



November 20, 2007

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Conceptual Framework: Communication Methods (TAB A)<sup>1</sup>

During the September 2007 meeting, staff proposed a concepts statement on choosing among assurance categories. However, members noted that the FASAB primarily focuses on determining what information should be reported and the means for reporting the required information. Also, in determining the means for reporting required information, the Board considers various factors. Those factors concern how to distinguish basic information from required supplementary information (RSI), and the Basis for Conclusions section of SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment* presents them. Using the factors from SFFAS 25, members then suggested a framework that could be used for a proposed concepts statement on communication methods. Attachment I provides a summary of the Board's conclusions on the project as of the September 2007 meeting and Attachment II provides an illustration of the framework the Board discussed.

### **Analysis of the Suggested Framework for a Concepts Statement**

One of the objectives of the Board's conceptual framework project is to identify critical concepts that have been relied upon, but not yet included in a concepts statement. The framework suggested for communication methods would help achieve this objective. The suggested framework primarily combines some existing concepts with the factors noted in SFFAS 25. The existing concepts include SFFAC 2, *Entity and Display*. This statement discusses which entities should prepare financial reports and describes financial statements they should prepare. The statement also discusses the management's discussion and

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

analysis (MD&A), which is further discussed in SFFAC 3, *Management's Discussion and Analysis*. Attachment II indicates the framework components presented in existing concepts statements. In addition, 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 has prepared a proposed concepts statement that would amend SFFAC 2. The amendment would add the factors for guiding the Board in distinguishing basic information from RSI and is presented in Attachment III. The following are questions to consider while reviewing the document.

1. Does the Board agree with the proposal to amend SFFAC 2 rather than developing a separate statement that would include some existing concepts?
2. Does the Board agree with the approach for amending SFFAC 2 as presented in the proposed concepts statement?

### **Required Supplementary Stewardship Information**

In addition, discussing the basic and RSI categories raises another matter that the Board may need to consider at this time. As you may recall, the Board had initiated a project to review and reclassify information classified as Required Supplementary Stewardship Information (RSSI) and, subsequently, the Board reclassified all elements of RSSI except stewardship investment information. The Board decided to maintain the stewardship investment information until it had an opportunity to look at the stewardship objective in detail and make decisions at that point. Attachment IV provides background information on the RSSI topic and the following question should be considered.

3. 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, would the Board like to resume the project to reclassify stewardship investment information?

Staff suggests resuming the project to reclassify the remaining RSSI. This would help clarify the Board's expectations regarding the level of audit assurance that should be provided. Currently, auditors do not opine on RSSI and it is considered "unaudited" information.<sup>2</sup> Auditors only perform certain procedures on RSSI as required by auditing standards.

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<sup>2</sup> GAO/PCIE Financial Audit Manual, section 580, par. 77.

The purpose of the meeting will be to discuss the proposed concepts statement presented in Attachment III and, considering the discussion of information categories, whether to resume the project to reclassify stewardship information. If you have questions or need additional information, please contact me at 202-512-2512 or by email at [simmsr@fasab.gov](mailto:simmsr@fasab.gov) as soon as possible. I will be able to consider and respond to your request more fully in advance of the meeting.

Attachments:

- Attachment I: Summary of Board Views
- Attachment II: Framework for Communication Methods
- Attachment III: Proposed Amendment to SFFAC 2
- Attachment IV: Background Information on RSSI

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ATTACHMENT I  
SUMMARY OF BOARD VIEWS

As of September 2007

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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> <ul style="list-style-type: none"> <li>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</li> <li>b. Establish criteria for determining when financial statements, disclosures, MD&amp;A, RSI other than MD&amp;A, and OAI should be used in meeting the reporting objectives.</li> </ul>	<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"> <li>• Establish criteria for determining when financial statements, disclosures, MD&amp;A, RSI other than MD&amp;A, and OAI should be used in meeting the reporting objectives; and</li> <li>• 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.</li> </ul> <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?	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.
	8.	What additional tools may be needed to support deliberation on the method of communicating information?	
	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 Management's Discussion and Analysis (MD&A). While members agreed that	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 addition, the FASAB may encourage other accompanying information. Members

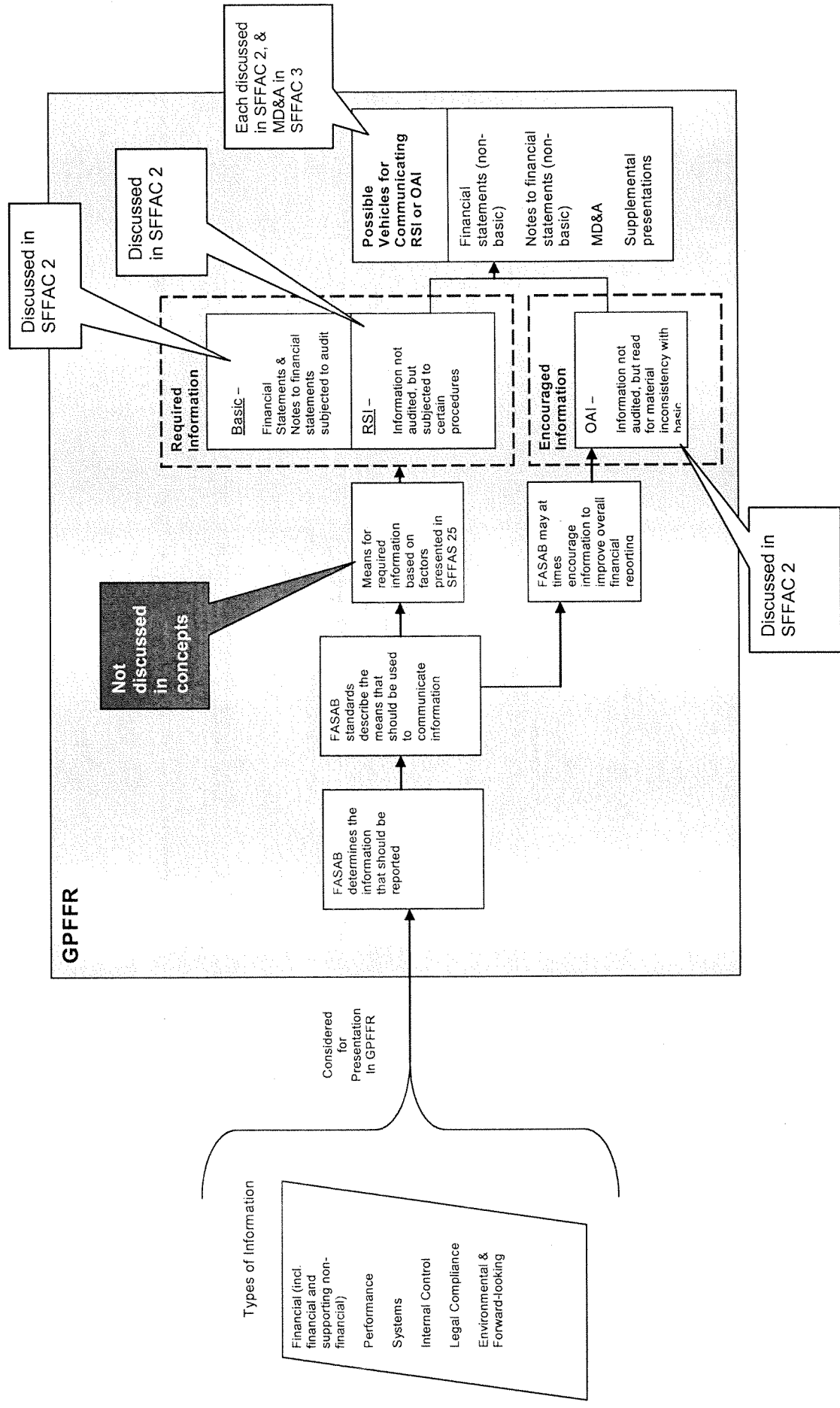


SUMMARY OF BOARD VIEWS			
MEETING	QUESTION/ ITEM FOR DISCUSSION	BOARD VIEW	
	<p>the MD&amp;A was an important component of the financial report, they deliberated on whether the MD&amp;A should be considered basic information subjected to audit or required supplemental information (RSI) which is not audited. The proposed concepts statement would provide criteria to assist the Board in choosing the appropriate assurance level in instances such as the MD&amp;A.</p>	<p>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.</p>	

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ATTACHMENT II  
FRAMEWORK FOR COMMUNICATION METHODS

## Attachment II: Framework for Communication Methods



ATTACHMENT III  
PROPOSED AMENDMENT TO SFFAC 2

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Federal Accounting Standards Advisory Board

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**Distinguishing Basic Information from Required Supplementary  
Information**

**Statement of Federal Financial Accounting Concepts**

**Exposure Draft**

Written comments are requested by [date 90 days after issuance]

Month day, year

Staff Draft

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## **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](http://www.fasab.gov).

Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814  
Mail stop 6K17V  
Washington, DC 20548  
Telephone 202-512-7350  
FAX – 202-512-7366  
[www.fasab.gov](http://www.fasab.gov)

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1 ISSUE DATE

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

3 The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting  
4 comments on the exposure draft of a proposed Statement of Federal Financial  
5 Accounting Standards entitled, *Distinguishing Basic Information from Required*  
6 *Supplementary Information*. Specific questions for your consideration appear on page 8  
7 but you are welcome to comment on any aspect of this proposal. If you do not agree  
8 with the proposed approach, your response would be more helpful to the Board if you  
9 explain the reasons for your position and any alternative you propose. Responses are  
10 requested by DUE DATE.

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

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

19 Wendy M. Payne, Executive Director  
20 Federal Accounting Standards Advisory Board  
21 Mailstop 6K17V  
22 441 G Street, NW, Suite 6814  
23 Washington, DC 20548  
24

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

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

29  
30 Tom L. Allen  
31 Chairman

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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 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

1 are used to guide Board deliberations on future GAAP and accounting principles  
2 presented in standards which constitute current GAAP.

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

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

- 16 • SFFAC 1, *Objectives of Federal Financial Reporting* (includes the qualitative  
17 characteristics of information in financial reports)
  - 18 • SFFAC 2, *Entity and Display*
  - 19 • SFFAC 3, *Management's Discussion and Analysis*
  - 20 • SFFAC 4, *Intended Audience and Qualitative Characteristics for the*  
21 *Consolidated Financial Report of the United States Government*
  - 22 • SFFAC 5, *Elements of Accrual-Basis Financial Statements and Basic*  
23 *Recognition Criteria*.
- 24

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

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## 1 Executive Summary

### 2 What is the Board proposing?

3

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

### 7 How would this proposal improve federal financial reporting and contribute 8 to meeting the federal financial reporting objectives?

9

10 A number of recent complex financial reporting issues have highlighted the need  
11 to enhance existing concepts. For example, conditions have developed that  
12 have elevated the need for information concerning the federal government's  
13 fiscal sustainability. Also, methods for providing operating performance  
14 information continue to evolve and the financial reporting community is  
15 experimenting with various presentations. Along with deciding *what* information  
16 should be reported regarding these topics, the Board must determine whether  
17 the information should be considered basic information or RSI. Basic information  
18 is audited and is the subject of an auditor's opinion, while RSI is unaudited. It is  
19 subjected to certain procedures in accordance with auditing standards.

20 The Board believes that an important part of a conceptual framework should  
21 include providing guidance for considering how information should be  
22 categorized. This statement would provide such guidance and help those  
23 affected by or interested in standards to understand better the purposes, content,  
24 and characteristics of information provided in federal financial reports. The  
25 Board anticipates that ultimately this Concepts Statement will facilitate the  
26 understandability, consistency, and comparability of financial reporting.

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**1 Question for Respondents**

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

6 The Board believes that this proposal would improve Federal financial reporting and  
7 contribute to meeting the Federal financial reporting objectives. The Board has  
8 considered the perceived costs associated with this proposal. In responding, please  
9 consider the expected benefits and perceived costs and communicate any concerns  
10 that you may have in regard to implementing this proposal.

11 Because the proposals may be modified before a final Statement is issued, it is  
12 important that you comment on proposals that you favor as well as any that you do not  
13 favor. Comments that include the reasons for your views will be especially appreciated.

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

18 Wendy M. Payne, Executive Director  
19 Federal Accounting Standards Advisory Board  
20 Mailstop 6K17V  
21 441 G Street, NW, Suite 6814  
22 Washington, DC 20548

23 All responses are requested by [insert date].

24 Q1. The Statement identifies factors to consider in deciding whether information should  
25 be considered required supplementary information or an integral part of basic financial  
26 statements (See Table 1 on page 14).

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

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

31

32

## 1 Introduction

## 2 Purpose

3

4 1. The existing conceptual framework provides guidance on what  
5 information should be reported and identifies a number of vehicles that  
6 may be used to communicate this information within a GPFFR. For  
7 example, SFFAC 1, *Objectives of Federal Financial Reporting*,  
8 provides guidance on the information that should be reported and  
9 SFFAC 2, *Entity and Display*, discusses which entities should prepare  
10 **financial statements** and which types of financial statements and  
11 other vehicles they should prepare. In addition, SFFAC 3,  
12 *Management's Discussion and Analysis*, describes the **management's**  
13 **discussion and analysis** (MD&A) of significant topics.

14 2. Given the various alternatives for communicating information, this  
15 Statement expands the existing conceptual framework. This  
16 Statement amends SFFAC 2 to discuss factors to consider when  
17 deciding whether the required information should be considered basic  
18 information or RSI. Basic information is audited while RSI is  
19 unaudited but subjected to certain procedures required by auditing  
20 standards. Discussing the factors may help those engaged in federal  
21 financial reporting to better understand the nature of the information  
22 being communicated and their importance to the financial reporting  
23 objectives.

24

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## 1 Proposed Concepts

### 2 Scope

- 3
- 4 3. This Statement specifically affects SFFAC 2, par. 2 and 55, and
- 5 footnote 12. Also, this Statement affects the section of SFFAC 2 titled,
- 6 “Displaying Financial Information.”

### 7 Definitions

- 8
- 9 4. Basic Information: That which is essential for financial statements and
- 10 accompanying notes to be presented in accordance with generally
- 11 accepted accounting principles (GAAP).

### 12 Distinguishing Basic Information from RSI

- 13
- 14 5. SFFAC 2, par. 2 is amended as follows.
- 15 The purpose of this statement of accounting concepts is to provide guidance as to
- 16 what would be encompassed by a Federal Government entity's financial report.
- 17 The statement specifies the types of entities for which there ought to be financial
- 18 reports (hereinafter called reporting entities), establishes guidelines for defining the
- 19 makeup of each type of reporting entity, identifies types of financial reports for
- 20 communicating the information for each type of reporting entity, and suggests the
- 21 types of information each type of report would convey, and identifies the factors the
- 22 Board considers in determining whether information should be basic or required
- 23 supplementary information (RSI).

- 24
- 25 6. SFFAC 2, par. 55 is amended as follows.

26 To enhance confidence in the reliability of information presented in financial

27 statements, the statements are often, but not always, audited by Inspectors

28 General, independent accounting firms, or the ~~General Accounting Office~~

29 Government Accountability Office. Some financial reporting by management, both

30 within and outside the financial statements, is audited, or is reviewed but not

31 audited; and some information is presented by management without audit or



review by persons independent of those who prepared the statements or information.

7. SFFAC 2, footnote 12 is amended as follows.

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.

8. The following paragraphs (numbered 9 -16) and headings are added to the section of SFFAC 2, titled "Displaying Financial Information."

9. In developing accounting standards, the Board considers whether the information required to meet reporting objectives should be considered basic information or RSI. This distinction is important to users, preparers and auditors because RSI is unaudited while basic information is audited. This difference must be conveyed to users. This can be accomplished in a variety of ways. The traditional approach is to separate the two categories of information. However, the information may be integrated if the RSI is clearly labeled as "unaudited." Another alternative may be to integrate some but not all RSI with basic information.

10. Classification of the information as basic or RSI does not constrain the form of presentation. For example, financial statements may be presented as basic financial statements or as RSI. Information in either class can be required 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 or RSI. The factors the Board considers in making this classification are presented in Table 1: *Factors to Consider in Distinguishing Basic from RSI.*

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1 Distinguishing Basic Information from RSI

- 2
- 3 11. Basic financial statements and accompanying notes are those on which an  
4 auditor would normally be engaged to express an opinion. Basic  
5 information is that which is essential for the financial statements and notes  
6 to be presented in conformity with GAAP. The FASAB standards are the  
7 core of GAAP and auditors express an opinion as to whether basic financial  
8 statements and notes are presented in conformity with those criteria.
- 9 12. Assessing whether information is a candidate for basic information may  
10 involve considering a range of factors which are listed in Table 1: *Factors to*  
11 *Consider in Distinguishing Basic from RSI* on page 14. The factors are not  
12 listed in a particular order and some may convey similar ideas. In addition,  
13 different individuals may assign different weight to each factor. Thus, the  
14 factors provide a general framework for each individual's judgment and are  
15 not considered to present a decision tree, hierarchy, or precise algorithm for  
16 classifying items.
- 17 13. For example, one may consider the relevance of the information to fair  
18 presentation. If the information has a high relevance to fair presentation it  
19 may be a candidate for basic information communicated by financial  
20 statements and notes to the financial statements. The financial statements  
21 and notes could not be considered fairly presented if the information is  
22 missing or materially misstated.
- 23 14. RSI may be experimental in nature to permit the communication of  
24 information that is relevant and important to the reporting objectives while  
25 additional accounting issues are being further researched. As issues are  
26 resolved, the information may be considered basic at some point in the  
27 future.
- 28 15. RSI may be non-monetary or include information expressed in monetary  
29 units where it is likely that there are other credible sources of this  
30 information. The auditor performs certain procedures specified by auditing  
31 standards for RSI. However, the auditor does not express an opinion or  
32 other assurance. Also, an auditor may be engaged to perform agreed-upon  
33 procedures or attest to and report on a subject matter or a preparer's  
34 assertion about a subject matter.
- 35 16. Assessing whether information is a candidate for RSI may involve  
36 considering a range of factors which are listed in Table 1: *Factors to*  
37 *Consider in Distinguishing Basic from RSI*. As was noted in the discussion
-

---

1 of basic information, the factors are not listed in a particular order and some  
2 may convey similar ideas. In addition, different individuals may assign  
3 different weight to each factor. Thus, the factors provide a general  
4 framework for each individual's judgment and are not considered to present  
5 a decision tree, hierarchy, or precise algorithm for classifying items.

6

1

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

FACTORS TO CONSIDER IN DISTINGUISHING BASIC FROM RSI		
Low (implies RSI)	Factor	High (implies Basic)
	<Relevance to fair presentation>	
	<Connection with elements of financial reporting>	
	<Use of historical financial data or financial transaction data>	
	<Preparers' discretion in preparing and presenting the information>	
	<Strength of signal Board wishes to be sent in the financial report>	
	<Significance, relevance, or importance of the item in light of <i>Objectives</i> >	
	<Strength of signal the Board wishes to be sent in the auditor's report>	
	<Relevance to measuring financial position or changes in financial position>	
	<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>	

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**Appendix A: Basis for Conclusions**

This appendix discusses some factors considered significant by members in reaching the conclusions in this Statement. It includes reasons for accepting certain approaches and rejecting others. Some factors were given greater weight than other factors. The guidance enunciated in the standards – not the material in this appendix – should govern the accounting for specific transactions, events or conditions.

**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 decided that it should 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 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 and RSI. 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 and its constituents.
- 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 issues such as what level of audit assurance should be provided. This Statement provides guidance on addressing such

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1 issues and selecting the means of communicating information necessary to  
2 help achieve the reporting objectives.

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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 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 factors the Board considers in determining whether information should be basic or required supplementary information (RSI).
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. 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.

55A. In developing accounting standards, the Board considers whether the information required to meet reporting objectives should be considered basic information or RSI. This distinction is important to users, preparers and auditors because RSI is unaudited while basic information is audited. This difference must be conveyed to users. This can be accomplished in a variety of ways. The traditional approach is to separate the two categories of information. However, the information may be integrated if the RSI is clearly labeled as "unaudited." Another alternative may be to integrate some but not all RSI with basic information.



55B. Classification of the information as basic or RSI does not constrain the form of presentation. For example, financial statements may be presented as basic financial statements or as RSI. Information in either class can be required 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 or RSI. The factors the Board considers in making this classification are presented in Table 1: *Factors to Consider in Distinguishing Basic from RSI.*

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.

## 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 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."<sup>10</sup> 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,<sup>11</sup> 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 information** rather than attempting to include it in financial statements.<sup>12</sup>

<sup>10</sup>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."

<sup>11</sup>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.

<sup>12</sup>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.

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 from RSI

73A. Basic financial statements and accompanying notes are those in which an auditor would normally be engaged to express an opinion. 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 of GAAP and auditors express an opinion as to whether basic financial statements and notes are presented in conformity with those criteria.

73B. Assessing whether information is a candidate for basic information 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.

1 73C. For example, one may consider the relevance of the information to fair  
2 presentation. If the information has a high relevance to fair presentation it may  
3 be a candidate for basic information communicated by financial statements  
4 and notes to the financial statements. The financial statements and notes  
5 could not be considered fairly presented if the information is missing or  
6 materially misstated.

7 73D. RSI may be experimental in nature to permit the communication of information  
8 that is relevant and important to the reporting objectives while additional  
9 accounting issues are being further researched. As issues are resolved, the  
10 information may be considered basic at some point in the future.

11 73E. RSI may be non-monetary or include information expressed in monetary units  
12 and it is likely that there are other credible sources of this information. The  
13 auditor performs certain procedures specified by auditing standards for RSI.  
14 However, the auditor does not express an opinion or other assurance. Also,  
15 an auditor may be engaged to perform agreed-upon procedures or attest to  
16 and report on a subject matter or a preparer's assertion about a subject  
17 matter.

18 73F. Assessing whether information is a candidate for RSI may involve considering  
19 a range of factors which are listed in Table 1: *Factors to Consider in*  
20 *Distinguishing Basic from RSI*. As was noted in the discussion of basic  
21 information, the factors are not listed in a particular order and some may  
22 convey similar ideas. In addition, different individuals may assign different  
23 weight to each factor. Thus, the factors provide a general framework for each  
24 individual's judgment and are not considered to present a decision tree,  
25 hierarchy, or precise algorithm for classifying items.

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Table 1: Factors to Consider in Distinguishing Basic from RSI

FACTORS TO CONSIDER IN DISTINGUISHING BASIC FROM RSI		
Low (implies RSI)	Factor	High (implies Basic)
	<Relevance to fair presentation>	
	<Connection with elements of financial reporting>	
	<Use of historical financial data or financial transaction data>	
	<Preparers' discretion in preparing and presenting the information>	
	<Strength of signal Board wishes to be sent in the financial report>	
	<Significance, relevance, or importance of the item in light of <i>Objectives</i> >	
	<Strength of signal the Board wishes to be sent in the auditor's report>	
	<Relevance to measuring financial position or changes in financial position>	
	<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>	

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**1 Appendix C: Abbreviations**

2	AICPA	American Institute of Certified Public Accountants
3	AU	Audit Standards codified and published by the AICPA
4	FASAB	Federal Accounting Standards Advisory Board
5	FASB	Financial Accounting Standards Board
6	GAAP	Generally Accepted Accounting Principles
7	GASB	Governmental Accounting Standards Board
8	MD&A	Management's Discussion and Analysis
9	RSI	Required Supplementary Information
10	SFAS	Statement of Financial Accounting Standards
11	SFFAC	Statement of Federal Financial Accounting Concepts
12	SFFAS	Statement of Federal Financial Accounting Standards

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**Appendix C: Glossary**

**Basic Information:** That which is essential for financial statements and accompanying notes to be presented in accordance with generally accepted accounting principles (GAAP).

**Required Supplementary Information:** RSI was added to the accounting literature by Statement of Financial Accounting Standards (SFAS) 25, Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies, published by the Financial Accounting Standards Board (FASB) in 1979. That Statement has been amended, but the RSI category continues to be used in a variety of standards published by the FASB, the Governmental Accounting Standards Board (GASB), and the FASAB. The auditor's responsibility for RSI is discussed in section AU 558 of the codification of professional auditing standards published by AICPA. (SFFAS 25)

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**ATTACHMENT IV**  
**BACKGROUND INFORMATION ON RSSI**

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RSSI

RSSI is a category created by FASAB as a response to the unique aspects of the federal accounting and reporting environment, and to the broad objectives of federal financial reporting. It was intended to permit flexibility on the part of preparers and auditors that would facilitate reporting relevant, reliable information, including non-financial and non-historical information.

The audit status of RSSI was not designated and the Board found that in many cases, the word “supplementary” in the RSSI title caused certain readers to assume that the information was of secondary importance. Since this was contrary to its intentions, the Board decided to eliminate the category and re-categorize the stewardship elements within the traditional reporting model and within categories that are well defined in existing professional literature and familiar to report users.

Stewardship Investments remains as the final element of the category. The Board noted that the stewardship investment information ties closely with the stewardship objective as this information is intended to provide information about the productive capacity and the long-term benefit of these costs. The Board decided to maintain the stewardship investment information until the Board has an opportunity to look at that objective in detail and make decisions at that point. Therefore, the Stewardship Investments Project was placed on hold until the Board considered the stewardship objective in the Concepts project. Chart 1 on page 2 of this attachment provides a summary of RSSI elements and their status.

The Board completed the Concepts project and, in March 2006, decided to retain the broad financial reporting objectives, including the stewardship objective. The Board also determined that the stewardship objective would be one of the Board’s primary near-term focus objectives.

Chart 1 Summary of RSSI Elements and Status

Stewardship Category	Specific RSSI Element	Disposition
Stewardship Property, Plant & Equipment	1. Heritage Assets	Basic <sup>1</sup> Condition Reporting-RSI
	2. National Defense PP&E <sup>2</sup>	Basic <sup>3</sup>
	3. Stewardship Land	Basic <sup>4</sup> Condition Reporting-RSI
Stewardship Investments	1. Nonfederal Physical Property	RSSI
	2. Human Capital	RSSI
	3. Research and Development	RSSI
Stewardship Responsibilities	1. Current Services Assessment	Eliminated <sup>5</sup>
	2. Risk Assumed	RSI <sup>6</sup>
	3. Social Insurance	SOSI—Basic Other SI required by SFFAS 17— RSI <sup>7</sup>

Remaining  
Element of  
RSSI

<sup>1</sup> SFFAS 29, *Heritage Assets and Stewardship Land* reclassifies heritage asset and stewardship land information as basic, except for condition reporting which is classified as RSI. SFFAS 29 includes a phased-in implementation for reclassification of information as basic, such that the standard will be fully implemented for reporting periods beginning after September 30, 2008. Information that is provided an exception to being reported as basic during the phase-in period is still required, but should be reported as RSI until the exceptions expire.

<sup>2</sup> SFFAS 11, *Amendments to Accounting for Property, Plant & Equipment-Definitional Changes* replaced the category name 'Federal mission property, plant, and equipment' with 'national defense property, plant, and equipment'.

<sup>3</sup> SFFAS 23, *Eliminating the Category "National Defense Property, Plant, and Equipment"* rescinded the term National Defense PP&E and categorized previously considered ND PP&E as general PP&E.

<sup>4</sup> See footnote 2 for explanation of SFFAS 29, *Heritage Assets and Stewardship Land*.

<sup>5</sup> SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, eliminated CSA reporting for periods beginning after September 30, 2002.

<sup>6</sup> SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment* reclassified risk assumed information as RSI for reporting periods beginning after September 30, 2002.

<sup>7</sup> SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment* (as amended by SFFAS 28, *Deferral of the Effective Date of Reclassification of the Statement of Social Insurance: Amending SFFAS 25 and 26*) reclassified the Statement of Social Insurance as basic financial statement for periods beginning after September 30, 2005 and other social insurance information required by SFFAS 17 as RSI for periods beginning after September 30, 2005.