisors, it may be more likely to be considered RSI than basic information.
 - Agreement on criteria that permit comparable and consistent reporting. If there is a lack of specific criteria for measuring an item, preparers may have great discretion in developing their calculations and auditors may lack criteria necessary for their work and expressing an opinion. The item of information may be a candidate for RSI.
 - Experience among users, preparers, and auditors with the information. The Board considers the views of expert users, preparers, and auditors in developing measurement criteria for basic information. If the level of experience regarding an item is low, input on specific criteria may not be available. Categorizing the information as RSI may be an alternative until the needed experience is gained.
 - Extent to which the information is aggregated (lacking detail). The greater the extent of detail necessary to make the information useful to readers, the cost of requiring basic information increases and the more likely the item may be considered to be RSI.

OAI

- 73F. If an item of information does not meet the criteria for Required Information, it becomes a candidate for OAI. OAI is information that accompanies both basic information and RSI, but is not required by a body that establishes GAAP. Some entities may desire to report information to supplement required Information and enhance a user's understanding of the entity's operations or financial condition. This may include, but is not limited to, information on delivery times, turnover, and wastage of inventories; expected replacement of physical capital; and delinquency, aging, and default rates for loan portfolios. In addition, entities report information required by laws or administrative directives. This information is also considered OAI.
- 73G. Although the FASAB does not require OAI to be presented, the FASAB may at times encourage voluntary reporting of items to help in the development of information that may enhance overall federal financial reporting. For example, the FASAB may consider an item to

be relevant to entity operations but, for the moment, does not meet other criteria for Required Information.

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

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

16. SFFAC 2, paragraph 74 is amended as follows.

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

- management's discussion and analysis;
- ~~balance sheet~~ statement of financial position (commonly referred to as balance sheet);
- statement of net costs;
- statement of changes in net position;
- statement of custodial activities, when appropriate;
- statement of budgetary resources;
- statement of financing; [footnote retained but not presented]
- statement of program performance measures; [footnote retained but not presented]
- accompanying footnotes;
- ~~required supplemental~~ supplementary information ~~pertaining to physical, human, and research and development capital and selected claims on future resources, when appropriate; and~~
- ~~other supplemental financial and management information, when appropriate~~ accompanying information.

17. SFFAC 2, footnote 14 is amended as follows.

Such components are similar to responsibility segments as referred to in ~~FASAB Exposure Draft SFFAS 4, "Managerial Cost Accounting for the Federal Government" (see pages 26-30) Concepts and Standards, par. 78-81~~. Responsibility segments are used to accumulate costs and outputs for major lines of activity.

18. SFFAC 2, paragraph 76 is amended as follows.

Furthermore, there are frequently instances when one or more of the suborganizations conduct a very visible or critical activity and there is a high level of public interest, e.g., ~~Internal Revenue Service tax collection activity; maintains large and complex accounts with large fund flows activity, e.g., Defense Business Operations Fund; has major responsibilities for the appropriate use of earmarked taxes activity, e.g., Health Care Financing Administration; or its financial viability is of special concern to the Executive Branch or the Congress, e.g., deposit insurance funds~~. In those situations, it may be desirable for the sub-organization to prepare and issue a separate financial statement that is consistent with the concepts presented in this concepts statement. [footnote retained but

not presented] In doing so, it would need to identify the parent entity and describe the sub-organization's relationship to the parent.

19. SFFAC 2, paragraph 77 is amended as follows.

The components of any reporting entity are likely to conduct transactions with other components in the reporting entity, other Federal entities, and persons and organizations outside the Federal Government. Likewise, they are likely to have assets due from and liabilities due to other Federal components and entities and to non-Federal persons and organizations. In reporting the transactions and balances of a Federal reporting entity in its entirety, it is conceptually desirable, although not always practicable, to eliminate the intra-entity transactions and balances. ~~Factors to consider are the utility of the information for the entity in its entirety if the intra-entity balances are not eliminated, the misunderstanding that might result if the balances are not eliminated, and the cost benefit of making the eliminations.~~

20. SFFAC 2, footnote 17 (presented below) is deleted.

~~A reporting entity that eliminates none of the intra-entity transactions or balances and still desires to present the information for its individual components in separate columns could do so by preparing and issuing a **combining financial statement**. If the individual columns are added to a total column without elimination of the intra-entity transactions or balances, the total column would have to be labeled "Memorandum Only" to signify that it is not net of eliminations. Recognizing that the U. S. Standard General Ledger does not presently provide accounts for identifying intra-entity transactions, the decision as to when the information for a reporting entity other than the Federal Government as a whole should be presented in a consolidating financial statement rather than a combining financial statement would be specified by OMB in a Form and Content Bulletin.~~

21. SFFAC 2, paragraph 78 is amended as follows.

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

22. SFFAC 2, paragraph 79 is amended as follows.

In addition to budgetary integrity, operating performance, and systems and control information, Readers of the financial statements for the entire government are likely to be concerned primarily with whether the government has been a proper steward. This can best be achieved with the preparation and issuance of the following:

- management's discussion and analysis;

-
- ~~balance sheet~~ statement of financial position (commonly referred to as balance sheet);
 - statement of ~~operations or~~ net costs;
 - statement of operations and changes in net position;
 - reconciliation of net operating revenue (or cost) and unified budget surplus (or deficit);
 - statement of changes in cash balance from unified budget and other activities;
 - comparison of budgeted and actual use of resources;
 - statement of program performance measures;
 - accompanying footnotes;
 - ~~required supplemental~~ supplementary information ~~pertaining to physical, human, and research and development capital and selected claims on future resources~~;
 - ~~and~~
 - ~~other supplemental financial and management information, when appropriate~~ accompanying information.

23. SFFAC 2, paragraph 81 is rescinded.

Appendix A: Basis for Conclusions

This appendix discusses some factors considered significant by members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Some factors were given greater weight than other factors.

Project History

- A1. The FASAB developed a core set of accounting standards and initial concepts statements on reporting objectives and entity and display early in its first six years of operation. Concepts were developed as initial standards were developed. In 2003, the Board began to actively review and add to or modify its concepts statements as needed. The Board's desire to evaluate its concepts after more than twelve years of successful progress is stimulated by a realization that (a) some critical concepts that have been relied on are not yet included in a concepts statement, (b) certain aspects of the concepts are not widely understood or accepted, and (c) an expansion or modification of its concepts statements will help the Board communicate more effectively with the growing community of federal financial report users, preparers, and auditors.
- A2. As part of the overall project to review and expand its conceptual framework, the FASAB began deliberations on this Statement in October 2006. The FASAB noted that, in the past, it had relied on certain concepts to distinguish between basic information, RSI, and OAI. However, those concepts had not been incorporated into a concepts statement. This Statement amends SFFAC 2 to include those concepts. The Board believes that this Statement is an important part of its conceptual framework and will provide more consistent, useful, and enduring guidance to the Board.
- A3. The Board focused on this Statement, in part, because of the issues that developed regarding how to communicate complex information in the most useful manner to financial report users. There are several broad financial reporting objectives each with sub-objectives that require financial and non-financial information. In addition, reporting information to achieve those objectives raises the issue of how the information should be classified. This Statement provides guidance on addressing such issues and selecting the means of communicating information necessary to help achieve the reporting objectives.

- A4. The Board published the exposure draft (ED), *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*, on March 26, 2008, with comments requested by June 26, 2008. Upon release of the exposure draft, notices and press releases were provided to: The Federal Register, *FASAB News*, *The Journal of Accountancy*, *AGA Today*, *the CPA Journal*, *Government Executive*, *the CPA Letter*, and *Government Accounting and Auditing Update*, The CFO Council, the Presidents Council on Integrity and Efficiency, Financial Statement Audit Network, and the Federal Financial Managers Council, and committees of professional associations generally commenting on exposure drafts in the past.
- A5. This broad announcement was followed by direct mailings of the exposure draft to the Subcommittee on Federal Financial Management, Government Information, and International Security, Committee on Homeland Security and Governmental Affairs, United States Senate, and the Subcommittee on Government Management, Organization, and Procurement, Committee on Oversight and Government Reform, House of Representatives.
- A6. The Board received 19 responses from the following sources:

	FEDERAL (Internal)	NON-FEDERAL (External)
Users, academics, others		3
Auditors	3	1
Preparers and financial managers	12	
Totals	15	4

- A7. In general, respondents agreed with the process and factors for distinguishing the categories of information. However, many respondents believed that some of the factors listed in Table 1: Factors to Consider in Distinguishing Basic Information from RSI, needed clarification. The list was intended to provide a general framework for Board members. A general framework would permit flexibility for future boards as federal financial reporting evolves. The Board added brief examples to paragraph 73E to help explain its intent for the factors.

-
- A8. Some respondents were not clear whether distinguishing between basic information and RSI was the responsibility of the FASAB or individuals. To clarify that the FASAB determines the category of required information rather than individuals, the Board modified the language in paragraph 73D by substituting “member” or “members” for “individual” or “individuals.”
- A9. In addition, some respondents suggested changes to or expressed concern regarding the reporting model, such as removing the statement of financing. As part of the Board’s overall conceptual framework initiative, the Board has started a project to revisit the reporting model. The respondent’s views will be considered as part of that project.
- A10. One respondent commented that if information is truly essential, but experimental in nature, the information should be categorized as basic information rather than RSI and the required implementation date delayed.

Appendix B: Concepts as Amended

This Appendix reproduces SFFAC 2, as if amended. The paragraph numbers are based on the original numbers in the statement. The strikethrough, underlined text, and the insertion of Table 1: *Factors to Consider in Distinguishing Basic Information from RSI* indicates the proposed amendments.

INTRODUCTION

1. A basic postulate of accounting is that accounting information pertains to entities, i.e., circumscribed legal, administrative, fiduciary, or other organizational structures. Another basic postulate is that entities use financial reports to communicate financial and related information about the entity to persons concerned with the entity.
2. The purpose of this statement of accounting concepts is to provide guidance as to what would be encompassed by a Federal Government entity's financial report. The statement specifies the types of entities for which there ought to be financial reports (hereinafter called reporting entities), establishes guidelines for defining the makeup of each type of reporting entity, identifies types of financial reports for communicating the information for each type of reporting entity, ~~and~~ suggests the types of information each type of report would convey, and identifies the process and factors the Board may consider in determining whether information should be basic information, required supplementary information (RSI), or other accompanying information (OAI).
3. A statement of financial accounting concepts is intended to guide the members of the Federal Accounting Standards Advisory Board (FASAB) as they deliberate ~~and recommend~~ accounting standards for the ~~F~~ederal ~~G~~overnment. The concepts in this Statement are consistent with those established in SFFAC 1 which are not superseded or modified by this Statement. The concepts in this Statement also are generally consistent with current practice and do not imply radical change. However, they are expected to guide the Board's future deliberations. In addition, concepts statements constitute "other literature" and may only be relied upon by financial statement preparers and auditors to resolve specific accounting issues in the absence of GAAP literature. It also would be useful to the Office of Management and Budget (OMB), when it carries out its statutory responsibilities for specifying who should prepare financial statements and the form and content of those statements; ~~and as broad guidance for preparers, auditors, and users of financial statements of Federal agencies. A statement of financial accounting concepts does not, in and of itself, represent standards that would be considered generally accepted accounting principles~~

~~for Federal agencies to be followed for the preparation of financial statements.~~

4. This statement does not try to define which reporting entities must prepare and issue financial statements. That authority and responsibility resides with the Congress, OMB, and other oversight organizations and resource providers.

Paragraphs 5 – 53 are omitted. They address the reporting objectives, the structure of the federal government and reporting entities.

DISPLAYING FINANCIAL INFORMATION

54. Financial information is typically provided by or for a reporting entity through financial statements. Financial statements represent the principal means of communicating accounting information about an entity's resources, obligations, revenues, costs, etc. to those outside the entity. However, financial statements, and particularly those prepared for governmental and other not-for-profit organizations, may also contain information from sources other than accounting records. Also, management may communicate information to those outside the entity by means of financial reporting other than financial statements, either because the information is required to be disclosed by statute, regulation, or custom; or because management believes the information would be useful to those outside the entity and discloses it voluntarily.
55. To enhance confidence in the reliability of information presented in financial statements, the statements are often, but not always, audited by Inspectors General, independent accounting firms, or the ~~General Accounting Office~~ Government Accountability Office. Some financial reporting by management, both within and outside the financial statements, is audited, or is ~~reviewed~~ subject to certain procedures required by generally accepted government auditing standards (GAGAS), but not audited; and some information is presented by management without audit or ~~review~~ being subjected to certain procedures by ~~persons independent of those who prepared the statements or information~~ auditors.
- 55A. In developing accounting standards, the Board considers whether information should be categorized as basic information, required supplementary information (RSI), or other accompanying information (OAI). Distinguishing

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

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

Paragraphs 57 – 67 are omitted. They describe types of financial statements.

Other Information

68. Financial information is also conveyed with **accompanying footnotes**, which

are an integral part of the financial statements. Footnotes typically provide additional disclosures that are necessary to make the financial statements more informative and not misleading.

69. It is also necessary to convey more general information about the reporting entity. This could entail such matters as a brief description of the reporting entity; its missions, goals, and objectives; the programs it provides and the major recipients for the program; its major sources of funding; the manner in which the reporting entity is organized; its personnel resources; highlights of the entity's accomplishments during the reporting period; selected measures of program performance abstracted from the statement of program performance; problems encountered or targets missed and the reasons why; financial highlights and trends; expected problems and challenges; future targets the entity is setting for itself; and any other information the agency head or CFO considers necessary to fully and fairly provide an understanding of the entity's financial affairs. This type of information is typically presented in what has come to be known as a **management's discussion and analysis** or **overview** of the reporting entity.
70. The third objective of Federal financial reporting is that it "should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial conditions have changed and may change in the future."¹⁰ This objective requires a reporting of information concerning investments in education, training, research, and development and certain types of property, plant, and equipment that can affect the nation's future wealth, and to the claims on future budgetary resources resulting from prior decisions and actions.
71. The information pertaining to the aforementioned investments, certain types of property, plant, and equipment,¹¹ and claims on future budgetary resources is maintained in part in the entities' general ledgers and, in part, external to the general ledgers. Some of the information is recorded in units other than

¹⁰ A complete discussion of the third objective for Federal financial reporting, which is called the "stewardship objective," is contained on pages 41-45 in Statement of Federal Financial Accounting Concepts No. 1, "Objectives of Federal Financial Reporting"

¹¹ ~~The Board is currently considering accounting standards for Federally owned property, plant, and equipment. These standards will address placement of information related to various types of PP&E. The Board is considering placing information about some types of PP&E in footnotes with information about other types in required supplemental information. The Board's proposals will be presented in an exposure draft on stewardship reporting.~~

dollars, e.g., acres, millions of square feet. Finally, some of the information is not subject to the types of controls present in a system of double entry recordkeeping. Accordingly, a more suitable way to fulfill the third reporting objective would be to display the appropriate information as **required supplemental supplementary information** rather than attempting to include it in financial statements.⁴²

- ~~72. Finally, some reporting entities desire or need to report information to support information in the overview or to enhance the understanding of the entity's operations or financial condition. That additional information would not always be appropriate for the overview or the financial statements or accompanying footnotes. Examples are delivery times, turnover, and wastage of inventories; condition, maintenance, and expected replacement of physical capital; and delinquency, aging, and default rates for loan portfolios. This information is typically reported as **supplemental financial and management information**. It can be reported in the form of schedules, charts, tables, and/or narrative text.~~
73. The fourth objective, systems and controls, is fulfilled, in part, by the act of preparing the financial statements. Other ways the fourth objective could be fulfilled through the audited financial reporting process is by a management assertion that would accompany the financial statements and/or an auditor's attestation on the financial statements. The management assertion would be an acknowledgment of its responsibility for the accuracy of the information in the financial statements, the completeness and fairness of the presentation of the information, the accuracy of the information in all material respects, and the reporting of the information in a manner designed to fairly present financial position and results of operations. The assertion could also include a statement regarding the adequacy of the entity's systems and controls, accompanied by the auditor's concurrence with the assertion.

Distinguishing Basic Information, RSI, and OAI

Determining Required Information

⁴² ~~Required supplemental information is information that would be reported outside the principal financial statements that the Federal Accounting Standards Advisory Board considers an essential part of a reporting entity's financial reporting, and therefore recommends authoritative guidelines for the measurement and presentation of the information. It is analogous to the required supplementary information discussed in Statement on Auditing Standards AU Section 558.06, which addresses pronouncements of the FASAB, Financial Accounting Standards Board and the Governmental Accounting Standards Board~~

- 73A. Selecting a category for communicating information may involve a process that begins with determining what information should be required. Required information is information that consists of basic information and RSI. An item of information is a candidate for required information if it is consistent with the objectives of federal financial reporting and meets certain qualitative characteristics and cost-benefit considerations. The Board developed these factors earlier in the conceptual framework. SFFAC 1 identifies the reporting objectives (paragraphs 112 to 150) and the qualitative characteristics (paragraphs 157 to 164). It also discusses cost versus benefit considerations (paragraphs 151 to 155).
- 73B. Information that meets the criteria for required information is a candidate for basic information or RSI. Basic information is that which is essential for the financial statements and notes to be presented in conformity with GAAP. The FASAB standards are the core^{12.1} of GAAP and auditors express an opinion as to whether basic financial statements and notes are presented in conformity with those criteria.
- 73C. RSI is information that a body that establishes GAAP requires to accompany basic information. It may be experimental in nature to permit the communication of information that is relevant and important to the reporting objectives while more experience is gained through resolution of accounting issues. Also, the information may be expressed in other than financial measures or may not be subject to reliable estimation. As issues are resolved, the information may be considered basic at some point in the future.
- 73D. Assessing whether information is a candidate for basic information or RSI may involve the Board's consideration of a range of factors which are listed in Table 1: *Factors to Consider in Distinguishing Basic from RSI*. The factors are not listed in a particular order and some may convey similar ideas. In addition, different members may assign different weight to each factor. Thus, the factors provide a general framework for each member's judgment and are not considered to present a decision tree, hierarchy, or precise algorithm for classifying items.
- 73E. For example, one may consider the relevance of the information to fair presentation. If the information has a high relevance to fair presentation it may be a candidate for basic information communicated by financial statements and notes to the financial statements. The financial statements and notes

^{12.1} The first and highest level of the GAAP hierarchy comprises standards and interpretations. Lower level GAAP may not conflict with standards or interpretations.

could not be considered fairly presented if the information is missing or materially misstated. Some other examples members may consider are:

- The level of financial data used or data from an information system for processing financial transactions. Members may deliberate the nature of the data used or the type of system used to process the information. The higher the level of financial data used or data derived from a system for processing financial transactions, the more likely the item may be considered basic information.
- Level of importance the Board wishes to be communicated in the financial report or the auditor's report. In addition to the nature of the information, the Board may take into account the effect of categorizing an item as basic information or RSI in the financial report and what the auditor's report would communicate if the item is missing or materially misstated. Users may pay less attention to items categorized as "supplementary" or may be concerned about what the auditor's report states about the fair presentation of the financial statements. The more important the item, the more likely it would be a part of the financial statements and notes prepared in conformity with GAAP, and if the item is missing or materially misstated, the matter would be conveyed in the auditor's report on the fair presentation of the financial statements.
- The extent to which the information interests a wide audience (rather than specialists). If an item of information on the sustainability of federal programs 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.
- Extent to which there is a lack of alternative sources of reliable information. If organizations routinely publish an item of information that is scrutinized by independent advisors, it may be more likely to be considered RSI than basic information.
- Agreement on criteria that permit comparable and consistent reporting. If there is a lack of specific criteria for measuring an item, preparers may have great discretion in developing their calculations and auditors may lack criteria necessary for their

work and expressing an opinion. The item of information may be a candidate for RSI.

- Experience among users, preparers, and auditors with the information. The Board considers the views of expert users, preparers, and auditors in developing measurement criteria for basic information. If the level of experience regarding an item is low, input on specific criteria may not be available. Categorizing the information as RSI may be an alternative until the needed experience is gained.
- Extent to which the information is aggregated (lacking detail). The greater the extent of detail necessary to make the information useful to readers, the cost of requiring basic information increases and the more likely the item may be considered to be RSI.

OAI

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

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

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

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

Financial Reporting for an Organizational Entity

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

- management's discussion and analysis;
- balance sheet statement of financial position (commonly referred to as balance sheet);
- statement of net costs;
- statement of changes in net position;
- statement of custodial activities, when appropriate;
- statement of budgetary resources;
- statement of financing;^{12a}
- statement of program performance measures;¹³
- accompanying footnotes;
- required supplemental supplementary information pertaining to physical, human, and research and development capital and selected claims on future resources, when appropriate; and
- other supplemental financial and management information, when appropriate accompanying information.

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

^{12a} The Statement of Financing may be presented as a financial statement or as a schedule in the notes to financial statements. The OMB will provide guidance regarding details of the information will be displayed for the Statement of Financing, including whether it shall be presented as a basic financial statement or as a schedule in the notes to the basic financial statements.

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

entity, but also provide information pertaining to their individual significant components.¹⁴ The information for the individual components could be provided with separate columns in consolidating financial statements¹⁵ (with the information for the less significant components, and possibly the entity's management component, aggregated into a single separate column), in separate financial statements for each significant component, or in the accompanying footnotes. The significant components can be suborganizations or programs. If they are suborganizations, information regarding programs should be provided in some manner.

76. Furthermore, there are frequently instances when one or more of the suborganizations conduct a very visible or critical activity and there is a high level of public interest, e.g., ~~Internal Revenue Service tax collection activity; maintains large and complex accounts with large fund flows activity, e.g., Defense Business Operations Fund; has major responsibilities for the appropriate use of earmarked taxes activity, e.g., Health Care Financing Administration;~~ or its financial viability is of special concern to the Executive Branch or the Congress, e.g., deposit insurance funds. In those situations, it may be desirable for the sub-organization to prepare and issue a separate financial statement that is consistent with the concepts presented in this concepts statement.¹⁶ In doing so, it would need to identify the parent entity and describe the sub-organization's relationship to the parent.
77. The components of any reporting entity are likely to conduct transactions with other components in the reporting entity, other Federal entities, and persons and organizations outside the Federal Government. Likewise, they are likely to have assets due from and liabilities due to other Federal components and entities and to non-Federal persons and organizations. In reporting the transactions and balances of a Federal reporting entity in its entirety, it is conceptually desirable, although not always practicable, to eliminate the intra-entity transactions and balances. ~~Factors to consider are the utility of the information for the entity in its entirety if the intra-entity balances are not eliminated, the misunderstanding that might result if the balances are not eliminated, and the cost benefit of making the~~

¹⁴ Such components are similar to responsibility segments as referred to in ~~FASAB Exposure Draft SFFAS 4, "Managerial Cost Accounting for the Federal Government" (see pages 26-30) Concepts and Standards, par. 78-81.~~ Responsibility segments are used to accumulate costs and outputs for major lines of activity.

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

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

eliminations.¹⁷

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

Financial Reporting for the Entire Government

79. In addition to budgetary integrity, operating performance, and systems and control information, Readers of the financial statements for the entire government are likely to be concerned primarily with whether the government has been a proper steward. This can best be achieved with the preparation and issuance of the following:

- management's discussion and analysis;
- ~~balance sheet~~ statement of financial position (commonly referred to as balance sheet);
- ~~statement of operations or net costs~~;
- statement of operations and changes in net position;
- reconciliation of net operating revenue (or cost) and unified budget surplus (or deficit);

¹⁷ ~~A reporting entity that eliminates none of the intra-entity transactions or balances and still desires to present the information for its individual components in separate columns could do so by preparing and issuing a **combining financial statement**. If the individual columns are added to a total column without elimination of the intra-entity transactions or balances, the total column would have to be labeled "Memorandum Only" to signify that it is not net of eliminations. Recognizing that the U. S. Standard General Ledger does not presently provide accounts for identifying intra-entity transactions, the decision as to when the information for a reporting entity other than the Federal Government as a whole should be presented in a consolidating financial statement rather than a combining financial statement would be specified by OMB in a Form and Content Bulletin.~~

- statement of changes in cash balance from unified budget and other activities;
- comparison of budgeted and actual use of resources;
- statement of program performance measures;
- accompanying footnotes;
- ~~required supplemental~~ supplementary information ~~pertaining to physical, human, and research and development capital and selected claims on future resources;~~ and
- ~~other supplemental financial and management information, when appropriate~~ accompanying information.

80. The readers should be made aware of whether the financial statements for the entire government exclude any significant entities that are included in the budget or include significant entities that are not included in the budget.

~~81. Readers of the financial statements for the entire government are also likely to be concerned with the results of the budget process. This interest can be fulfilled by providing a comparison of budgeted and actual use of resources, presented on the same basis as the budget is accounted for, and a reconciliation of accrual-based operating results to the budget-based operating results. The budget would be the amounts included in the President's Budget or the Mid-session Review of the budget, whichever is appropriate.~~

82. The financial statements for the entire government could also be used to provide information on Presidential initiatives or crosscutting programs that is not available in financial statements for individual organizations or programs.

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

Paragraphs 84 – 112 are omitted.

Appendix C: Abbreviations

AICPA	American Institute of Certified Public Accountants
AU	Audit Standards codified and published by the AICPA
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAGAS	Generally Accepted Government Auditing Standards
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GPFRR	General Purpose Federal Financial Report
MD&A	Management's Discussion and Analysis
OAI	Other Accompanying Information
RSI	Required Supplementary Information
SFAS	Statement of Financial Accounting Standards
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

Appendix C: Glossary

Basic Information: Information that is essential for financial statements and notes to be presented in conformity with generally accepted accounting principles (GAAP).

Other Accompanying Information: Information that accompanies both basic information and required supplementary information, but is not required by a body that establishes GAAP.

Required Information: Information that consists of basic and required supplementary information.

Required Supplementary Information: Information that a body that establishes GAAP requires to accompany basic information.

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SUMMARY OF BOARD VIEWS			
MEETING	QUESTION/ ITEM FOR DISCUSSION	BOARD VIEW	
November 2006	<p>1. Staff presented an outline of planned topics to discuss in a proposed concepts statement. The outline included the following objectives for the project.</p> <p>a. Describe the financial statements used to present the elements critical to meeting financial reporting objectives and explain what constitutes a full set of financial statements; and</p> <p>b. Establish criteria for determining when financial statements, disclosures, MD&A, RSI other than MD&A, and OAI should be used in meeting the reporting objectives.</p>	<p>The order of the proposed objectives should be revised. The project should first establish criteria and second describe the financial statements. The revised order of the objectives is as follows:</p> <ul style="list-style-type: none"> • Establish criteria for determining when financial statements, disclosures, MD&A, RSI other than MD&A, and OAI should be used in meeting the reporting objectives; and • Describe the financial statements used to present the elements critical to meeting financial reporting objectives and explain what constitutes a full set of financial statements. <p>Also, it should be clear that the existing set of financial statements is not the end result. They may serve as a starting point for determining underlying concepts.</p>	
January 2007	<p>2. Whether to conduct two types of outreach activities - roundtable meetings to discuss agency Performance and Accountability Report (PAR) issues and an educational session on cost accounting. Constituents had recently raised concerns that PARs have grown too voluminous and that agencies are not developing cost information to integrate with performance reporting, such as reporting the cost of specific programs and the amount spent on achieving results. Staff proposed the outreach efforts as a way to inform constituents on existing FASAB guidance and to gather information on whether additional FASAB guidance is needed.</p>	<p>The financial reporting project involved many broad subjects which required analysis. Consequently, the project needs further development before proceeding with outreach activities.</p>	
January 2007	<p>3. Staff noted that management is responsible for the fair presentation of financial statements in accordance with generally accepted accounting principles (GAAP), and management is responsible for assertions that are implicit in financial reporting. Those assertions have an important role in determining what is presented in the financial report. However, much of the discussion on management's responsibility for financial reporting is found in auditing literature rather than in accounting literature.</p>	<p>A concept statement, such as the proposed concept statement on the federal financial report, may not be the best vehicle to discuss these topics. Management's responsibilities should be discussed in a standard or other vehicle because concept statements primarily guide the Board in its standards-setting activities.</p>	

SUMMARY OF BOARD VIEWS			
MEETING	QUESTION/ ITEM FOR DISCUSSION	BOARD VIEW	
March 2007	4. Does the Board agree that performance information is an integral part of financial reporting and of general purpose federal financial reports (GPFFR).	Performance information is an integral part of financial reporting and the GPFFR. However, this does not preclude developing alternative formats.	
March 2007	5. Does the Board agree to continue monitoring the progress in performance reporting rather than exploring the performance reporting topic at this time.	Continue monitoring progress in performance reporting rather than exploring the topic at this time. Staff will participate in work groups engaged in reviewing PAR formats and developing strategic directions for a financial reporting model.	
March 2007	6. Does the Board agree that the GPFFR components should be limited to those that are currently defined in professional literature and that are familiar to users, such as financial statements, disclosures, RSI (including MD&A), and other accompanying information. Existing GPFFRs primarily use the established reporting components such as financial statements, disclosures (notes), RSI (including MD&A and performance information), and other accompanying information. Commonly known reporting components will likely help ensure that users understand the importance of the information included in GPFFRs.	The project should focus on the existing components of the GPFFR - financial statements, disclosures, MD&A, RSI, and OAI, rather than exploring other possibilities. Although these components are audit status categories, they are discussed in the FASAB literature and are used by preparers.	
July 2007	7. Regarding the proposed concepts statement on communication methods, does the Board believe that the overall approach will provide a helpful tool for deliberating in the context of standards which method of communicating information within a financial report is appropriate? 8. What additional tools may be needed to support deliberation on the method of communicating information?	Members provided comments on the proposed concepts statement. Those comments included how to depict the unique role of the MD&A in federal financial reporting. Some believe that, in some cases, the MD&A is the only section of the GPFFR that users will read. However, currently, the MD&A is not audited. It is treated as RSI for audit purposes.	
	9. Regarding a description of the financial statements necessary for achieving the financial reporting objectives (an overview of financial statements) staff suggested that (1) SFFAC 2 be amended as needed rather than being superseded and (2) amendments related to ongoing standards projects be accomplished as those standards are developed.	Members agreed with the suggestions that (1)SFFAC 2 be amended as needed rather than being superseded and (2) amendments related to ongoing standards projects, such as Social Insurance and Sustainability Reporting, be accomplished as those standards are developed.	
September 2007	10. Whether the proposed concepts statement that should provide guidance for choosing the appropriate level of assurance on information to be required by standards. This approach for the concepts statement was highlighted during the Board's July 2007 meeting, when members discussed the	Members discussed that the Board primarily focuses on determining what information should be reported and the means for reporting the required information. In determining the means for reporting required information, the Board considers various factors. The Basis for Conclusions section of SFFAS 25 presents these factors. In	

SUMMARY OF BOARD VIEWS			
MEETING	QUESTION/ ITEM FOR DISCUSSION	BOARD VIEW	
	Management's Discussion and Analysis (MD&A). While members agreed that the MD&A was an important component of the financial report, they deliberated on whether the MD&A should be considered basic information subjected to audit or required supplemental information (RSI) which is not audited. The proposed concepts statement would provide criteria to assist the Board in choosing the appropriate assurance level in instances such as the MD&A.	addition, the FASAB may encourage other accompanying information. Members suggested a framework to use in developing the proposed concepts statement. The framework should include the factors presented in the Basis for Conclusions section of SFFAS 25.	
December 2007	<p>11. The Board has relied on the factors in SFFAS 25 to determine whether information should be considered basic or RSI, but the factors have not been included in a concepts statement. Combining existing concepts with previously relied upon concepts would provide a single document for guiding the Board. However, the past practice of the Board has been to refrain from repeating the contents of existing statements in a new statement. Doing so may imply that the previous statement had been changed and may confuse constituents accustomed to the Board's practices. An alternative approach would be to amend SFFAC 2 to include the factors for distinguishing basic from RSI. Amending SFFAC 2 would enable the Board to continue achieving its objective for the conceptual framework project and would be consistent with past practices. Staff proposed amending SFFAC 2 to include the factors from SFFAS 25. 3.</p> <p>12. Given that the Board has completed the Objectives Phase of the conceptual framework project and decided to retain all the broad objectives of federal financial reporting, staff suggested resuming the project to reclassify the remaining RSSI.</p>	Members agreed with the staff proposal to amend SFFAC 2 and provided comments on the content of the proposed statement. Comments included rewording some of the factors for distinguishing basic information and RSI. Staff plans to prepare a ballot draft for the February 2008 Board meeting. Accordingly, staff intends to revise the statement and address any additional Board comments prior to the February 2008 Board meeting. In addition, the Board agreed to consider a project on the RSSI category during its February 2008 technical agenda setting discussions.	
February 2008	13. Staff prepared a pre-ballot draft concepts statement entitled, <i>Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information.</i>	Members provided comments on the draft ED, including clarification of the phrase "Strength of signal" which is used in two of the factors for distinguishing basic information from RSI. Staff will prepare a ballot draft concepts statement before the next meeting.	
March 3, 2008	14. Issued ballot ED, <i>Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information.</i>	Members approved	

SUMMARY OF BOARD VIEWS				
MEETING	QUESTION/ ITEM FOR DISCUSSION		BOARD VIEW	
March 26, 2008	15.	Issued ED. Comments due June 26, 2008	N/A	

ATTACHMENT 6

Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information

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Letter Number	Respondent(s)	Affiliation	Classification	Page Number
1	John Walter	RRB	Federal-Preparer	1
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4	Mark C. Jenson	NASA OIG	Federal-Auditor	9
5	Gordon Alston	Commerce	Federal-Preparer	11
6	Danny Harris	Dept of Education	Federal-Preparer	13
7	Dan Kovlak	GWSCPA	Non-Federal Other	15
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19	Terry Menzel	KPMG	Non-Federal Auditor	51

>>> On 5/28/2008 at 3:43 PM, <John.Walter@rrb.gov> wrote:

The Railroad Retirement Board's comments on the March 26, 2008, exposure draft of a proposed Statement of Federal Financial Accounting Concepts entitled, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information* are as follows:

Q1. The Statement identifies a process and criteria to consider in deciding whether information should be considered basic information, required supplementary information or other accompanying information.

Q1. Do you agree with the process presented? If not, please explain your reasons.

Response: Yes.

Q2. Do you agree with the factors presented for distinguishing basic information from required supplementary information (See Table 1: Factors to Consider in Distinguishing Basic Information from RSI)?

Response: Yes.

Q3. Are there additional factors that should be considered? If so, what are they, and how would you describe them?

Response: No.

Thank you for the opportunity to respond.

From: FASAB [mailto:FASAB@FASAB.GOV]
Sent: Wednesday, March 26, 2008 2:23 PM
To: fasab@LISTSERV.FASAB.GOV
Subject: FASAB Issues a Concepts Statement Exposure Draft

Federal Accounting Standards Advisory Board-**NEWS RELEASE**

FOR MORE INFORMATION:

March 26, 2008

Ross Simms
(202) 512-2512
simmsr@fasab.gov

**FASAB Issues a Concepts Statement Exposure Draft Entitled
*Distinguishing Basic Information, Required Supplementary Information, and Other
Accompanying Information***

The Chairman of the Federal Accounting Standards Advisory Board (FASAB), Tom Allen, announced today that the FASAB is seeking input on the Exposure Draft (ED), *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*. The ED proposes amendments to Statement of Federal Financial Accounting Concepts 2, *Entity and Display*, to provide conceptual guidance for determining how information in financial reports should be categorized.

Federal financial reporting objectives are broad and require financial and non-financial information. Information in financial reports may be categorized as basic information, required supplementary information (RSI), or other accompanying information (OAI). Distinguishing these categories is important because each is subject to different auditing standards. Existing concepts provide guidance on what information should be reported to achieve the reporting objectives and identifies different methods that may be used to communicate it to readers, such as financial statements and management's discussion and analysis (MD&A). The ED expands the existing conceptual framework to provide factors to consider when deciding whether the information should be considered basic information, RSI, or OAI. "These concepts will provide a common foundation for guiding the Board in distinguishing basic information, RSI, and OAI and will help guide preparers and auditors in the absence of generally accepted accounting principles literature," according to Chairman Allen.

The ED poses questions to respondents on issues such as the factors that should be considered in distinguishing each category. Respondents are encouraged to provide the reasons for their positions. The exposure draft requests comments by June 26, 2008. The exposure draft in PDF format and the specific questions raised in Word format are available at the FASAB website (<http://www.fasab.gov/exposure.html>). **[The Exposure Draft and this news release are attached in PDF form.]**

ABOUT FASAB

Accounting and financial reporting standards are essential for public accountability and for an efficient and effective functioning of our democratic system of government. Thus, federal accounting standards and financial reporting play a major role in fulfilling the government's duty to be publicly accountable and can be used to assess (1) the government's accountability and its efficiency and effectiveness, and (2) the economic, political, and social consequences of the allocation and various uses of federal resources. The FASAB issues federal accounting standards after following a due process consistent with the Memorandum of Understanding under which it operates. Due process includes consideration of the financial and budgetary information needs of citizens, congressional oversight groups, executive agencies, and the needs of other users of federal financial information.

For more information on FASAB, please visit our website: www.fasab.gov.

**UNITED STATES POSTAL SERVICE
OFFICE OF INSPECTOR GENERAL**

**COMMENTS ON THE DRAFT FEDERAL ACCOUNTING STANDARDS
ADVISORY BOARD CONCEPTS STATEMENT EXPOSURE DRAFT
ENTITLED *DISTINGUISHING BASIC INFORMATION, REQUIRED
SUPPLEMENTARY INFORMATION, AND OTHER ACCOMPANYING
INFORMATION***

Q1. The Statement identifies a process and criteria to consider in deciding whether information should be considered basic information, required supplementary information or other accompanying information (See the section, Distinguishing Basic Information, RSI, and OAI, beginning on page 13).

- a. Do you agree with the process presented? If not, please explain your reasons.
- The proposed Statement provides a general framework in determining whether financial information should be basic information, required supplemental information (RSI), or other accompanying information (OAI). This approach may be well suited to the needs of the Federal Accounting Standards Advisory Board (the Board).
 - The proposed paragraph 73A for Statement of Federal Financial Accounting Concepts (SFFAC) 2 says Required Information includes basic information and RSI. It also states information is a candidate for Required Information if it is consistent with the objectives of federal financial reporting and meets certain qualitative characteristics and cost-benefit considerations identified in SFFAC 1. Paragraph 73F (proposed) states if an item of information does not meet the criteria for Required Information, it becomes a candidate for Other Accompanying Information (OAI).
 - We agree with the criteria established in the referenced sections of SFFAC 1 and, generally, with the factors listed in Table 1: Factors to Consider in Distinguishing Basic Information from RSI. We also recognize the number of situations where individuals faced with the question of whether information is RSI or OAI could be endless, and thus, an open-ended explanation is needed.
 - Better direction for others, however, would be provided by using criteria that are more specific. The qualitative characteristics and cost-benefit considerations in the referenced sections of SFFAC 1 should serve as a foundation for the Board in establishing specific requirements for Required Information. The Board should go further in establishing specific requirements to distinguish basic information from RSI. We believe the

proposed approach allows too much latitude in preparing and reviewing financial information, potentially resulting in varying treatments of the same or similar information. Because the proposed Statement can be a source of information to financial statement preparers, auditors, and others, we feel it does not provide the user community with sufficiently precise guidance.

- The definitions of Required Information, basic information, RSI, and OAI in paragraphs 4 and 5 should provide greater specificity. For example, the definitions should identify what has been established as essential for financial statements and notes, and what information has been established as required to accompany basic information. By process of elimination, OAI would be any remaining information.
 - By providing more specific guidance in this proposed Statement, one could expect to see an increased likelihood of consistent treatment among various federal agencies' financial statements. In addition, auditors would have better guidance in determining the scope of their work.
 - We acknowledge the Board's statement in proposed paragraph 73D stating the framework is not to present a decision tree, hierarchy, or precise algorithm for classifying items. Yet, we believe users would be better served by establishing detailed guidance; the more specific, the better.
- b. Do you agree with the factors presented for distinguishing basic information from required supplementary information (See Table 1: Factors to Consider in Distinguishing Basic Information from RSI)?
- As previously mentioned, we generally agree with the factors in Table 1 where a high rating implies information is basic and a low rating implies information is RSI. We are uncertain as to the Board's intent regarding some of the factors and additional clarification is suggested. Those factors include:
 - Level of importance the Board wishes to be communicated in the financial report. The Board should reference sources where it has communicated this preference.
 - Level of importance the Board wishes to be communicated in the auditor's report. The Board should reference sources where it has communicated this preference.
 - Extent to which there are not alternative sources of reliable information. Provide one or more examples.
 - Agreement on criteria that permit comparable and consistent reporting. Provide one or more examples.

- Experience among users, preparers, and auditors with the information. We are concerned that there might be instances of such experience but with inconsistent treatment.
- c. Are there additional factors that should be considered? If so, what are they, and how would you describe them?
- We did not see any mention of the Financial Accounting Standards Board's Statement of Financial Accounting Concepts No. 5. That Statement includes a table providing some specifics for reporting basic information, RSI, and OAI. We suggest the Board consider enhancing this Statement by providing similar information.

Other Comment:

- Currently, the Financial Accounting Standards Board is codifying Generally Accepted Accounting Principles (GAAP) into a single source.¹ When completed, the document will flatten the GAAP hierarchy to provide an easier means to research and identify accounting standards. We suggest the Board consider codifying the federal government's accounting standards in a like manner.

¹ *Journal of Accountancy*, May 2008.

>>> On 6/5/2008 at 9:03 AM, <Mary.Glenn-Croft@ssa.gov> wrote:

To: Wendy Payne

Below are SSA's responses to the questions posed in the Exposure Draft titled *Distinguishing Basic Information, Required Supplementary Information and Other Accompanying Information*. Thank you for the opportunity to comment.

Q1: Do you agree with the process presented? If not, please explain your reasons.

A1: Yes

Q2: Do you agree with the factors presented for distinguishing basic information from required supplementary information (See Table 1: Factors to Consider in Distinguishing Basic Information from RSI)?

A2: Yes

Q3: Are there any additional factors that should be considered? If so, what are they, and how would you describe them?

A3: No

Mary Glenn-Croft
CFO, Social Security Administration

From: FASAB [mailto:FASAB@FASAB.GOV]
Sent: Wednesday, March 26, 2008 3:23 PM
To: fasab@LISTSERV.FASAB.GOV
Subject: FASAB Issues a Concepts Statement Exposure Draft

Federal Accounting Standards Advisory Board-NEWS RELEASE

FOR MORE INFORMATION:
Ross Simms
(202) 512-2512
simmsr@fasab.gov

March 26, 2008

**FASAB Issues a Concepts Statement Exposure Draft Entitled
*Distinguishing Basic Information, Required Supplementary Information, and
Other Accompanying Information***

The Chairman of the Federal Accounting Standards Advisory Board (FASAB), Tom Allen, announced today that the FASAB is seeking input on the Exposure Draft (ED), *Distinguishing Basic Information, Required Supplementary Information, and Other*

Accompanying Information. The ED proposes amendments to Statement of Federal Financial Accounting Concepts 2, *Entity and Display*, to provide conceptual guidance for determining how information in financial reports should be categorized.

Federal financial reporting objectives are broad and require financial and non-financial information. Information in financial reports may be categorized as basic information, required supplementary information (RSI), or other accompanying information (OAI). Distinguishing these categories is important because each is subject to different auditing standards. Existing concepts provide guidance on what information should be reported to achieve the reporting objectives and identifies different methods that may be used to communicate it to readers, such as financial statements and management's discussion and analysis (MD&A). The ED expands the existing conceptual framework to provide factors to consider when deciding whether the information should be considered basic information, RSI, or OAI. "These concepts will provide a common foundation for guiding the Board in distinguishing basic information, RSI, and OAI and will help guide preparers and auditors in the absence of generally accepted accounting principles literature," according to Chairman Allen.

The ED poses questions to respondents on issues such as the factors that should be considered in distinguishing each category. Respondents are encouraged to provide the reasons for their positions. The exposure draft requests comments by June 26, 2008. The exposure draft in PDF format and the specific questions raised in Word format are available at the FASAB website (<http://www.fasab.gov/exposure.html>). **[The Exposure Draft and this news release are attached in PDF form.]**

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For more information on FASAB, please visit our website: www.fasab.gov.

+++++ This list is produced by the Federal Accounting Standards Advisory Board to

provide timely information about its activities. You may access FASAB on the web at <http://www.fasab.gov>

>>> On 6/24/2008 at 2:54 PM, <mark.jenson@nasa.gov> wrote:
Please find NASA OIG's comments attached.

Thanks!

Mark C. Jenson, CPA, CGFM
Director, Financial Statement Audits
NASA OIG
Washington, DC

**National Aeronautics and Space Administration
Office of Inspector General
Comments on the Draft SFFAC 6, Distinguishing Basic Information,
Required Supplementary Information, and Other Accompanying
Information
June 2008**

The exposure draft of a proposed Statement of Federal Financial Accounting Concepts (SFFAC) entitled, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*, would amend SFFAC 2, *Entity and Display*. The proposed Statement is to provide guidance on determining whether information should be basic information, required supplementary information or other accompanying information.

We support, as proposed, the process and criteria to consider in deciding whether information should be basic information, required supplementary information or other accompanying information. Further, we agree with the factors presented for distinguishing basic information from required supplementary information and are not suggesting any additional factors be considered.

>>> On 6/17/2008 at 6:01 PM, <tAkande@doc.gov> wrote:

The following is sent on behalf of Gordon Alston, Deputy Director for Financial Management:

We have reviewed the subject Exposure Draft (ED), *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*. Attached are our responses to the "Questions for Respondents." We do not have additional comments.

Please feel free to call me at (202) 482-0239 if you have any questions.

Thank you.

Attachment

**Department of Commerce Response to Exposure Draft Questions Regarding:
*Distinguishing Basic Information, Required Supplementary Information, and
Other Accompanying Information***

**Prepared by: Department of Commerce (DOC), Office of Financial Management
Date Prepared: June 10, 2008**

Questions for Respondents

Q1. The Statement identifies a process and criteria to consider in deciding whether information should be considered basic information, required supplementary information or other accompanying information (See the section, Distinguishing Basic Information, RSI, and OAI, beginning on page 13).

a. Do you agree with the process presented? If not, please explain you reasons.

DOC Response to Q1.a:

Yes. The process and criteria to consider in deciding whether information should be considered basic information, required supplementary information, or other accompanying information is presented well in the Statement.

b. Do you agree with the factors presented for distinguishing basic information from required supplementary information (See Table 1: Factors to Consider in Distinguishing Basic Information from RSI)?

DOC Response to Q1.b:

Yes. DOC agrees with the factors presented for distinguishing basic information from required supplementary information.

c. Are there additional factors that should be considered? If so, what are they, and how would you describe them?

No. There are no additional factors that should be considered.

>>> "Butler, Angela" <Angela.Butler@ed.gov> 6/19/2008 1:34 PM >>>
Attached is the Department of Education's comments/responses on the FASAB
Exposure Draft.

>>> "Butler, Angela" <Angela.Butler@ed.gov> 6/25/2008 9:20 AM >>>
Terri

Danny Harris, Deputy CFO
Gary Wood, Director, Financial Management Operations

Thank you.

Department of Education's Comments
Exposure Draft: *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*

REQUEST FOR COMMENTS

For instructions on submitting comments, please see page 9 of the exposure draft.

Q1. The Statement identifies a process and criteria to consider in deciding whether information should be considered basic information, required supplementary information or other accompanying information (See the section, Distinguishing Basic Information, RSI, and OAI, beginning on page 13 of the exposure draft).

- a. Do you agree with the process presented? If not, please explain your reasons.

The Department of Education (the Department) concurs with the process and criteria presented by the Board in the Exposure Draft (ED) for deciding whether information should be considered basic information, required supplementary information, or other accompanying information.

- b. Do you agree with the factors presented for distinguishing basic information from required supplementary information (See Table 1: Factors to Consider in Distinguishing Basic Information from RSI)?

The Department concurs with the factors presented in Table 1 for distinguishing basic information from required supplementary information and also believes they are very comprehensive.

- c. Are there additional factors that should be considered? If so, what are they, and how would you describe them?

The Department offers the following suggestion to the Board for its consideration:

Per OMB Circular No. A-136, revised as of June 29, 2007, the Statement of Financing "is presented as a note per OMB's authority under SFFAS 7 and will no longer be considered a Basic Statement." OMB refers to this note as the "Reconciliation of Net Cost of Operations to Budget." This remains the case under the recently revised OMB Circular No. A-136, dated June 3, 2008. As such, the Department suggests that consideration be given to changing references in the ED from "*Statement of Financing*" to "*Reconciliation of Net Cost of Operations to Budget*," where appropriate.



Greater Washington Society of CPAs and GWSCPA Educational Foundation

1455 Pennsylvania Ave, NW, Suite 400, Washington, DC 20004
202-204-8014 (v) 202-204-8015 (f) www.gwscpa.org info@gwscpa.org

June 25, 2008

Wendy Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6K17V
441 G Street, NW – Suite 6814
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*.

FISC consists of 18 GWSCPA members who are active in accounting and auditing in the Federal sector. This comment letter represents the consensus comments of our members.

General

We congratulate the FASAB for its effort to existing concepts and look forward to this effort being continued with review and clarification of all existing standards.

Paragraph 16 does not address the Statement of Social Insurance. In addition, the Statement of Financing reference needs clarification as it is no longer a statement and the title has changed. (We suggest that this reconciliation become a current project for FASAB's technical agenda on the review of existing standards.)

Editorial

Page 10, paragraph 2, last sentence, consider replacing "their" with "its"

Page 12, paragraph 8, 1st sentence, consider adding at the end of the sentence "(collectively auditors)" as this term is used at the end of this paragraph and elsewhere in the ED

Page 12, paragraph 9-55A, 1st sentence, change "considered" to "categorized as"

Page 12, paragraph 9-55A, 4th sentence, Insert comma after OAI

Page 14, 1st paragraph, 1st full sentence, "Required information" should be "Required Information"

Page 14, header "Determining Basic versus RSI" needs indenting

Page 15, paragraph 73F, 3rd line, Page 20, paragraph A2, 4th line, Page 25, paragraph 73A, 2nd sentence, Page 26, paragraph 73B and 73C, 1st and 2nd sentence, “basic information” should be “Basic Information”

Page 15, OAI needs indenting

Page 15, paragraph 73F, 3rd sentence, change “support’ to “supplement”

Page 15, paragraph 73F, 4th sentence, insert commas after “include” and “to”

Page 15, paragraph 73G, 1st sentence, strike “may at times” and change “encourage” to “encourages”

Page 17, paragraph 18, conform “suborganization” and “sub-organization”

Page 18, paragraph 21, 4th line, consider GASB as another standard setting body

Page 33, Appendix C, add abbreviations and define “OAI” and “GAAS”

Responses to Questions for Respondents

Q1. The Statement identifies a process and criteria to consider in deciding whether information should be considered basic information, required supplementary information or other accompanying information (See the section, Distinguishing Basic Information, RSI, and OAI, beginning on page 13 of the exposure draft).

- a. Do you agree with the process presented? If not, please explain your reasons.

Yes, however determining the difference between basic and required supplementary information rests solely with those parties that have the authority to establish GAAP and this should be more clearly and definitively detailed. Although listing the considerations used by the FASAB is informative, this presentation confuses the reader as to whose judgments are used in this analysis. These subjective factors should not be exposed to interpretation by anyone outside the authoritative structure of standard setting. In fact, the “Factors to Consider in Distinguishing Basic Information from RSI” in Table 1 are written in such a way as to allow someone to judge what the FASAB is thinking instead of clearly reserving the FASAB’s opinion related to these factors.

- b. Do you agree with the factors presented for distinguishing basic information from required supplementary information (See Table 1: Factors to Consider in Distinguishing Basic Information from RSI)?

Yes. Generally, the factors convey important thought processes that should be considered by any standard setting body. However, certain questions contain ambiguities that are difficult to understand and define. Understanding the level of importance a FASAB Board member attributes to any criterion cannot be analyzed.

- c. Are there additional factors that should be considered? If so, what are they, and how would you describe them?

No, however, a clear and definite tie-in for this information with Concept Statement Number 1 related to the objectives of Federal Financial

Reporting should be established and explained. This concept should clearly define the link to Concept Statement Number 1 such as how the information will assist in the understanding of budget integrity, operating performance, stewardship, and systems and control.

This comment letter was reviewed by the members of FISC and represents the consensus views of our members.

Very truly yours,

A handwritten signature in black ink, appearing to read "D. Kovlak". The signature is fluid and cursive, with the first letter of the last name being a large, prominent capital "K".

Daniel L. Kovlak
FISC Chair

June 25, 2008

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

Advancing
Government
Accountability

2208 Mount Vernon Ave
Alexandria, VA 22301

(703) 684-6931
(703) 548-9367 (fax)

Dear Ms. Payne:

The Association of Government Accountants (AGA) Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments on the exposure draft (ED) of the proposed Statement of Federal Financial Accounting Concepts (SFFAC), *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*. The FMSB, comprising 23 members with accounting and auditing backgrounds in federal, state and local government, academia and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

Responses to the Question in the ED

The Statement identifies a process and criteria to consider in deciding whether information should be considered basic information, required supplementary information or other accompanying information (See the section, Distinguishing Basic Information, RSI, and OAI, beginning on page 13 of the exposure draft).

a. Do you agree with the process presented? If not, please explain your reasons.

Answer: Although we support the intent of this ED to clarify the differences between required information and other accompanying information, the way the criteria used are presented may cause some confusion. The fact that determining the difference between basic and required supplementary information rests solely with those parties that have the authority to establish GAAP should be more clearly and definitively detailed. This fact becomes slightly obscured in the discussion within paragraph 73D and 73E where the factors to consider are referenced. This paragraph appears to recognize an individual's use of these factors to determine the differences between this information and opens up the possibility of an individual to use their personal judgment to dispute what information is presented. These subjective factors should not be exposed to interpretation by anyone outside the authoritative structure of standard setting. In fact, the "Factors to Consider in Distinguishing Basic Information From RSI" in Table 1 are written in such a way as to allow someone to judge what the board is thinking instead of clearly reserving the board's opinion related to these factors. Other than this confusion we fully support the board describing their considerations when making these determinations subject to the comments below.

b. Do you agree with the factors presented for distinguishing basic information from required supplementary information (See Table 1: Factors to Consider in Distinguishing Basic Information from RSI)?

Answer: Generally, the factors convey important thought processes that should be considered by any standard-setting body and are reasonable. We do think that the factors are subject to interpretation. Based on a person's knowledge and experience, different conclusions could be drawn as to whether it is Basic Information or RSI. We suggest that the board consider defining some specific examples of Basic Information to aid interpretation. Also, we suggest that the document include some examples as to what could constitute "low" or "high" on "Factors to consider in distinguishing basic information from RSI."

Factor 4 (Level of importance the Board wishes to be communicated in the financial report) and Factor 6 (Level of importance the Board wishes to be communicated in the auditor's report) both list "the Board" as the controlling factor in distinguishing RSI from Basic Information. Is the intent for the Concept Statement to be a common foundation for board deliberations but not for use by other users, auditors or preparers? This seems inconsistent in approach from all other standards. We suggest the board consider replacing the term Board with entity or auditor as appropriate.

Factor 13 (Benefit/cost ratio of using resources to ensure accuracy) should be expanded to include "using resources to compile the information as well as to ensure the accuracy of the information."

Also, several factors contain ambiguities that are difficult to understand and define. We are noting these individually as follows:

"Level of importance the Board wishes to be communicated in the financial report"

Level of importance is very difficult to understand because the board would not have even considered an agenda item unless it was important to understanding the financial statements. In addition, how does one convey importance in the basic or required supplementary information? We present facts and other information that will assist in understanding the data not its importance.

"Level of importance the Board wishes to be communicated in the auditor's report"

The board does not set level of importance for auditors but does draw scrutiny by requiring information to be presented. This importance may be better stated as requirements defined in a standard are reviewed and validated by the audit scrutiny that ensures compliance with the requirements in standards.

"Extent to which the information interests a wide audience (rather than specialists)"

This factor is virtually impossible to ascertain or define. Reporting should always use ease of understanding by non-specialist and any approach developed for specific technical audiences has no place in widely published government documents.

“Agreement on criteria that permit comparable and consistent reporting”

Although this is an admirable factor it is very difficult to determine and develop while setting standards as many elements of standards are based upon judgment and estimates. These judgments and estimates have been practiced for many years now and comparability and consistency have proven difficult in many of the existing standards especially when you consider the government-wide consolidated reports. In fact, this intent should be pursued aggressively in the technical agenda item related to reviewing all existing standards.

Are there additional factors that should be considered? If so, what are they, and how would you describe them?

Answer: No, but we do not see a clear and definite tie-in for this information with SFFAC 1, *Objectives of Federal Financial Reporting*, related to the objectives of federal financial reporting such as it assists in the understanding of budget integrity, operating performance, stewardship and systems and control. We suggest that the document include a discussion of this if possible.

Other Comments

1. Throughout the ED there are references to the Statement of Financing which is no longer called that or even considered a statement in OMB Circular A-136, *Financial Reporting Requirements*. In the June 3, 2008 revision to A-136, on page 33, it states that, “Effective in fiscal year 2007, the Statement of Financing is presented in note 42 (per OMB’s authority under SFFAS#7) and is no longer considered a basic statement.”

2. The paragraphs should be renumbered before reissuing due to deletion of several paragraphs.

3. Paragraph 9, page 13, regarding the proposed additions to paragraph 55 of SFFAC2 when it is amended by this final statement – We note the comment at the end of 55A that categories of information such as of RSI and OAI may be “integrated” and labeled “unaudited.” Just because they are labeled “unaudited” does not mean that there is no risk or that no work is required to evaluate risk. Auditors do distinguish between differing levels of procedures performed on the two types of information even if neither is “audited.” What are the costs and benefits of “integration?” What is intended by the Board here? We suggest that the Board include clarification in the final statement.

We very much appreciate the opportunity to comment on the ED. No member objected to the issuance of this comment letter. We would be pleased to discuss this letter with you at your convenience. If you have questions, please contact Anna D. Gowans Miller, CPA, AGA’s director of research and staff liaison for the FMSB, at amiller@agacgfm.org or (703) 562-0087.

Sincerely,

A handwritten signature in black ink that reads "Robert L. Childree". The signature is written in a cursive style with a large, stylized initial 'R'.

Robert L. Childree, Chair
AGA Financial Management Standards Board

cc: Richard L. Fair, CPA
AGA National President

**Association of Government Accountants
Financial Management Standards Board**

July 2007 – June 2008

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Roger Von Elm
Andrew C. West

Relmond P. Van Daniker, Executive Director, AGA (Ex-Officio Member)
Anna D. Gowans Miller, Technical Manager, AGA, Staff Liaison

>>> On 6/25/2008 at 3:22 PM, <John.Wall@hq.doe.gov> wrote:
Good Afternoon,

Attached are the Department of Energy's response to *Exposure Draft: Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*.

John Wall
Office of Financial Policy
Chief Financial Office
(202) 586-5728

Department of Energy's Response to Exposure Draft: *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*

REQUEST FOR COMMENTS

Q1. The Statement identifies a process and criteria to consider in deciding whether information should be considered basic information, required supplementary information or other accompanying information (See the section, *Distinguishing Basic Information, RSI, and OAI*, beginning on page 13 of the exposure draft).

- a. Do you agree with the process presented? If not, please explain your reasons.

The Department of Energy agrees with the process as presented.

- b. Do you agree with the factors presented for distinguishing basic information from required supplementary information (See Table 1: *Factors to Consider in Distinguishing Basic Information from RSI*)?

The Department of Energy agrees with the factors, as presented, for distinguishing basic information from required supplementary information,

- c. Are there additional factors that should be considered? If so, what are they, and how would you describe them?

The Department did not identify any additional factors for consideration.

If you have any questions, feel free to contact John Wall at (202) 586-5728.

>>> On 6/26/2008 at 11:27 PM, <Karen.Nakama@osd.mil> wrote:

Hi Ross,

Appreciate the opportunity to provide comments to the subject Exposure Draft. Attached are our consolidated comments for your consideration.

R,

Karen Nakama

OUUSD(C)/FRA

Comments on the Concepts Exposure Draft Entitled
*Distinguishing Basic Information, Required Supplementary Information, and Other
Accompanying Information*

Q: The Statement identifies a process and criteria to consider in deciding whether information should be considered basic information, required supplementary information or other accompanying information (See the section, Distinguishing Basic Information, RSI, and OAI, beginning on page 13.)

- a. Do you agree with the process presented? If not, please explain your reasons.

1st perspective:

The criteria for the determination of required information or other accompanying information is understandable. The criteria for the determination of basic information versus required supplementary information is subject to interpretation. Some reporting entities may include information as basic information that other reporting entities may consider required supplementary information. If consistency or standardization are the desired results, this concept document requires additional clarification. It does not provide succinct criteria to determine the difference between the two types of required information, resulting in different interpretations.

2nd perspective:

Agree with the intent of the process presented but recommend the consolidation of RSI and OAI. Why should additional information be presented in three separate sections? If OAI by definition is "information that accompanies both basic information and required supplementary information, but is not required by a body that establishes GAAP." Why is this information included? It should be submitted as a separate report required by the specific agency (e.g. OMB). The annual financial statements for General Electric is 116 pages in total and includes a section titled "Financial Measures that Supplement Generally Accepted Accounting Principles."

- b. Do you agree with the factors presented for distinguishing basic information from required supplementary information (See Table 1: Factors to Consider in Distinguishing Basic Information from RSI)?
Yes. The factors presented are sufficient for a reporting entity to make a distinction between basic information and required supplementary information. However, as mentioned in the response to item a, the determination whether the information is basic information or required supplementary information is subject to the reporting entity's interpretation. One entity's interpretation of high may be interpreted as low by another agency. Therefore, the standardization and consistency between reporting entities are not outcomes.

- c. Are there additional factors that should be considered? If so, what are they, and how would you describe them?
No.
- d. Are there any additional comments or questions?
1. Is the Balance Sheet being renamed as the Statement of Financial Position for reporting entities? The renaming follows the current presentation of Financial statements for private industry (e.g. General Electric).
 2. Both paragraph 19 and 77 state, "In reporting transactions and balances of a Federal reporting entity in its entirety, it is conceptually desirable, although not always practicable, to eliminate the intra-entity transactions and balances." This seems to indicate that intra-entity eliminations are not required, which is in conflict with generally accepted accounting principles. Recommend that this wording be clarified or eliminated.
 3. The Exposure Draft should explicitly state:
 - a. The Required Supplementary Stewardship Information is not required (RSSI)
 - b. The information previously reported in RSSI is now reported in RSI.
 4. Recommend that information currently reported as OAI be submitted as a separate report or consolidated with RSI.
 5. Title heading for paragraph 84 should be Statement of Financial Position.

>>> On 6/26/2008 at 6:42 PM, <KBoerum@ManagementConcepts.com> wrote:

Thank you for the opportunity to respond to FASAB's exposure draft of the proposed Statement of Federal Financial Accounting Concepts "Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information." We are pleased to provide the following comments in response to FASAB's questions:

Q1. The Statement identifies a process and criteria to consider in deciding whether information should be considered basic information, required supplementary information or other accompanying information.

a. Do you agree with the process presented? If not, please explain your reasons.

We agree with the process you are using. The conceptual framework for categorizing financial information will be useful for the preparation, audit, and review of federal financial information.

b. Do you agree with the factors presented for distinguishing basic information from required supplementary information (See Table 1: Factors to Consider in Distinguishing Basic Information from RSI)?

You have included a sufficient number of factors for use in categorizing data for financial reporting.

c. Are there additional factors that should be considered? If so, what are they, and how would you describe them?

No.

Ken Boerum
Management Concepts

>>> On 6/26/2008 at 5:49 PM, <chopra.naresh@dol.gov> wrote:

Q1. The Statement identifies a process and criteria to consider in deciding whether information should be considered basic information, required supplementary information or other accompanying information (See the section, Distinguishing Basic Information, RSI, and OAI, beginning on page 13 of the exposure draft).

Q1. Do you agree with the process presented? If not, please explain your reasons.

Ans: Yes

Q2. Do you agree with the factors presented for distinguishing basic information from required supplementary information (See Table 1: Factors to Consider in Distinguishing Basic Information from RSI)?

Ans: Yes

Q3. Are there additional factors that should be considered? If so, what are they, and how would you describe them?

Ans: No

>>> On 6/26/2008 at 10:34 AM, <Joe.Green@oig.hhs.gov> wrote:

Wendy,

Attached are the Health and Human Services, Office of Inspector General comments on the exposure draft of proposed Statement of Federal Financial Accounting Concepts entitled, Distinguishing Basic Information, Required Supplemental Information, and Other Accompanying Information. Please call Joe Cummings at 301-443-9742 with any questions.

Joe Green

Assistant Inspector General for Financial
Management and Regional Operations

>>> On 6/26/2008 at 3:06 PM, <Joseph.Cummings@oig.hhs.gov> wrote:

Wendy:

We have one additional item that we did not include with the comments Joe Greene submitted to you this morning. Please call me with any questions.

We have some concerns with the factors listed in Table 1. It is not that the factors are not important, only that they appear to be a basis for scoring whether or not information is Basic Information (BI) or Required Supplementary Information (RSI). In our opinion, the Board should assign a relative value to the factors to aid in their decision making process. In this manner data would be subject to a process of review (shown below) that would score the information.

Information that scored low would remain RSI, in the middle would be highly recommended for disclosure as basic information, but could remain as RSI. Information that scored highly in this analysis would be required to be reported as BI. The review process would begin with the Board's assessment the information should be communicated in the financial report or auditor's report, which would then be subject to review using the factors shown. The analysis would go as follows (scale of 1 - 10 for each factor);

- 1) Extent that the information interests a wide audience, there are not alternative sources of reliable information, and the information is aggregated [weight 25%]

- 2) Relevant to measuring financial condition or change, connection with financial reporting elements and fair presentation [weight 20%];

(In many cases a key concern (relevant) is the matter of going concern of the various government programs in light of current fiscal policy, and there are significant changes depending on the perspectives (i.e. individual agency or Federal government as a whole);

- 3) Relevance in light of Objectives [weight 10%];

- 4) Connection with basic financial statements [weight 15%];
- 5) Cost benefit analysis [weight 15%];
- 6) Experience among various users of the financial information, and use of various financial data or financial transaction data [weight 5%], and;
- 7) The reliability and or precision needed and or possible [weight 10%].

Joseph D. Cummings, CPA

Director, Financial Statement Audits and Related Services

Department of Health and Human Services, Office of Inspector General
Parklawn Bldg, Room 18B-08
5600 Fishers Lane
Rockville, MD 20857

Wendy:

HHS-OIG Office of Audit Services (OAS) has reviewed the exposure draft of a proposed Statement of Federal Financial Accounting Concept (SFFAC) entitled, *“Distinguishing Basic Information, Required Supplementary Information and Other Accompanying Information.”* The Federal Accounting Standards Advisory Board (FASAB) requested that respondents answer three questions and provide any other comments they believe pertinent to the proposal. HHS OIG OAS responses to the FASAB’s questions appear below.

Q1. The Statement identifies a process and criteria to consider in deciding whether information should be considered basic information, required supplementary information (RSI), or other accompanying information (OAI) (See the section, Distinguishing Basic Information, RSI and OAI, beginning on page 13).

- a. Do you agree with the process presented? If not please explain your reasons.

We have no specific disagreement with the process presented.

- b. Do you agree with the factors presented for distinguishing basic information from required supplementary information (See Table 1: Factors to Consider in Distinguishing Basic Information from RSI)?

We have no disagreement with the factors presented.

- c. Are there additional factors that should be considered? If so, what are they, and how would you describe them?

We suggest FASAB add a factor relating to statutory and regulatory requirements. Congress, the President’s Office of Management and Budget (OMB) and/or the Government Accountability Office (GAO) may add items that agencies must report as basic information, RSI or OAI. For example, any of these bodies could require that agencies include non-financial items as part of the basic financial statements in order for these items to be verified using appropriate audit procedures.

We also identified a couple of items within the exposure draft where FASAB should add information or provide more clarification. On page 12, section 8 (SFFAC 2, paragraph 55), FASAB should add **“contracted by the Inspector General”** after **“independent accounting firms”** in the first sentence. On page 13, section 9 (SFFAS 2, paragraph 55B), FASAB should clarify or state examples where financial statements could possibly be presented as RSI or OAI.

Thanks for the opportunity to respond to the questions and comment on the exposure draft. If you have any question, please contact Joe Cummings, Director, Financial Statement Audit and Related Services at (301) 443-9742.

>>> On 6/26/2008 at 2:51 PM, <jpage@loc.gov> wrote:
RE: FASAB Exposure Draft, Statement of Federal Financial Accounting Concepts (SFFAC), "Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information," Dated March 26, 2008

Dear Mr. Allen and Ms. Payne:

The Library of Congress (the Library) is pleased to provide comments on the above referenced Exposure Draft. Our comments follow below

Background of the Library of Congress

As a legislative branch agency, the Library of Congress (the Library) is not required to follow the executive agency accounting principles established by the Comptroller General under 31 U.S.C. 3511 or the standards developed by the Federal Accounting Standards Advisory Board (FASAB). However, the Library maintains its fund balances with the Department of the Treasury and submits information required to incorporate its financial and budgetary data into the overall federal government structure. For purposes of financial management and reporting, the Library has issued a regulation (LCR 1510), which adopts the federal standards for financial reporting and internal controls in a manner consistent with a legislative agency.

Although not required to prepare audited financial statements, the Library adheres to the spirit of many of the executive branch's initiatives to continuously improve financial management and public transparency of its financial activities, as evidenced by the Library's receipt of its twelfth consecutive unqualified opinion on its audited financial statements (including receiving its twelfth while implementing SFFAS No. 29 one year early). However, because the preparation and audit of the financial statements are not legislatively mandated, all activities associated with the audited financial statements may be placed at a priority equal to other competing administrative activities; this renders the financial statement activities particularly vulnerable to pressure from resource availability and cost-benefit considerations. Therefore, the Library's goal is to prepare audited financial statements and receive an unqualified audit opinion, but to do so in a manner that maximizes economy and efficiency; it is in this context that the Library submits comments on the Exposure Draft.

Q1. The Statement identifies a process and criteria to consider in deciding whether information should be considered basic information, required supplementary information or other accompanying information (See the section, Distinguishing Basic Information, RSI and OAI, beginning on page 13).

a. Do you agree with the process presented? If not, please explain your reasons.

The Library disagrees with certain concepts in paragraphs 73B. and 73C. on page 14. Paragraph 73B. states, "Basic information is information which is essential for the financial statements and notes to be presented in conformity with GAAP." If basic information is "essential," then it should not be classified first as Required Supplemental

Information (RSI) because it is "experimental in nature . . . while more experience is gained through resolution of accounting issues." If the information is truly essential, but the information is experimental in nature and requires the resolution of accounting issues, then the information should still be classified as basic and an adjustment should be made instead of delaying the required implementation date.

By delaying the required implementation date, the Library does not intend that implementation be delayed in every circumstance for information that is experimental in nature or subject to accounting issues; instead, the accounting standard should encourage or permit early implementation for the reporting of basic information. Early implementation would allow preparers and auditors to gain valuable experience at a level of scrutiny appropriate to basic information, while providing maximum flexibility for the preparer according to budget, personnel, and time constraints.

Staggering implementation by first requiring information to be reported as RSI for a number of periods prior to requiring information to be reported as basic information (as was done in SFFAS No. 29, Heritage Assets and Stewardship Land) may have two disadvantages: (1) it may not provide preparers and auditors with experience at the appropriate level of scrutiny (RSI as opposed to basic) and (2) it may consume resources for reporting the information as RSI that could have been better spent on preparations to report the information as basic, perhaps even with early implementation. The Library was pleased to implement certain basic reporting requirements of SFFAS No. 29 one year early in its Fiscal Year 2007 audited financial statements.

b. Do you agree with the factors presented for distinguishing basic information from required supplementary information (See Table 1: Factors to Consider in Distinguishing Basic Information from RSI)?

The Library agrees in principle with the majority of the factors mentioned in Table 1. Our comments on specific factors follow:

Please consider rewording the sixth factor, "Level of importance the Board wishes to be communicated in the auditor's report." Please reconsider whether it is appropriate for the Board to influence the format or content of the independent auditor's report. Perhaps the factor could be reworded as, "Level of importance the Board wishes to communicate to the auditor."

Please consider rewording the eighth factor, "Extent to which the information interests a wide audience (rather than specialists)." Although this factor seems in line with good common sense, it may appear counter-intuitive when applied to some of the financial statements and footnotes. Perhaps the factor could be reworded as, "Extent to which the information may interest a wider audience (rather than specialists)."

Please consider rewording the ninth factor, "Extent to which there are not alternative sources of reliable information." To improve the syntax of the factor, perhaps the factor

could be reworded as, "Extent to which there is a lack of alternative sources of reliable information."

Please consider removing the eleventh factor, "Experience among users, preparers, and auditors with the information." As described in our response to question a. above, if basic information is truly essential, but the information is experimental in nature and requires the resolution of accounting issues, then the information should still be classified as basic and an adjustment should be made instead by delaying the required implementation date. The information should not be classified as RSI during an interim period; instead, early implementation of reporting basic information should be allowed or encouraged. Generally, most preparers and auditors will lack experience in dealing with new requirements.

c. Are there additional factors that should be considered? If so, what are they, and how would you describe them?

The Board may wish to consider the following additional factors as described below:

The basis of accounting used to compile the information: e.g., cash, budgetary, or proprietary basis. The basis of accounting may indicate RSI versus basic (or Other Accompanying Information, OAI) depending upon the nature of the information. Some types of information may be more relevant and reliable under one particular basis of accounting as opposed to another basis of accounting.

The number of future time periods involved in accounting information affected by future projections. As time periods extend farther into the future, information may be considered to be less relevant and reliable.

The impact of market factors and market volatility (or the lack of a market) that may affect particular reportable items (e.g., the effect of changes in prices for commodities, foreign currencies, interest rates, and inflation).

Finally, please consider whether designations as basic versus RSI may have unintended consequences and the likelihood that the unintended consequences may occur. Such unintended consequences may include requiring more reliable, less relevant basic information that may have less value to the average reader at the expense of providing more relevant, less reliable RSI information that may have greater value to the average reader.

The Library of Congress thanks the Board for the opportunity to comment on the Exposure Draft. Any questions or comments may be addressed to Jay S. Miller, CPA, Financial Reports Officer, Office of the Chief Financial Officer, at jami@loc.gov or (202) 707-3548.

Sincerely,

Jeffrey Page
Chief Financial Officer
The Library of Congress
101 Independence Street, S.E. LM-613
Washington, D.C. 20540-1000



JUN 27 2008

Ms. Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

Dear Ms. Payne:

RE: Federal Accounting Standards Advisory Board Exposure Draft, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*, dated March 26, 2008

The Chief Financial Officers Council, Standardization Committee, FASAB Response Group appreciates the opportunity to comment on the Exposure Draft proposing amendment to Statement of Federal Financial Accounting Concepts 2, Entity and Display, and originating with FASAB's initial phase of the Financial Reporting Model project.

We express our support for the FASAB's guidance in considering how information should be categorized and believe that this statement will facilitate the understandability, consistency, and comparability of federal financial reporting by providing the conceptual framework needed to determine the display for emergent complex financial reporting issues.

We have attached to this document responses to the Board's request for comments to question Q1 (a), (b), and (c) as well as comments on other aspects of the proposed statement. We believe our comments will assist the Board in clarifying intent and enhancing readability of the statement.

Again, thank you for the opportunity to provide responses to the Exposure Draft. If you require any additional information, please contact me on (202) 208-4701.

Sincerely,

Daniel L. Fletcher
CFOC Standardization Committee
FASAB Response Group Representative

Attachment

Attachment

Chief Financial Officers Council
FASAB Exposure Draft, Distinguishing Basic Information, Required Supplementary Information,
and Other Accompanying Information, dated March 26, 2008
Questions for Respondents and Comments on Other Aspects of the Proposed Statement

Questions for Respondents

Q1. The Statement identifies a process and criteria to consider in deciding whether information should be considered basic information, required supplementary information or other accompanying information.

Question Q1(a).

Do you agree with the process presented? If not, please explain your reasons.

Response Q1(a).

Overall, we agree with the process presented.

Determining the difference between basic and required supplementary information rests solely with those parties that have the authority to establish GAAP and should be more clearly and definitively detailed. This fact becomes slightly obscured in the discussion within paragraph 73D and 73E where it references the factors to consider. This paragraph appears to recognize an individual's use of these factors to determine the differences between these information categories and permits the individual to use their personal judgment to dispute what information is presented. These subjective factors should not be exposed to interpretation by anyone outside the authoritative structure of standard setting. In fact, the "Factors to Consider in Distinguishing Basic Information from RSI" in Table 1 are written in such a way as to allow someone to judge what the board is thinking instead of clearly reserving the boards opinion related to these factors.

Question Q1(b).

Do you agree with the factors presented for distinguishing basic information from required supplementary information (See Table 1: Factors to Consider in Distinguishing Basic Information from RSI.)

Response Q1 (b).

I. Generally, the factors convey important thought processes that should be considered by any standard setting body. However, certain questions contain ambiguities that are difficult to understand and define. We are noting those individually in succeeding paragraphs.

i. "Use of various types of financial data or financial transaction data"

It is unclear what this factor really means. The ability to use financial data does not seem to have any relevance to the determination of presentation importance.

ii. "Level of importance the Board wishes to be communicated in the financial report"

Level of importance is very difficult to understand because the board would not have even considered an agenda item unless it was important to understanding the

financial statements. In addition, how does one convey importance in the basic or required supplementary information? Facts and other information are presented that will assist in understanding the data, not its importance.

This factor should be clear whether it is referring to the FASAB especially since an agency may have a "Board" that governs the entity.

iii. "Level of importance the Board wishes to be communicated in the auditor's report"

This factor does not seem relevant by itself, but is implicitly covered by the factor, "Level of importance the Board wishes to be communicated in the financial report." Information defined as basic for the financial report will get the highest audit attention, while RSI gets less, and Other Information gets the least. Accordingly, the Board needs only to determine how important the information is to the report and audit attention will follow. Information that is not deemed essential should not be made basic to get higher audit attention.

iv. "Extent to which the information interests a wide audience (rather than specialists)"

This factor is virtually impossible to ascertain or define. Reporting should always promote ease of understanding by non-specialists and any approach developed for specific technical audiences has no place in widely published government documents.

v. "Agreement on criteria that permit comparable and consistent reporting"

Although this is an admirable factor, it is very difficult to determine and develop while setting standards as many elements of standards are based upon judgment and estimates. These judgments and estimates have been practiced for many years and comparability and consistency have proven difficult in many of the existing standards especially when you consider the government-wide consolidated reports. In fact, this intent should be pursued aggressively in the technical agenda item related to reviewing all existing standards.

vi. "Experience among users, preparers and auditors with the information"

Experience varies among users and therefore, should not be considered when determining whether to include in RSI or basic information – the global pool of 'users' is too wide. Even experience among preparers and auditors varies and cannot be used as a basis of determining where the information should be included. Furthermore, this will only further deepen the schism between management and OIG communities due to the lack of objective ratings on these factors.

vii. "Extent to which the information is aggregated (lacking detail)"

This factor does not seem to fit the model of higher scores leading to basic information. The more (higher extent) that information is only available in

aggregate and not in detail, the least likely it would fit basic information. Suggest rewording as "Extent to which information is generally available in detail," where the better the availability of detail, the easier it would be to provide as basic information.

- II. Other considerations related to Q1 (b). As noted in paragraph 73D, the factors presented carry no associated weighting to be used in the determination process; however, some factors would seem considerably more important to the determination than others. If determining factors are presented to assist the board, as well as others using these concepts, as **interpretive guidance** (emphasis added), we believe significance or ranking should be included with each factor. Without such weighting, each factor could appear to be potentially equal in significance to the determination process. Some of the items, while important to certain considerations, appear to carry very little relevance to the importance of information, which we believe should be the primary driver in this determination of basic versus RSI. Failure to provide any ranking perspective could lead to conflicting interpretations by users. It should be clear that just having a significant number of high or low scores would not imply that information should be basic versus RSI. To eliminate differences in opinion and to have a better understanding and consistent interpretation of each factor, further definitions and examples of applicability would be helpful for each the factors listed on the table.

Specifically, the factors starting with, "Extent to which there are not alternative sources...", and all of the factors listed below it in Table 1, should only be considered once most of the factors above them are ranked as having high or low importance, and not used as determining factors on their own in the basic versus RSI decision. Several of the factors in this lower section of Table 1 seem secondary in nature, and more relevant to implementation considerations (such as considerations of lead time needed to build reliable and accurate data, expertise/experience) rather than determining where such information ultimately belongs in financial presentations.

- III. Table 1 does not clearly present how to apply or consider the criteria for distinguishing Basic Information from Required Supplementary Information. For example, if the individual considering the criteria specified in Table 1 is not a member of the Board, it is not clear how that individual (e.g. a financial statement preparer) would assess or gauge the Board's wishes to apply the criteria as for example, "Level of importance the Board wishes to be communicated in the financial report" and "Level of importance the Board wishes to be communicated in the auditor's report."
- IV. The factors are vague or do not appear to add value in the process of making the determination to categorize the available information as either basic information or RSI. Such open interpretation poses a risk to the agencies since these factors could be determined to be of high significance based on the judgment of some and be of low significance (and therefore, be interpreted as belonging to the RSI section) to others.

This may leave the criteria to individual judgment as opposed to the actual intent of the Board. In addition, ultimately, the classification of information in the financial statements will have been balanced with the auditors' input on these subjective factors. This input may vary from the guidance issued by FASAB.

Question Q1(c).

Are there any additional factors that should be considered? If so, what are they, and how would you describe them?

Response Q1(c).

We do not see a clear and definite tie-in for this information with SFFAC 1 related to the objectives of Federal Financial Reporting such as it assists in the understanding of budget integrity, operating performance, stewardship, and systems and control.

Comments on Other Aspects of the Proposed Statement:

1. We recommend that Paragraph 73C of the ED be expanded to specifically include information the Board considers of significant importance for Federal presentation, but below the level of "essential." The current language in this paragraph addresses more of the implementation restrictions leading to RSI. Some information may be deemed less than essential, but should have a fit in the reporting hierarchy.
2. Request the FASAB use this ED as an opportunity to reevaluate the usefulness, importance, and relevance of the Statement of Financing in federal financial reporting. In paragraph 16 of this ED (referencing SFFAC 2, paragraph 74), the position in existing Standards requiring this information as basic information is reiterated. Our preference would be that the FASAB remove requirements for this statement altogether from its concepts document and associated standards. In accordance with the factors listed in Table 1 of the ED, we would suggest that the Statement of Financing should rank no higher than RSI from the perspective of importance, and is not essential to users of federal financial reports.

The Statements of Financing models to-date are primarily reconciliations between the Statement of Budgetary Resources and Statement of Net Cost, with readers being required to have significant understanding of the nuances of each to glean meaningful information from the reconciliation. Attempts to develop alternative approaches and formats to disclose elements that may be more useful to readers have also been hampered by requirements of existing standards.

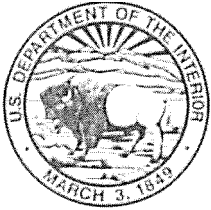
Request the FASAB assess what information previously reported on the Statement of Financing has proved useful to readers, and develop as a part of their Financial Reporting Model project alternative reporting that may be of more use to broad audiences.

3. Suggestions to Improve Readability:
 - i. Provide consistency in verbiage for paragraph 2 and paragraph 6 and 73D (Table 1) for "process and criteria", "criteria" and "factors", respectively. To explain, paragraph 2 states, "...amends SFFAC 2 to discuss a process and criteria to consider when deciding whether the information should be considered basic information, required supplementary information (RSI), or other accompanying information (OAI) whereas paragraph 6 states, "...and identifies criteria the Board considers in determiningbasic, required supplementary information (RSI), or other accompanying information (OAI)" and 73D states, "...Factors to consider in Distinguishing Basic information from RSI" (Required only - OAI not addressed).

- ii. **Revise and expand the Scope section on page 11 to identify which sections are revised, rescinded, or added in their entirety or add a summary of changes section.**

For example, revise scope section 3 to include this Statement modifies SFFAC 2, paragraph 2,3,55,69,74,76,77,78,79, and 108 and footnote 14. This Statement rescinds paragraph 72 and 81 and footnotes 11, 12, and 17. Sections 73A through 73G and Table 1 were added under section 73. The Statement of Financing is added to paragraph 74. Footnote 12a added as paragraph 13.

- iii. **Include footnote 12a under paragraph 74 since statement of financing is included without footnote presented.**
- iv. **Provide guidance for the Board's intended category of display for the four statements added to Paragraph 79, Financial Reporting for the Entire Government section. Specifically, for the statement of operations and changes in net position; reconciliation of net operating revenue (or cost) and unified budget surplus (or deficit); statement of changes in cash balance from unified budget and other activities; and comparison of budgeted and actual use of resources.**
- v. **Amend Section 80 to replace "in Budget" with "in Federal Programs by Agency and Account" for usage as indicative criteria for a financial reporting entity.**



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240



JUN 27 2008

Ms. Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

RE: FASAB Exposure Draft, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*, dated March 26, 2008.

Dear Ms. Payne:

The U.S. Department of the Interior appreciates the opportunity to comment on the subject Exposure Draft and supports efforts to standardize reporting methodologies.

Attached is the Department of the Interior's consolidated response to the subject Exposure Draft. If you have any questions or concerns please contact David Horn at 202-208-5542.

Sincerely,

A handwritten signature in black ink, appearing to read "Daniel L. Fletcher".

Daniel L. Fletcher
Director
Office of Financial Management

Attachment

Department of the Interior
Office of Financial Management
Response to SFFAC #2 Exposure Draft
Distinguishing Basic Information, RSI and OAI

Question 1

The Statement identifies a process and criteria to consider in deciding whether information should be considered basic information, required supplementary information or other accompanying information. (See the section, Distinguishing Basic Information, RSI, and OAI, beginning on page 13).

a. Do you agree with the process presented? If not, please explain your reasons.

Yes, however the process presented in the Statement is somewhat unclear.

Paragraph 55A reads, "In developing accounting standards, the Board considers whether information should be considered basic information, required supplementary information (RSI) or other accompanying information (OAI)". Paragraph 55B indicates that the Board must be specific in designating information as basic, RSI or OAI. From paragraph 55B, the reader is referred to paragraphs 73A – 73G for a description of a process for selecting the appropriate category.

Table 1: *Factors to Consider in Distinguishing Basic from RSI*, is introduced in Chapter 73D and is meant to provide a framework for classifying information. While the factors presented by the table are useful for that purpose, the presence of a table could allow personal judgment and/or interpretation of the Board's intent to be applied to the process.

Additionally, the ED misses an opportunity to provide information on Required Supplementary Stewardship Information (RSSI) which appears to have been eliminated. Paragraph 70 references the third objective of Federal financial reporting which requires, "a reporting of information concerning investments in education, training, research and development and certain types of property, plant, and equipment that can affect the nation's future wealth, and to the claims on future budgetary resources resulting from prior decisions and actions."

Paragraph 71 of the ED continues the discussion, indicating that information concerning these investments may be recorded and/or maintained external to general ledgers, in units other than dollars, or in systems not offering the controls of double entry recordkeeping. The last sentence of this paragraph reads, "Accordingly, a more suitable way to fulfill the third reporting objective would be to display the appropriate information as required supplementary information rather than attempting to include it in the financial statements." Interior currently reports these items in RSSI in accordance with SFFAS 8, not RSI as paragraph 71 seems to indicate. Please clarify the status of RSSI.

b. Do you agree with the factors presented for distinguishing basic information from required supplementary information (See Table 1: Factors to Consider in Distinguishing Basic Information from RSI)?

Yes, the factors presented in Table 1 represent valuable points of consideration to be used in distinguishing between Basic Information and RSI. It is assumed that the table was included to illustrate elements that the FASAB may have considered or used in its deliberations surrounding standards. However, the table and its lack of a hierarchy or other means for determining the relative importance of the individual factors is open for interpretation and may allow for a process that is unduly subjective. Therefore, it would be helpful if the intended purpose of the table was clarified and considerations of the Board were more clearly detailed.

c. Are there additional factors that should be considered? If so, what are they, and how would you describe them?

No, we have no suggestions for additional factors to be considered.

Additional Comments/Questions

1. References to the Statement of Financing (page 13, 17) should be consistent with OMB Circular A-136. The most recently published A-136 now refers to the former Statement of Financing as the "Reconciliation of Net Cost to Budget". This reconciliation is a note display and no longer considered a statement. The board should reevaluate the Standards related to this reference as part of its *Reviewing Existing Standards* technical agenda item.
2. The Balance Sheet is referred to as the Statement of Financial Position. It is preferable that it simply be identified by the more commonly used term "Balance Sheet".
3. Would it be possible to present Table 1 as a decision tree, hierarchy, or precise algorithm for classifying items?
4. Should RSSI be included in this concept?
5. On page 17, paragraph 16, is the statement of program performance measures (8th bullet) the same as the footnote disclosure for the Statement of Net Cost?
6. On page 19, 3rd bullet, change Statement of Operations and Changes in Net Position to Statement of Changes in Net Position for consistency with page 17.

>>> On 6/30/2008 at 8:18 AM, <Dax.Susan@epamail.epa.gov> wrote:

----- Forwarded by Susan Dax/DC/USEPA/US on 06/30/2008 08:01 AM -----

Susan Dax/DC/USEPA/US

To 06/30/2008 07:48 simmsr@fasab.gov

AM cc

Subject

Re: FASAB Exposure Draft

Ross

I apologize for not sending this email to you last week

The only comment EPA has is in regard to the relationship between Distinguishing Basic Information, Required Supplementary Information and Other Accompanying Information and OMB Circular A-136. Circular A-136 has identified information to present in the various supplementary sections (RSSI, RSI and Other Accompanying Information). Most agencies are following A-136. Does FASAB believe that A-136 conforms with this Exposure Draft on Distinguishing Basic Information, Required Supplementary Information and Other Accompanying Information?

Susan Dax, Deputy Director

Office of Financial Management

Phone: 202-564-4934

Fax: 202-565-2585

Mailing Address:

Environmental Protection Agency

1200 Pennsylvania Avenue, NW (Mail Code 2733R)

Washington DC 20460



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 26, 2008

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

Dear Ms. Payne:

Thank you for the opportunity to provide comments on the exposure draft "***Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information.***" We think that overall the proposed standard will improve financial reporting in this area. However, we believed that some of the factors in the table were vague and subject to interpretation. For example, the high or low standards to be applied to each criteria did not provide any guidance to those standards. We are providing the following specific comments for your consideration.

1. Do you agree with the process presented? If not, please explain your reasons.

We basically agreed with the process and criteria established in the draft to differentiate between Basic, Required Supplementary Information, and Other Accompanying Information.

2. Do you agree with the factors presented for distinguishing basic information from required supplementary information (See Table 1: Factors to Consider in Distinguishing Basic Information from RSI)?

The table provided some useful insight to help determine whether information to be reported should be classified as Basic or Required Supplementary Information; however, we found the guidelines to be very broad or, with little or no detail to aid users in understanding them.

The fourth factor presented, "Level of importance the Board wishes to be communicated in the financial report," is not clearly written and does not define what is sought.

The seventh factor, "Extent to which the information interests a wide audience (rather than specialists), also presented an exception for us. We do not believe the audience should determine whether information is Basic and therefore audited, or RSI and "subject to procedures specified by auditing standards," but not audited.

3. Are there additional factors that should be considered? If so, what are they, and how would you describe them?

We did not identify any other factors that we believed needed to be included.

Again, we appreciate the opportunity to comment on this exposure draft. If we can be of further assistance, please contact Mr. Donald Geiger, Assistant Director, Office of Accounting and Internal Control, on (202) 622-0934.

Sincerely,

(signed – Donald Geiger for Jim Lingeback)

Jim Lingeback
Director,
Office of Accounting and Internal Control



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July 24, 2008

Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Mailstop 6K17V
Washington, DC 20548

Dear Ms. Payne:

We appreciate the opportunity to respond to the proposed amendments to Concepts Statement 2, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information* – the exposure draft (ED). We fully support the adoption of this ED to provide guidance about categorizing information in financial reports.

In the remainder of this letter we provide our responses to the questions posed in the ED and other comments.

ED Request for Comments and Our Response

- 1. Do you agree with the process presented in the ED?

KPMG Response: We agree with the process presented in the ED, which begins with a decision about what should be required rather than the placement of information.

- 2. Do you agree with the factors presented in the ED for distinguishing basic information from required supplementary information?

KPMG Response: Overall, we agree with the factors presented in the ED. However, we believe the following factors should be clarified to identify the criteria for determining the “level of importance.”

- Level of importance the Board wishes to be communicated in the financial report
- Level of importance the Board wishes to be communicated in the auditor’s report

- 3. Are there additional factors that should be considered? If so, what are they, and how would you describe them?

KPMG Response: We believe the factors presented in the ED are sufficient; thus, we are not suggesting any additional factors.

Wendy M. Payne, FASAB Executive Director
July 24, 2008
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Other Comments

Audit Focus as Categorization Driver

We believe that the discussions in paragraphs 55 and 55A convey more importance on the auditing function than is evidenced in Table 1 (that is, the auditing function is 1 of 16 factors). Accordingly, we recommend the following changes (deleted text is ~~struck through~~) to the ED.

1. Delete paragraph 55.
2. Combine paragraphs 55A and 55B in the following manner: Move the first sentence in paragraph 55A to the beginning of paragraph 55B, and delete the remaining 6 sentences in paragraph 55A. [Refer to the *Editorial Suggestions* section below for further comments on paragraph 55B.]
3. Revise paragraph 73B to be "...The FASAB standards are the core of GAAP ~~and auditors may be engaged to express an opinion as to whether basic financial statements and notes are presented in conformity with those criteria.~~"

Amendments to Concepts Statement 2 – Not in ED

We believe that footnote 20 (associated with paragraph 106) of the current Concepts Statement 2 should be amended to reflect the audit requirement change made by OMB since the original issuance of Concepts Statement 2. Accordingly, we recommend the following change (deleted text is ~~struck through~~) to footnote 20.

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

Editorial Suggestions

We recommend editorial changes (added text is underscored, deleted text is ~~struck through~~) to the following excerpts from the ED.

- Revise paragraph 55B to be "Classification of the information as basic, RSI, or OAI does not constrain the form of presentation. For example, financial ~~statements~~ information that is classified as basic may be presented ~~as basic financial statements, RSI, OAI in the form of a table using rows and columns~~. Financial information presented as RSI or OAI may also be presented in such a format. However, the Board may ~~Information can be required~~ or encouraged preparers to be



Wendy M. Payne, FASAB Executive Director

July 24, 2008

Page 3 of 3

display financial information in **the form of a particular format** – narrative, graphic, or tables. To clearly communicate the intended status, the Board must specify whether the information is to be considered basic, RSI, or OAI...”

- Revise paragraph 79 to be “In addition to budgetary integrity, operating performance, and systems and control information, readers of the **Consolidated Financial Report of the U.S. Government**~~financial statements for the entire government~~ are likely to be concerned primarily with whether the government has been a proper steward...”

If you have questions about our response, please contact Mr. Terrill E. Menzel at 518-427-4607 or tmenzel@kpmg.com.

Very truly yours,

KPMG LLP

