



Federal Accounting Standards Advisory Board

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

Statement of Federal Financial Accounting Concepts

Exposure Draft

Written comments are requested by June 26, 2008

March 26, 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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Federal Accounting Standards Advisory Board

March 26, 2008

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

The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting comments on the exposure draft of a proposed Statement of Federal Financial Accounting Concepts entitled, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*. Specific questions for your consideration appear on page 9 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by June 26, 2008.

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

We have experienced delays in mail delivery due to increased screening procedures. Therefore, please provide your comments in electronic form. Responses in electronic form should be sent by e-mail to fasab@fasab.gov. If you are unable to provide electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow up by mailing your comments to:

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

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

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

Tom L. Allen
Chairman

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*.

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.

Executive Summary**What is the Board proposing?**

This Statement would amend SFFAC 2, *Entity and Display*, to provide guidance on determining whether information should be basic information, required supplementary information (RSI), or other accompanying information (OAI).¹

How would this proposal improve federal financial reporting and contribute to meeting the federal financial reporting objectives?

A number of recent complex financial reporting issues have highlighted the need to enhance existing concepts. For example, conditions have elevated the need for information concerning the federal government's fiscal sustainability. Also, methods for providing operating performance information continue to evolve and the financial reporting community is experimenting with various presentations. Along with deciding *what* information should be reported regarding these topics, the Board must determine whether the information should be considered basic information, RSI, or OAI. Whether information is defined as basic, RSI, or OAI may be important to preparers, auditors, and users.

For example, when an auditor is engaged to audit an entity's financial statements, the auditor audits the basic information and reports on the results. However, the RSI and OAI are unaudited, but subjected to certain procedures and reporting requirements in accordance with auditing standards for RSI and OAI respectively. To inform users of the differences, financial report preparers may separate the information within the report or label RSI and OAI as "unaudited."

The Board believes a conceptual framework should provide guidance for considering how information should be categorized. This statement would provide such guidance and help those affected by or interested in standards to understand better the purposes, content, and characteristics of information provided in federal financial reports. The Board anticipates that this Concepts

¹ This Statement is the result of the initial phase of the FASAB's Financial Reporting Model project. The FASAB plans to revisit SFFAC 2 again in subsequent phases of the project.

Statement will facilitate the understandability, consistency, and comparability of financial reporting.

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Question for Respondents

The FASAB encourages you to become familiar with all proposals in the Statement before responding to the question in this section. In addition to the question below, the Board also would welcome your comments on other aspects of the proposed Statement.

The Board believes that this proposal would improve Federal financial reporting and contribute to meeting the Federal financial reporting objectives. Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The question in this section is available in a Word file for your use at www.fasab.gov/exposure.html. Your responses to the Request for Comments should be sent by e-mail to fasab@fasab.gov. If you are unable to respond electronically, please fax your responses to (202) 512-7366 and follow up by mailing your responses to:

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

All responses are requested by June 26, 2008.

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

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).² 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 criteria to consider 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.

² 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.

Proposed 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 criteria the

Board considers in determining whether information should be basic, 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 auditing standards, 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 considered basic information, required supplementary information (RSI), or other accompanying information (OAI). Distinguishing these categories is important because each category is subject to different levels of scrutiny. 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 auditing standards for RSI and OAI respectively. These differences must be conveyed to users 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, 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, 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 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 considering a range of factors which are listed in Table 1: *Factors to Consider in Distinguishing Basic Information from RSI* on page 16. The factors are not listed in a particular order and some may convey similar ideas. In addition, different individuals may assign different weight to each factor. Thus, the factors provide a general framework for each individual's judgment and are not considered to present a decision tree, hierarchy, or precise algorithm for classifying items.

^{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.

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 could not be considered fairly presented if the information is missing or materially misstated.

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 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 complex accounts with large fund flows, e.g., ~~Defense Business Operations Fund~~; has major responsibilities for the appropriate use of earmarked taxes, 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.

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 criteria the Board considers in determining whether information should be basic or 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 but not audited; and some information is presented by management without audit or review by ~~persons independent of those who prepared the statements or information~~ auditors.
- 55A. In developing accounting standards, the Board considers whether information should be considered basic information, required supplementary information (RSI), or other accompanying information (OAI). Distinguishing these categories is important because each category is subject to different levels of scrutiny. When an auditor is engaged to audit an entity's financial

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- 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 auditing standards for RSI and OAI respectively. These differences must be conveyed to users 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, 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, 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 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

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.~~

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

- 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

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~~

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 considering 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 individuals may assign different weight to each factor. Thus, the factors provide a general framework for each individual'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 could not be considered fairly presented if the information is missing or materially misstated.

OAI

^{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.

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 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 entity, but also provide information pertaining to their individual significant

^{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.

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 complex accounts with large fund flows, e.g., ~~Defense Business Operations Fund~~; has major responsibilities for the appropriate use of earmarked taxes, 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.~~

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- 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
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GPFRR	General Purpose Federal Financial Report
MD&A	Management's Discussion and Analysis
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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