Appendix B: GASB Concepts Statements

GASB Concepts Statement No. 1

In May 1987, the GASB issued Concepts Statement No. 1, *Objectives of Financial Reporting*. The Concepts Statement subsequently was amended by Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*, in April 2005 and was modified for the effects of GASB Statement No. 98, *The Annual Comprehensive Financial Report*, in December 2021. Because Concepts Statements are not authoritative, this Statement has not been integrated into the Codification, but instead has been reproduced here (without appendices) as amended.

Preface

This concepts Statement establishes the objectives of external financial reporting by state and local governmental entities. These objectives provide the framework within which the Board develops standards of financial reporting for governmental entities.

The Board recognizes that developing and implementing standards to accomplish certain objectives may take longer than others because of the time needed to establish information-gathering systems and to gain experience by experimenting with alternative approaches. In addition, the Board expects that some of these objectives may be best accomplished through means of reporting other than the basic financial statements, and possibly through means of reporting outside the annual comprehensive financial report. In developing specific standards, the Board will consider the needs of users and the usefulness of the information in relation to the cost of developing and providing it.

The standards-setting process benefits most from the guidance provided by this Statement. However, knowledge of these objectives should enable preparers and users of governmental financial reports to better understand the content and limitations of financial reports and should enhance user confidence in governmental financial reporting.

The Board acknowledges that objectives are affected by the economic, legal, social, and political environment and may change as the environment changes. Like other pronouncements of the Board, this Statement may be amended, superseded, or withdrawn by appropriate action under the Board's *Rules of Procedure.* Unlike other Board Statements, this concepts Statement does not establish standards of governmental accounting and financial reporting.

The Board recognizes that, in certain respects, existing generally accepted accounting principles (GAAP) may be inconsistent with those that may be derived from these objectives. However, in due course, the Board expects to reexamine pronouncements of predecessor standards-setting bodies and existing financial reporting practices in light of these objectives. In the meantime, this Statement does not (a) require a change in existing GAAP, (b) amend, modify, or interpret existing GAAP, or (c) justify either changing existing GAAP or applying existing GAAP based on personal interpretations of these objectives.

Establishing objectives and concepts will not, in itself, directly solve financial reporting problems. Rather, objectives define the framework within which solutions may be found. [GASBCS 1, Preface, as modified for the effects of GASBS 98, ¶4]

Purpose and Scope

1. This Statement establishes objectives of external financial reporting by state and local governmental entities. It supersedes Concepts Statement 1, Objectives of Accounting and Financial Reporting for Governmental Units (1982), issued by the National Council on Governmental Accounting.[1]

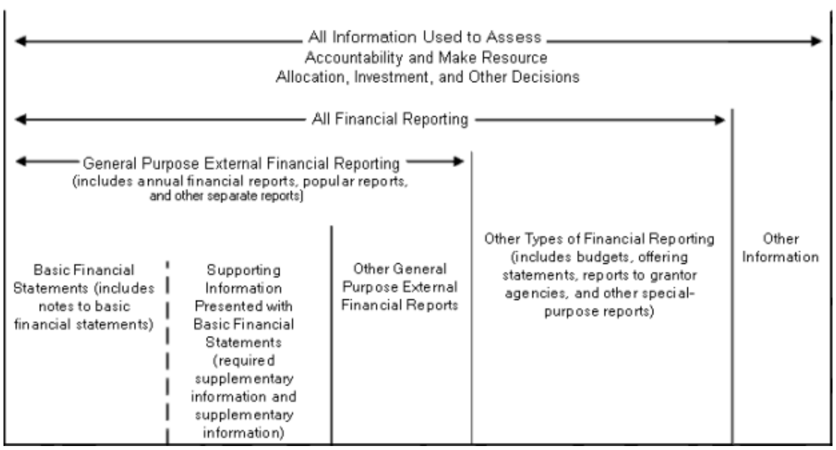
2. This Statement does not establish governmental financial reporting standards; rather, it describes concepts that will be used by the Board as a framework for evaluating existing standards and practices and for establishing future financial reporting standards. It broadly describes the nature of information needed by users of external governmental financial reports and gives consideration to the governmental environment.

3. Financial reporting is not an end in itself but is intended to provide information useful for many purposes. Financial reporting helps fulfill government's duty to be publicly accountable. Financial reporting also helps to satisfy the needs of users who have limited authority, ability, or resources to obtain information and who therefore rely on the reports as an important source of information. For that purpose, financial reporting objectives should consider the needs of users and the decisions they make.

4. Financial reporting is a means of communicating financial information to users. It encompasses all reports that contain financial information based on data generally found in financial statements. Financial reports and financial statements are end products of the reporting process. Certain information is better provided by financial statements; other information is better provided, or can only be provided, by financial reporting outside the financial statements. But financial reporting is not the only source of financial information about governmental entities. In many cases, users of financial reports also need to consult other sources to completely satisfy their information needs.

5. Figure 1 illustrates (a) the role of financial reporting in providing information used to assess accountability and make decisions and (b) the role of financial statements within the overall range of financial reporting by state and local governments. This illustration also outlines the scope of this Statement by distinguishing between *general purpose external financial reporting* and other types of financial reporting.

Figure 1: Information Used by Financial Report Users



[GASBCS 1, Fig. 1, as amended by GASBCS 3, ¶39]

6. *Financial statements* are the core of financial reporting and are the principal means of communicating financial information to external users. Governmental *general purpose financial reporting* includes, in addition to basic financial statements (BFS), “popular reports” and annual comprehensive financial reports (ACFRs). Popular reports are less detailed and are often intended for users whose financial reporting needs are better satisfied through more condensed information; ACFRs are more detailed and are intended for users who need a broad range of information. Both popular reports and ACFRs may include such nonfinancial information as statistical data, analytical data, demographic information, forecasts, economic and service delivery statistics, legally required data, narrative explanations, and graphic displays. [GASBCS 1, ¶6, as amended by GASBCS 3, ¶39 and as modified for the effects of GASBS 98, ¶4]

7. Government officials often choose, or are required, to report through *other types of financial reporting.* Offering statements, budgets, and reports filed with federal grantor agencies or senior levels of government are examples of other types of financial reporting and may include financial statements, other financial information, and nonfinancial information. They are also examples of *special purpose financial reporting.* Special purpose financial reporting is generally used to satisfy the specific needs of specific users, while general purpose external financial reporting provides information to meet the common needs of various users. Often, special purpose report users have statutory authority or other ability to require a governmental entity to issue reports that meet their needs, and they do not have to rely solely on information in general purpose external financial reporting. Special purpose reports are generally used to (a) meet specific legal or contractual requirements, (b) present financial statements using a basis of accounting that differs from generally accepted accounting principles, (c) present financial information in prescribed formats, or (d) report on specified elements, accounts, or items taken from the general purpose financial statements.

Scope of This Statement

8. The Board takes a broad view of public accountability and anticipates that not all financial reporting objectives of state and local governmental entities can be accomplished through basic financial statements. Accordingly, the financial reporting objectives in this Statement pertain to *general purpose external financial reporting* and are not restricted to information reported in the BFS. That is, not every standard the Board issues will be limited to a BFS requirement. Board standards may, for example, be established for data to be included in the statistical section of an ACFR if the Board believes that information is helpful in fulfilling government's duty to be accountable. [GASBCS 1, ¶8, as amended by GASBCS 3, ¶39 and as modified for the effects of GASBS 98, ¶4]

9. The financial reporting objectives in this Statement may not necessarily meet the needs of users who can require governmental entities to issue special purpose financial reports. However, special purpose financial reports may contain, in addition to specially required information, basic financial statements and other financial information. The standards the Board establishes to accomplish the financial reporting objectives in this Statement apply to basic financial statements and other general purpose financial information presented in special purpose financial reports. [GASBCS 1, ¶9, as amended by GASBCS 3, ¶39]

Applicability to Governmental-Type and Business-Type Activities

10. Governmental activities have traditionally been divided into two categories—governmental-type activities and business-type activities. Governmental-type activities are performed by general purpose governmental entities such as states, cities, counties, towns, and villages, as well as by certain special purpose governmental entities. Governmental entities perform business-type activities both through departments of general purpose governmental entities and through special purpose governmental entities created to perform these activities.

11. It is often difficult to draw a clear distinction between the two types of activities. For example, some business-type activities (such as mass transit operations and some hospitals) may be so heavily subsidized by government that they also take on some of the characteristics of governmental-type activities. The objectives set forth in this Statement are intended to apply to both governmental and business-type activities, whether their financial operations are reported in separately issued reports or within the general purpose external financial report of the broader governmental entity.

Governmental-Type Activities

The Governmental Environment

12. An organization's operating environment necessarily influences its financial reporting objectives. The state and local governmental environment is complex and cannot be described in a single phrase or understood by considering any single factor. Understanding the fundamental nature of government as well as the significant characteristics of its environment is essential to determining its financial reporting objectives.

13. The significant characteristics of the governmental environment that affect financial reporting and that need to be considered in establishing financial reporting objectives are listed below and discussed in the paragraphs that follow.

a. Primary characteristics of government's structure and the services it provides:
   (1) The representative form of government and the separation of powers
   (2) The federal system of government and the prevalence of intergovernmental revenues
   (3) The relationship of taxpayers to services received
b. Control characteristics resulting from government's structure:
   (1) The budget as an expression of public policy and financial intent and as a method of providing control
   (2) The use of fund accounting for control purposes
c. Other characteristics:
   (1) The dissimilarities between similarly designated governments
   (2) The significant investment in non-revenue-producing capital assets
   (3) The nature of the political process.

The Representative Form of Government and the Separation of Powers

14. In a representative democracy, power ultimately rests in the hands of the citizenry. The citizens delegate that power to public officials through the election process. Accompanying this delegation of power in America is a system of separation of powers among the executive, legislative, and judicial branches of government—a system intended to provide “checks and balances” over the potential abuse of power by the citizens' representatives.

15. As applied to state and local governmental finance generally, the executive branch prepares a budget and submits appropriation requests to the legislative branch. The legislative branch has the power to approve those requests, authorizing the executive branch to make expenditures within the limits of the appropriations and any laws that may affect programs covered by those appropriations. The executive branch is accountable to the legislative branch for operating within those appropriations and laws, and both branches are accountable to the citizenry.

The Federal System of Government and the Prevalence of Intergovernmental Revenues

16. There are three levels of government under the American federal system: federal, state, and local governments. The ability of higher levels of government to encourage or dictate activities undertaken by lower levels of government and to raise revenues over broader tax bases has resulted in extensive intergovernmental grants and subsidies. Often, the government receiving intergovernmental revenues is the final recipient. In other cases, however, the receiving government is an intermediary responsible for distributing the funds to other governments at its discretion or according to the requirements of the grantor (pass-through funding). Grants and other forms of intergovernmental revenues as well as pass-through funding require state and local governments to be accountable to the governmental entity providing the resources, as well as to the citizenry.

The Relationship of Taxpayers to Services Received

17. Essentially, governments impose taxes and provide services. In certain instances, governments charge fees for services rendered, and in these instances there may be a direct relationship between the fees paid and the services received. Most governmental revenues, however, come from taxes, and, even when fees are charged for services, those fees are sometimes supplemented with tax revenues. Taxes imposed and services provided by governments possess certain characteristics that need to be considered when developing financial reporting objectives:

a. Taxpayers are involuntary resource providers; they cannot choose whether or not to pay taxes, even if they do not receive or take advantage of all services provided.
b. The amount of taxes paid by an individual generally depends on the value of property owned, income earned, and so forth, and seldom bears a proportional relationship to the cost or value of the services received by that individual.
c. There is no “exchange” relationship between resources provided and services received. Most individual taxes do not pay for specific services, even though individual taxes or portions of taxes are sometimes dedicated to particular activities. Instead, governments generally use resources from a variety of sources to pay for a variety of services. The “matching” relationship that normally exists between resources provided and services received is a timing relationship (that is, both occur during the fiscal year) rather than an exchange relationship.
d. Governments often have a monopoly on the services they provide to the public. This does not necessarily mean that only governments can provide certain services; indeed, some governments provide services that are provided by private enterprises elsewhere. When there is a lack of a competitive marketplace, it becomes more difficult to measure efficiency in providing those services.
e. It is extremely difficult to measure optimal quantity or quality for many of the services provided by government. How many police are “enough”? What is a “reasonable” student-teacher ratio? This problem is complicated by the involuntary nature of the resources provided. For example, a consumer purchasing a commercial product can determine how much to purchase and may choose among “good,” “better,” and “best” quality and pay accordingly. A group of individuals paying for governmental services (and paying in different proportions for services that some of them may not use or desire) presents a far more complex situation.

18. These characteristics highlight the need for public accountability in governmental financial reporting. In private-sector business enterprises, the direct relationship between revenues earned and costs incurred allows the financial statement user to assess performance based primarily on profitability. In government there is no single overall performance measure such as net income or earnings per share. The user of governmental financial reports must therefore assess accountability by evaluating performance through a variety of measures. As a result, governmental accountability requires means of financial reporting that differ from private-sector business enterprise financial reporting.

The Budget as an Expression of Public Policy and Financial Intent and as a Method of Providing Control

19. Many believe the budget is the most significant financial document produced by a governmental entity. The budget has been defined as a plan for the coordination of revenues and expenditures or as the amount of money that is available for, required for, or assigned to a particular purpose. Most governments have annual operating budgets that are legally adopted. Although often not required by law, some governments also prepare long-term operating budgets and capital budgets. Long-term budgets are “master plans” for the operation of a government for periods longer than one year. Capital budgets are plans for proposed capital outlays and the means of financing them. The focus of this discussion, however, is on the legally adopted annual budget, which, by its nature, has significant financial reporting implications:

a. It is an expression of *public policy.* Budgets result from the legislative process and require resolution of conflicting views about the way in which and extent to which financial resources will be raised and used. The citizenry participates in the budget process either directly or indirectly, through elected representatives or advocate groups. Once adopted, the budget is a formal expression of public policy on the entity's objectives and priorities and on how resources will be provided to meet those objectives.
b. It is a financial plan, or an expression of *financial intent.* It sets forth the proposed expenditures for the year and the means of financing them. Statutes and local ordinances often require or imply a “balanced budget,” even though the term may not be precisely defined. There is also a common perception that state and local governments need to “live within their means,” a logical implication of the balanced-budget concept.
c. It is a form of *control* usually having the force of law. A legally adopted budget provides both *authorizations of* and *limitations* on amounts that may be spent for particular purposes. Because budgetary authorizations result from competition for scarce resources and budgetary limitations generally cannot be exceeded without due process, the governmental entity needs to demonstrate that it is accountable from both the authorization and the limitation perspectives.
d. It may provide a basis for *evaluating performance.* Comparisons of actual results to the legally adopted budget can provide information to help users assess whether resources were obtained and expended as anticipated.

Detailed performance evaluation, however, requires the government to establish service efforts and accomplishment goals and to accumulate actual data for comparison purposes.

20. Budgetary expression of public policy, financial intent, control, and performance measures need to be considered when developing financial reporting objectives, even though financial accounting concepts of inflows and outflows may differ from budgetary concepts.

The Use of Fund Accounting for Control Purposes

21. Certain control mechanisms have evolved to ensure that resources provided are used as intended. One mechanism, described earlier, is the budget. Another is the governmental fund structure. Some funds are created by law (local ordinance), others by covenant (bond indentures), and still others by management decision to enhance financial administration.

22. The use of fund accounting as a control mechanism needs to be considered when developing financial reporting objectives. The financial and legal requirements and restrictions leading to fund accounting need to be considered as part of government's duty to be accountable, in a manner that does not obscure presentation of results of operations and financial position of the entity as a whole.

The Dissimilarities between Similarly Designated Governments

23. The fact that governmental entities have similar designations (states, cities, counties, towns) throughout the country does not necessarily mean that they are similar organizations or that they perform the same functions. In some states a particular function may be performed by a county; in others it may be performed by a city or the state. In some cities a service may be provided by a department of the city government; in others it may be provided by a specially created district or public authority. In some cases a specially created entity may serve some or all of the residents of a single general purpose government; in other cases a joint venture may serve the residents of several general purpose governments. Even within a single state, a given function may be performed either by a city or by a special district serving several cities and towns.

24. Sometimes, a special district or authority may be authorized to finance construction by issuing debt backed solely by its operating revenues; sometimes the debt may also be backed by the full faith and credit or “moral obligation” of the state, city, or county. Some special districts or authorities may be entirely self-sufficient; others may be financially dependent on the governments that created them.

25. The ability to produce comparable data is affected by the fact that similar levels of government may (a) perform different functions or (b) perform similar functions in separately created districts or authorities. Financial reporting should consider the nature of the relationship between governmental entities and the agencies they create. Differences in the organization of governmental entities, the services they provide, and their sources of revenues all need to be considered when developing financial reporting objectives.

The Significant Investment in Non-Revenue-Producing Capital Assets

26. Governmental entities invest large amounts of resources in non-revenue-producing capital assets such as government office buildings, highways, bridges, and sidewalks. Most governmental capital assets have relatively long lives, and an adequate program of maintenance and rehabilitation is needed to ensure that those estimated useful lives will be realized. That is, governments, in essence, have an implicit commitment to maintain their capital assets, whether or not they are used directly to produce revenues.

27. Governmental entities must maintain revenue-producing capital assets (a water pumping station, for example) to continue to generate that revenue. However, maintenance of non-revenue-producing capital assets (roads and bridges, for example) usually bears a less direct relationship to the revenue-raising capabilities of a government. Maintenance programs for non-revenue-producing capital assets can be altered, suspended, or even ignored because of the competition for limited resources. Government's implicit commitment to maintenance and its ability to delay maintenance and rehabilitation expenditures, especially for non-revenue-producing capital assets, need to be considered when developing financial reporting objectives.

The Nature of the Political Process

28. One of government's primary goals is to promote the general welfare of all of its citizens. While in the private sector a financial objective may be to maximize the shareholder return on investment, state and local governments attempt to achieve budgetary equilibrium, by balancing taxes and other financial resources with the needs of its citizens. One of the major difficulties of the governmental political process is that it must reconcile the often-conflicting, virtually unlimited wants of the citizenry with the resources made available by the citizenry. That difficulty results partly from a fact noted in the discussion of taxpayers: The amount of taxes paid by an individual taxpayer seldom bears a proportional relationship to the aggregate cost or the perceived value of the services received by that taxpayer.

29. The objective of the citizenry is to obtain the maximum amount of service with a minimum amount of taxes. It is possible for the citizens' elected representatives to satisfy certain service needs by deferring others, to pay for an increased level of services with nonrecurring revenues, and to defer the cash effect of events, transactions, and circumstances that occur in a particular period. The potential for these practices is increased by the fact that those representatives serve for relatively short terms and tend to take a short-term outlook. Accordingly, the appearance of budgetary equilibrium may not be true equilibrium.

Therefore, to help fulfill a government's duty to be accountable, financial reporting should enable the user to assess the extent to which operations were funded by nonrecurring revenues, or long-term liabilities were incurred to satisfy current operating needs.

Users of Financial Reports

30. The Board believes there are three groups of primary users of external state and local governmental financial reports. They are (a) those to whom government is primarily accountable (the citizenry), (b) those who directly represent the citizens (legislative and oversight bodies), and (c) those who lend or who participate in the lending process (investors and creditors). The needs of intergovernmental grantors and other users are considered to be encompassed within the needs of the three primary user groups. Internal managers in the executive branch of government who have ready access to financial data through *internal* reporting are not considered *primary* users for purposes of this Statement; however, internal users also have many uses for external financial reports. Many who use special purpose financial reports also rely on general purpose external financial reporting.

31. The citizenry group includes citizens (whether they are classified as taxpayers, voters, or service recipients), the media, advocate groups, and public finance researchers. The legislative and oversight officials group includes members of state legislatures, county commissions, city councils, boards of trustees, and school boards, and those executive branch officials with oversight responsibility over other levels of government. Investors and creditors include individual and institutional investors and creditors, municipal security underwriters, bond rating agencies, bond insurers, and financial institutions.

Uses of Financial Reports

32. Financial reporting by state and local governments is used in making economic, social, and political decisions and in assessing accountability primarily by:

a. Comparing actual financial results with the legally adopted budget
b. Assessing financial condition and results of operations
c. Assisting in determining compliance with finance-related laws, rules, and regulations
d. Assisting in evaluating efficiency and effectiveness.[2]

Comparing Actual Financial Results with the Legally Adopted Budget

33. All three user groups are interested in comparing original or modified budgets with actual results. For example, to assess accountability, citizens and legislative and oversight bodies want to ensure that resources were used in accordance with appropriations. Spending in excess of budgeted amounts may indicate poor financial management, weak budgetary practices, or uncontrollable, unforeseen circumstances. Underspending may indicate that there was effective cost containment, that the quality or quantity of services could have been increased within available appropriations, that actions were taken to achieve a budget surplus, or that resources were overbudgeted for a particular program.

Assessing Financial Condition and Results of Operations

34. Financial reports are commonly used to assess a state or local government's financial condition, that is, its financial position and its ability to continue to provide services and meet its obligations as they come due. Assessing an entity's results of operations for current and previous years provides each user group with information that is useful in a variety of ways. The reasons for making that assessment, however, may differ from group to group.

35. Investors and creditors need information about available and likely future financial resources, actual and contingent liabilities, and the overall debt position of a government to evaluate the government's ability to continue to provide resources for long-term debt service. They review operating results and cash flow data (both currently and over time) to look for trends that may indicate strengths and weaknesses in the ability of the government to repay debt. Trend analysis helps investors and creditors project future revenues and predict possible allocation of those revenues.

36. Citizens' groups are concerned with financial condition when evaluating the likelihood of tax or service fee increases. They are also concerned with the sources and uses of resources; for example, information on inflows from intergovernmental grants is particularly important when considering the effect of an anticipated reduction in federal or state grants. Citizens, particularly special-interest groups, use governmental financial reports for advocacy purposes. For example, information that could be used to forecast revenues would be helpful to citizens' advocate groups urging increases in expenditures for specific functions, such as education or transportation.

37. Legislative and oversight officials need to assess the overall financial condition, including debt structure and funds available for appropriation, when developing both capital and operating budget and program recommendations. They monitor operating results both currently and over time to assure compliance with program mandates. Legislators are concerned with the level and sources of resources and the level and types of spending. This information helps them decide on the reasonableness of fees, the need for tax increases or reductions, and the ability to finance program expansions and capital needs without raising taxes.

38. Governmental financial reports are also used by various groups to compare amounts spent on similar functions by other governments. For example, a county board member may compare the amount of resources spent on soil conservation in the county with that spent by surrounding counties. State legislators make comparisons among municipalities to assist in allocating resources to those municipalities. To influence spending priorities, citizens may compare amounts spent in their community with that spent in similar communities.

Assisting in Determining Compliance with Finance-Related Laws, Rules, and Regulations

39. In addition to the legally mandated budgetary and fund controls, there may be other legal restrictions controlling governmental actions. Some examples are bond covenants, grant restrictions, and taxing and debt limits. Financial reports help demonstrate compliance with these laws, rules, and regulations. Citizens are concerned that governments adhere to these regulations because noncompliance may indicate fiscal irresponsibility and could have severe financial consequences such as acceleration of debt payments, disallowance of questioned costs, or loss of grants.

40. Legislative and oversight officials are also concerned with compliance as a follow-up to the budget formulation process. For instance, state legislators are concerned that state agencies and local jurisdictions comply with state mandates for use of funds provided. Grantor agencies, such as the federal government, have placed increased reliance on state and local governmental financial reporting, and auditing of those reports, to assure that grant requirements have been met. Elected officials need to determine compliance with the legally adopted budget.

41. Investors and creditors are interested in government's compliance with debt covenants and restrictions designed to protect their investment. Many of these legal restrictions are imposed by the creditors themselves to provide adequate reserves against economic downturns.

Assisting in Evaluating Efficiency and Effectiveness

42. Citizen groups and legislators, in particular, want information about service efforts, costs, and accomplishments of a governmental entity. This information, when combined with information from other sources, helps users assess the economy, efficiency, and effectiveness of government and may help form a basis for voting or funding decisions. To be of value, the information needs to be sufficiently detailed to permit comparisons with other years and other governmental entities. Grantor agencies, including higher levels of government, are also concerned with the efficient and effective use of grant funds.

Business-Type Activities

The Environment

43. Governments frequently engage in business-type activities. Those activities resemble private-sector business activities not only because they provide the same services as private-sector businesses but also because there is an exchange relationship between the provider and the consumer: The consumer is charged for services rendered. Some bear a further resemblance to private-sector business activities because they are self-sufficient and operate as separate, legally constituted organizations. Others more closely resemble governmental-type activities because they are regularly subsidized by taxes or are operated as departments within a government. Despite differences, governmental business-type activities are nevertheless a part of government, subject to the same public accountability requirements as governmental-type activities. The paragraphs that follow discuss the similarities and differences in the operating environments of governmental-type activities and governmental business-type activities.

The Relationship between Services Received and Resources Provided by the Consumer

44. As noted in paragraph 17, the resources raised by general government are usually not derived from the specific services rendered. For example, there is no specific charge for public safety services; they are financed along with many other services from general property or income taxes. For business-type activities, however, there is often a direct relationship between the charge and the service itself. That relationship is termed an “exchange relationship”—a user fee is charged for a specific service provided; for example, a toll for use of a road, a charge for water, or a fare to ride the bus.

45. This exchange relationship causes users of financial reports to focus on measuring the costs (or resource outflows, or both) of providing the service, the revenues obtained from the service, and the difference between the two. Measuring both the cost of services and resource outflows is useful. Whether one is more important than the other depends on various factors, including the way in which user charges are calculated and whether or not subsidies are provided by general government.

46. Cost-of-services information is useful for public policy decisions. For example, the amount a business-type activity charges users for its services may be based on recovery of all costs. In other cases, capital assets may be provided by direct subsidies (general government or intergovernmental grants) and therefore may not be included in calculating user charges. However, in both cases, financial statement users need to know the full cost of operating the business-type activity, and the financial implications of the subsidies or grants need to be understood. At the same time, information about resource flows is also useful, particularly when user charges are based on resource flows, rather than costs. Subsidies from general government may also be based on net cash outflows rather than on net operating deficit after depreciation.

Revenue-Producing Capital Assets

47. Most capital assets of business-type activities are revenue producing. For example, user charges for a toll road are usually based directly on the cost to construct (or finance) and maintain that road. The capital assets of many governmental-type activities, by contrast, do not have a direct relationship to the government's revenue-raising capabilities. Therefore, the incentive for business-type activities to defer needed maintenance may not be as great as that for governmental-type activities. When business-type activities receive general government subsidies, however, they need to compete for funds with governmental-type activities and are subject to the same constraints. Regardless of how they are financed, many business-type activities are capital intensive, and the need for information concerning those assets needs to be considered when developing financial reporting objectives.

Similarly Designated Activities and Potential for Comparison

48. Governmental business-type activities often perform only a single function. If the function is supplying water, for example, the problems, procedures, and cost components of obtaining, treating, and delivering it are similar, regardless of whether the function is performed by a private-sector business, a public authority, or an enterprise fund or as part of a broader government's general fund. As a result, there is frequently a greater potential for comparability among business-type activities performing similar functions than among governmental-type activities, which vary from government to government.

The Nature of the Political Process

49. Some governmental business-type activities are designed to be insulated from the political process—they are not part of the general governmental budgetary process, they have a direct relationship between fees and services rendered, and they are separate legally constituted agencies. In some instances, however, this insulation from the political process has less substance than appearances suggest. Especially in subsidized activities, rate setting, even by independent boards, is political in nature. For example, mass transit user charges sufficient to pay all the costs of the system may be politically or economically undesirable, so that subsidies are often provided from general tax revenues or grants from other jurisdictions. Once operating or capital subsidies are provided, the influences of the political process discussed in paragraphs 28 and 29 become just as significant as in governmental-type activities.

Budgets and Fund Accounting

50. The use of legally adopted budgets and fund accounting is less common for business-type activities than for governmental-type activities. Unless the business-type activity is operated as a governmental department, the review and adoption process and legal status of the budget may be different. For many business-type activities the budget represents essentially an internal management process, lacking the force of law. Similarly, because business-type organizations often perform a single function, fund accounting is not as common as it is in governmental-type activities. However, it is sometimes used as a result of bond agreements to provide controls for the protection of bondholders.

Users and Uses of Financial Reports

51. In general, the users and uses of governmental financial reports are essentially the same regardless of whether the activity is business-type or governmental-type. Some users' needs are better satisfied by separate reports of the business-type activity; others' needs can only be satisfied by using the reports of the broader general government.

52. Although this Statement does not consider executive branch personnel of general purpose governments to be primary users of external financial reports of governmental-type activities, those personnel often become more like external users when governmental business-type activities are organized separately from the governments that oversee them. When business-type activities are subsidized by direct appropriations from general government, day-to-day relationships between executive branch personnel and the business-type activity are often similar to that of other departments. But as the financial relationships become more remote, external financial reporting becomes increasingly important to the executive branch in monitoring the activities and the management of business-type activities.

53. The uses of financial reports of business-type activities generally differ only in *emphasis* from the uses of financial reports of governmental-type activities. Users of separate financial reports of business-type activities are concerned primarily with the financial condition and results of operations for that activity; they are often not concerned with comparing actual results with budgeted amounts. Investors and creditors are concerned primarily with whether the business-type activity is generating, and will continue to generate, sufficient cash to meet debt service requirements. Citizen groups and consumers use results of operations information primarily to assess the reasonableness of user charges. Legislative and oversight officials and executive branch officials review financial reports of business-type activities from both perspectives. Depending on their legal relationships with the business-type activity, legislative and oversight officials also use financial reports to assess the potential need to subsidize the activity with general governmental revenues, or whether the general government may obtain access in some manner to the net cash flows generated by the activity. They may also want to compare actual results with budgets they have approved.

54. Investors and creditors are just as concerned with compliance with bond provisions by business-type activities as they are for governmental-type activities. Citizens' groups and legislative and oversight officials need information about effectiveness, economy, and efficiency, particularly because that information has an effect on user charges.

55. Users of a broader general government's financial report are generally concerned with the relationship between the financial position and operating results of the business-type activity and that of the general government as a whole. Those users need to determine to what extent the business-type activity depends on the general government's financial support or to what extent the general government has access to that activity's resources.

Accountability and Interperiod Equity

Accountability

56. Accountability is the cornerstone of all financial reporting in government, and the term *accountability* is used throughout this Statement. The dictionary defines *accountable* as "being obliged to explain one's actions, to justify what one does." Accountability requires governments to answer to the citizenry—to justify the raising of public resources and the purposes for which they are used. Governmental accountability is based on the belief that the citizenry has a "right to know," a right to receive openly declared facts that may lead to public debate by the citizens and their elected representatives. Financial reporting plays a major role in fulfilling government's duty to be publicly accountable in a democratic society.

57. The Board is aware that applying the broad concept of public accountability to financial reporting by state and local governments creates the potential to extend reporting beyond current practice. If being accountable means being obliged to explain one's actions, what are the limits of disclosure? How does one balance the cost of providing information against the value of the public's "right to know"? The need to be accountable for resources provided involuntarily by taxpayers makes cost-benefit analysis particularly difficult in setting standards. In addition, the benefits of financial information are usually difficult or impossible to measure objectively, particularly in a governmental environment.

58. The Board believes that, at a minimum, demonstrating accountability through financial reporting includes providing information to assist in evaluating whether the government was operated within the legal constraints imposed by the citizenry. The structure of government, the nature of the resource providers, and the political process are characteristics of the environment that underscore the need for accountability.

Interperiod Equity

59. The laws of most governments require balanced budgets. The intent of these laws is to require financing and spending practices that enable governmental entities to avoid financial difficulty and to "live within their means." Similarly, the laws of many states require governmental debt to be repaid over a period no greater than the period of probable usefulness of the capital asset acquired with the debt. Balanced budget and debt limitation statutes are examples of laws designed to achieve fairness from one year, one term of office, or one generation to another. In practice, however, partly because of the lack of precision in defining what constitutes resource inflows and outflows, fairness is not always achieved. In fact, the appearance of balance may be misleading in some cases.

60. The Board believes the intent of balanced budget laws is that the current generation of citizens should not be able to shift the burden of paying for current-year services to future-year taxpayers. Recently, the term *intergenerational equity* has been used to express this concept. However, because a generation is defined as approximately 30 years and because the term *intergenerational equity* has implications that go beyond financial reporting, the Board believes the term *interperiod equity* may be more appropriate, expressing the concept of yearly balance.[3]

61. The Board believes that interperiod equity is a significant part of accountability and is fundamental to public administration. It therefore needs to be considered when establishing financial reporting objectives. In short, financial reporting should help users assess whether current-year revenues are sufficient to pay for the services provided that year and whether future taxpayers will be required to assume burdens for services previously provided.

Characteristics of Information in Financial Reporting

62. Financial reporting is the means of communicating financial information to users. For this communication to be effective, information in financial reports must have these basic characteristics: understandability, reliability, relevance, timeliness, consistency, and comparability.[4]

Understandability

63. Information in financial reports should be expressed as simply as possible. Users of governmental reports tend to have different levels of knowledge and sophistication about governmental accounting and finance. To be publicly accountable, a government should issue financial reports that can be understood by those who may not have a detailed knowledge of accounting principles. Those reports should include explanations and interpretations that help users understand the information provided. However, financial reporting should not exclude information merely because it is difficult to understand or because some users choose not to use it.

Reliability

64. Financial reporting should be reliable; that is, the information presented should be verifiable and free from bias and should faithfully represent what it purports to represent. To be reliable, financial reporting needs to be comprehensive. Nothing material should be omitted from the information necessary to faithfully represent the underlying events and conditions, nor should anything be included that would cause the information to be misleading. Reliability does not imply precision or certainty. Reliability is affected by the degree of estimation in the measurement process and by uncertainties inherent in what is being measured; financial reporting may need to include narrative explanations about the underlying assumptions and uncertainties inherent in this process. Under certain circumstances some financial information is based on reasonable estimates. A properly explained estimate provides more meaningful information than no estimate at all.

Relevance

65. Relevance encompasses many of the other characteristics; for example, if the information provided in a financial report is not timely or reliable, it is not relevant. Information can, however, meet all other characteristics and still not be relevant. To be relevant there must be a close logical relationship between the information provided and the purpose for which it is needed. Information is relevant if it is capable of making a difference in a user's assessment of a problem, condition, or event. Relevance depends on the types of financial information needed by the various users to make decisions and assess accountability.

Timeliness

66. If financial reports are to be useful, they must be issued soon enough after the reported events to affect decisions. Timeliness alone does not make information useful, but the passage of time usually diminishes the usefulness that the information otherwise would have had. In some instances, timeliness may be so essential that it may require sacrificing a certain amount of precision or detail. Sometimes a timely estimate is more useful than precise information that takes a long time to produce.

Consistency

67. Financial reports should be consistent over time; that is, there is a presumption that once an accounting principle or reporting method is adopted, it will be used for all similar transactions and events. The concept of consistency in financial reporting extends to many areas such as valuation methods, basis of accounting, and determination of the financial reporting entity. If accounting principles have been changed or the financial reporting entity has changed, the nature and reason for the change as well as the effect of the change should be disclosed.

Comparability

68. Financial reports should be comparable. This does not imply that similarly designated governments perform the same functions. Comparability implies that differences between financial reports should be due to substantive differences in the underlying transactions or the governmental structure rather than due to selection of different alternatives in accounting procedures or practices. Financial reporting should help users make comparisons among governments, for example, comparisons of the costs of specific functions or components of revenue.

Limitations of Financial Reporting

69. Governmental financial reporting objectives are affected not only by the characteristics of the governmental environment and the needs of users, but also by limitations of the information that financial reporting can provide. Users must understand these limitations to assess how financial reports can satisfy their needs.

70. Some information provided by financial reporting is based on approximate measures of past events. Some information may not be readily available from current-period accounting records and, therefore, may be costly to provide. In addition, information appearing in financial reports is often based on judgments or estimates arising from applying certain rules or conventions. Information that appears in financial reports is generally quantifiable, either in terms of dollars for financial information or by some other common denominator for nonfinancial data (miles of streets repaired, for example).

71. Financial reporting is only one source of information needed by users to make decisions about state and local governments. Governmental entities—and those who have an interest in them—are affected by numerous factors that interact with each other in complex ways. To make decisions, users need to combine the information provided by financial reporting with other pertinent information, for example, on general economic conditions or political environment.

72. Users of state and local governmental financial reports are diverse; their needs may be equally diverse. As a result, it may be impossible to provide information in any one report sufficient to meet all the needs of all users. Consequently, the type and amount of information provided in general purpose financial reports generally should be based on the common needs of users.

73. The Board recognizes that an accountability perspective in financial reporting complicates the cost-benefit analysis of information because accountability reporting may be virtually without limits. (See paragraph 57.) Cost encompasses the cost of preparing, auditing, and using information. The Board intends to maintain a broad perspective of the meaning and implications of accountability reporting. At the same time, it recognizes that information considered important by some users is not important to others. Excessive detail may confuse rather than clarify. Cost-benefit relationships will be carefully considered by the Board, during its research and due process, when establishing individual standards. In assessing costs and benefits, the Board will consider such factors as the ability of certain classes of users to obtain information by special request, the intensity of the needs of all groups of users, the risks or costs to users of not having certain types of information, and the relative costs and benefits considering the size or type of governmental entities involved.

Financial Reporting Objectives

74. The following objectives of state and local governmental financial reporting take into consideration the influence of the governmental environment on reporting both governmental-type and business-type activities, and the information needs of all users. The objectives apply to financial reporting by all governmental entities, including separate reporting by subunits of those entities.

75. The Board has concluded that there are no major differences in the financial reporting objectives of governmental-type and business-type activities. This is because business-type activities, whether performed through a separate legally constituted entity or through a department of government, are nevertheless a part of government and are publicly accountable. To the extent that there are differences in financial reporting objectives, they tend to be differences in emphasis caused by differences in the operating environment of each. In addition, the Board believes that many governmental activities cannot be easily categorized into either governmental-type or business-type. Users of financial reports may require different kinds of information depending on where on the overall spectrum of governmental- to business-type activities a particular activity falls. As a result, the Board believes the objectives presented in paragraphs 77–79 may apply in differing degrees to the two types of activities. For example, because of the differences in environmental factors, budgetary comparisons or information about funds flows may be less important to business-type activities, but cost of services information may be more important. However, both types of information are useful in differing degrees for all activities. The Board will recognize these different needs in developing specific standards to implement these objectives.

76. Governmental financial reporting should provide information to assist users in (a) assessing accountability and (b) making economic, social, and political decisions. The duty to be publicly accountable is more significant in governmental financial reporting than in business enterprise financial reporting. For this reason, the Board gave considerable weight to the concept of accountability. It appears throughout the discussion of the governmental environment, and assessing accountability is a pervasive use of financial reporting as indicated in the section on uses of financial reports. Although it is referred to specifically only in paragraph 77, accountability is implicit in all of the listed objectives. The Board considers it to be the paramount objective from which all other objectives must flow.

77. *Financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users to assess that accountability.*

a. *Financial reporting should provide information to determine whether current-year revenues were sufficient to pay for current-year services.* This also implies that financial reporting should show whether current-year citizens received services but shifted part of the payment burden to future-year citizens; whether previously accumulated resources were used up in providing services to current-year citizens; or, conversely, whether current-year revenues were not only sufficient to pay for current-year services, but also increased accumulated resources.
b. *Financial reporting should demonstrate whether resources were obtained and used in accordance with the entity's legally adopted budget; it should also demonstrate compliance with other finance-related legal or contractual requirements.*[5]
c. *Financial reporting should provide information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity.* This information, when combined with information from other sources, helps users assess the economy, efficiency, and effectiveness of government and may help form a basis for voting or funding decisions. The information should be based on objective criteria to aid interperiod analysis within an entity and comparisons among similar entities. Information about physical resources (as discussed in paragraph 79b) should also assist in determining cost of services.

78. Financial reporting should assist users in evaluating the operating results of the governmental entity for the year.

a. *Financial reporting should provide information about sources and uses of financial resources.* Financial reporting should account for all outflows by function and purpose, all inflows by source and type, and the extent to which inflows met outflows. Financial reporting should identify material nonrecurring financial transactions.
b. *Financial reporting should provide information about how the governmental entity financed its activities and met its cash requirements.*
c. *Financial reporting should provide information necessary to determine whether the entity's financial position improved or deteriorated as a result of the year's operations.*

79. Financial reporting should assist users in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due.

a. *Financial reporting should provide information about the financial position and condition of a governmental entity.* Financial reporting should provide information about resources and obligations, both actual and contingent, current and noncurrent. The major financial resources of most governmental entities are derived from the ability to tax and issue debt. As a result, financial reporting should provide information about tax sources, tax limitations, tax burdens, and debt limitations.
b. *Financial reporting should provide information about a governmental entity's physical and other nonfinancial resources having useful lives that extend beyond the current year, including information that can be used to assess the service potential of those resources.* This information should be presented to help users assess long- and short-term capital needs.
c. *Financial reporting should disclose legal or contractual restrictions on resources and risks of potential loss of resources.*

Appendix A: Background Information

[Appendix A of Concepts Statement 1 has not been reproduced in this Codification. See Original Pronouncements, GASB Concepts Statement 1, Appendix A.]

Appendix B: Basis for Conclusions

[Appendix B of Concepts Statement 1 has not been reproduced in this Codification. See Original Pronouncements, GASB Concepts Statement 1, Appendix B.]

GASB Concepts Statement No. 2

In April 1994, the GASB issued Concepts Statement No. 2, *Service Efforts and Accomplishments Reporting.* The Concepts Statement subsequently was amended by Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*, in April 2005 and by Concepts Statement No. 5, *Service Efforts and Accomplishments Reporting,* an amendment of GASB Concepts Statement No. 2 in November 2008. Because Concepts Statements are not authoritative, this Statement has not been integrated into the Codification, but instead has been reproduced here (without appendices), as amended.

Scope

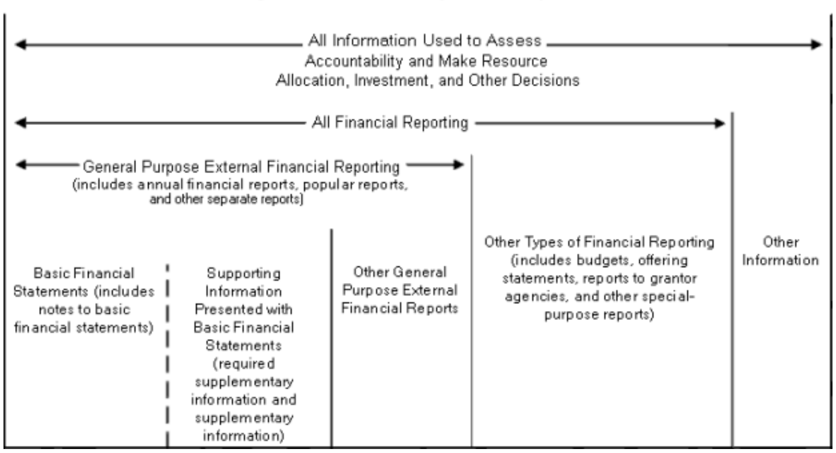
1. The concepts in this Statement provide a framework that will be used by the Governmental Accounting Standards Board (GASB) in considering guidance for reporting service efforts and accomplishments (SEA) by state and local governmental entities. This Statement provides a rationale for the objective of SEA reporting, and identifies the elements of SEA reporting and the qualitative characteristics that SEA performance information should possess. This Statement also serves as a link between the financial reporting objectives of GASB Concepts Statement No. 1, *Objectives of Financial Reporting,* and future pronouncements or other communications that provide guidance for the reporting of SEA performance information. This Statement does not establish SEA reporting requirements; rather, it broadly describes why external reporting of SEA performance information assists users in assessing accountability and in making better informed decisions. [GASBCS 2, ¶1, as amended by GASBCS 5, ¶3]

2. It is beyond the scope of the GASB to establish (a) the goals and objectives of state and local governmental services, (b) specific nonfinancial measures or indicators of service performance, or (c) standards of, or benchmarks for, service performance. Selection of goals and objectives, specific nonfinancial measures or indicators of service performance, or standards of, or benchmarks for, service performance should be made by those charged with that responsibility. [GASBCS 5, ¶4]

3. The services provided by state and local governmental entities are diverse and often complex in nature. Therefore, those directly involved in SEA reporting may need to collaborate with individuals and organizations that have specific technical knowledge, such as other management personnel, elected officials, legislative staff, citizens, auditors, professional associations, and other interested parties.[1] The unique perspectives and professional and technical knowledge of these individuals and groups can inform the selection of SEA performance measures by the government. [GASBCS 5, ¶5]

4. General purpose external financial reporting (GPEFR) focuses on providing information to meet the needs of external users. SEA reporting is an important part of GPEFR.[2] (See Figure 1.)

Figure 1: Information Used by Financial Report Users



[GASBCS 2, Fig. 1, as amended by GASBCS 3, ¶39]

Concepts Statement 1 recognizes that GPEFR should provide information to assist users in assessing accountability and in making economic, social, and political decisions. In Concepts Statement 1, *accountability* is recognized as being the paramount objective of GPEFR by state and local governmental entities. Concepts Statement 1 (paragraph 77) states that GPEFR should assist in fulfilling a government’s duty to be publicly accountable and in enabling users to assess that accountability by:

a. Providing information to determine whether current-year revenues were sufficient to pay for current-year services.
b. Demonstrating whether resources were obtained and used in accordance with the entity's legally adopted budget, and demonstrating compliance with other finance-related legal or contractual requirements.
c. Providing information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity.

[GASBCS 2, ¶3, as amended by GASBCS 5, ¶5]

5. Concepts Statement 1 (paragraph 77c) states that SEA performance information, “when combined with information from other sources, helps users assess the economy, efficiency, and effectiveness of government and may help form a basis for voting or funding decisions.” [GASBCS 2, ¶4, as amended by GASBCS 5, ¶3]

6. Concepts Statement 1 (paragraphs 8 and 57) recognizes that meeting the information needs for decision making in the state and local government environment and for assessing public accountability could extend GPEFR beyond traditional accounting measures. This includes information to assist users in assessing an entity's performance in terms of SEA performance measures. [GASBCS 2, ¶5, as amended by GASBCS 5, ¶3]

7. The costs and benefits of SEA reporting need to be considered. The Board recognizes both the importance and the complexity of assessing the costs and benefits of reporting SEA performance information. Costs and benefits are affected by many factors, such as the gathering, reporting, and use of the information. [GASBCS 5, ¶6]

Purpose

8. The purpose of this Statement is to provide conceptual guidance regarding the reporting of SEA performance information. This Statement is one of a series of Concepts Statements that will be used as a framework for evaluating existing guidance and practices, and for establishing future state and local reporting guidance. Although the GASB is the principal user of the concepts in this Statement, these concepts also may benefit the preparers and users of SEA performance information. The concepts in this Statement may help preparers and others develop effective methods of communicating SEA performance information. Greater consistency within, and comparability among, governments in their development of SEA reports will enhance the usefulness of reported information. The concepts in this Statement may enhance users’ understanding of the elements and related information, qualitative characteristics, limitations, and usefulness of SEA performance information. [GASBCS 5, ¶7]

The Governmental Environment and the Need for SEA Reporting

9. GPEFR is not an end in itself, but is one of several means used to provide information to the citizenry, legislative and oversight bodies, investors and creditors, and others. The information reported is intended to be of value to those users in making economic, social, and political decisions and in assessing accountability. Concepts Statement 1 provides that one of the objectives of financial reporting is to assist in fulfilling government’s duty to be publicly accountable and to enable users to assess that accountability. A subobjective is to provide information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity. Concepts Statement 1 notes that this information “may help form a basis for voting or funding decisions.” The elements and qualitative characteristics of SEA reporting identified in this Statement are derived primarily from the needs of governmental financial report users to have information about an entity’s SEA performance. [GASBCS 2, ¶8, as amended by GASBCS 5, ¶3]

10. To better understand the elements and qualitative characteristics of SEA reporting, it is helpful to analyze the governmental environment, the systems of public administration that operate in that environment, the nature of public accountability, the decisions that are being made, and the role of financial reporting in providing information both for decision making and to demonstrate and assess accountability. The analysis that follows confirms that SEA reporting is an essential part of the information needed for assessing accountability and making decisions in the governmental environment. It also provides a basis for understanding the elements and qualitative characteristics of SEA performance information. [GASBCS 2, ¶9, as amended by GASBCS 5, ¶3]

The Governmental Environment

11. Governments in the United States—federal, state, and local—are created and operate under a form of representative democracy. In a representative democracy, decisions are made in accordance with the principles of popular sovereignty, political equality, popular consultation, and majority rule. These concepts require that the ultimate power to make political decisions be vested in the people. These concepts do not require that all the people directly make the daily policy, management, or administrative decisions of government. However, they do recognize that the people, being sovereign, have the right to decide which decision-making powers they will keep for themselves and which they will delegate, to whom, and under what conditions of accountability. [GASBCS 2, ¶10]

12. The overall operation of government is generally referred to as "public administration." Public administration has been described as the use of legislative, executive, and judicial governmental processes or actions to provide regulatory and service functions for the society as a whole or for some segment(s) of it.[3] Public administration (much like any other system of management or administration) includes the following functions: (a) perceiving needs, problems, and opportunities, (b) formulating problems, (c) developing proposals for solutions, (d) testing and forecasting the consequences of the proposals, (e) planning actions to carry out proposals, (f) selecting and approving action plans, (g) funding an approved action plan, (h) carrying out the action plan, (i) measuring and evaluating the outcomes of the actions taken, and (j) communicating the outcomes and the results of evaluations to decision makers.[4] [GASBCS 2, ¶11]

13. Public administration generally operates within an ongoing annual or biennial cycle. The process uses information gathered in the course of carrying out the action plan, together with additional information, to begin the cycle once again. The budget process is a major element of public administration. The budget process is also a series of continual cycles from budget formulation, to appropriation, to budget execution, to reporting and evaluation, and back to budget formulation. [GASBCS 2, ¶12]

Decision Making in State and Local Government

14. Decision making is at the center of public administration. More often than not, the process involves conflicting opinions and values. For example, the potential benefit of a service largely depends on the value one places on that service—a value that can vary widely among individual citizens or groups. It is extremely difficult to evaluate policy decisions when a choice is required to be made between two or more services, each of which is seen as being valuable to the community. For example, the decision of whether to increase funding either for elementary and secondary education or for public safety depends, in part, on factors such as the value the decision maker places on public education or on public safety, the correlation one believes is present between the resources provided and educational or public safety performance, and whether the decision maker has children (or grandchildren) of school age or has been or knows someone who has been a victim of a crime. But regardless of the processes, strategies, or methods used to make decisions, the decision maker needs information. [GASBCS 2, ¶13]

15. The quality of the information and the process of refining and communicating it are of critical importance to the decision maker. For this communication to be effective, information should meet certain basic qualitative characteristics, as discussed in paragraphs 62 through 68 of Concepts Statement 1. That is, the information should be understandable to users, as reliable and as free from bias as possible, relevant to the outcome being measured and the decision being made, timely, consistent over time, and comparable. It is also important for the decision maker to recognize the degree of objectivity and subjectivity of the information. Here the difference is a matter of degree and not of kind, because all information contains both objective and subjective elements.[5] [GASBCS 2, ¶14, as amended by GASBCS 5, ¶3]

16. Decisions made by the citizenry, investors and creditors, elected officials, appointed officials, and others involved in the governmental processes include:

Citizenry—general

- Determining the extent and types of powers given to elected and administrative officials by the people.
- Choosing the checks and balances to impose on the system.
- Selecting officials as representatives, and making other voting decisions.
- Assessing the accountability and performance of elected and appointed officials.
- Evaluating the level of taxes and other charges made by governmental units, and deciding what action, if any, to take.

Citizenry—as service recipients

- Deciding when and whether to use the services[6] provided by the governmental entity.
- Evaluating the quantity and quality of services provided.
- Deciding which service changes to request.

Investors and creditors

- Deciding whether to lend funds or provide goods or services to the governmental entity, and setting the charge for those funds or goods or services.

Elected officials

- Establishing laws.
- Assessing the accountability and performance of appointed officials.

Elected and appointed officials

- Selecting services to be provided by the government.
- Allocating resources.
- Setting tax rates and user charges.
- Establishing goals and objectives for programs.

- Establishing rules and regulations.
- Prioritizing services.
- Setting performance levels and targets for specific services.
- Measuring and assessing the performance of programs and the effect of taxes and user charges.
- Measuring and assessing the extent that public needs are being met by services, and the extent that some needs remain unmet.
- Selecting alternative methods of financing expenditures, including the issuance of debt.
- Selecting information to be requested and reported.
- Deciding whether to modify, continue, expand, reduce, or curtail programs or activities.
- Deciding which programs require more detailed investigation or evaluation to determine the causes and effects of results.
- Deciding ways to improve or modify service performance.
- Deciding which activities and processes are needed to produce services.
- Deciding how to measure the results of services.
- Deciding how to improve strategies, activities, or processes for better service performance.

[GASBCS 2, ¶15]

Information Needed for Decision Making

17. To facilitate the process of decision making in the context of the public administration system and budgetary cycle, ideally a governmental entity should establish and communicate clear, relevant goals and objectives; set measurable targets for accomplishment; and develop and report indicators that measure its progress in achieving those goals and objectives (measures of SEA performance). For example, for governmental entities to have appropriate information for making decisions and assessing accountability, information needs to be provided about results achieved (service accomplishments or SEA performance) through the use of the resources provided (service efforts) and how those results compare with what was planned. The terms *economy, efficiency,* and *effectiveness*[7] often are used in this context to describe the categories of SEA performance information needed.[8] [GASBCS 2, ¶16, as amended by GASBCS 5, ¶3]

18. This need for comprehensive SEA performance information is highlighted by a guideline on economy, efficiency, and effectiveness supporting a British Chartered Institute of Public Finance and Accountancy (CIPFA) standard in 1982. The guideline states: "Economy and efficiency in the execution of programmes is of small consequence if those programmes are not meeting the authority's objectives and no assessment of value for money is complete without regard to effectiveness. In order to assess effectiveness, it is necessary first, to determine and specify the objectives and second, to assess [measure] performance against those objectives so that appropriate adjustment or remedial action can be taken."[9] [GASBCS 2, ¶17, as amended by GASBCS 5, ¶3]

The Nature of Governmental Accountability

19. GASB Concepts Statement 1 describes accountability as a broad concept that forms the cornerstone of all financial reporting for state and local governmental entities. Although Concepts Statement 1 recognizes that financial reporting should provide information to assist users both in assessing accountability and in making economic, social, and political decisions, it states that accountability is the paramount objective from which all other objectives flow (para. 76). Accountability is a relationship between those who control or manage an entity and those who possess formal power over them. It requires the accountable party to provide an explanation or a satisfactory reason for his or her activities and the results of efforts to achieve the specified tasks or objectives.[10] Consistent with this notion, Concepts Statement 1 states that "accountability requires governments to answer to the citizenry—to justify the raising of public resources and the purposes for which they are used. Governmental accountability is based on the belief that the citizenry has a 'right to know,' a right to receive openly declared facts that may lead to public debate by the citizens and their elected representatives" (para. 56). [GASBCS 2, ¶18]

20. Governmental accountability is similar to private-sector accountability in that it includes a requirement to render an account or explain one's actions to someone else who has the authority or power to assess performance and to make a judgment and take action. The process includes (a) the requirement to render the elements of accounts, (b) the analysis of that information and the making of a judgment by those to whom one is accountable, and (c) the exercise of power in the form of allocating praise or censure.[11] [GASBCS 2, ¶19]

21. Governmental accountability can be viewed from several perspectives. For example, from an accounting perspective, in 1970 the American Accounting Association's (AAA) Committee on Concepts of Accounting Applicable to the Public Sector divided what entities are accountable for into four parts:

a. Financial resources.
b. Faithful compliance or adherence to legal requirements and administrative policies.
c. Efficiency and economy in operations.
d. The results of government programs and activities, as reflected in accomplishments, benefits, and effectiveness.

[GASBCS 2, ¶20]

22. From a functional perspective, accountability has been presented in the form of a ladder comprising five distinct levels.[12] The levels move from more objectively measured aspects (legal compliance) to aspects requiring more subjective measures (policies pursued and rejected). The ladder is generally consistent with the analysis of the AAA's committee.

Level 1: Policy accountability—selection of policies pursued and rejected (value)
Level 2: Program accountability—establishment and achievement of goals (outcomes and effectiveness)
Level 3: Performance accountability—efficient operation (efficiency and economy)
Level 4: Process accountability—using adequate processes, procedures, or measures in performing the actions called for (planning, allocating, and managing)
Level 5: Probity and legality accountability—spending funds in accordance with the approved budget or being in compliance with laws and regulations (compliance)

[GASBCS 2, ¶21]

23. Each of these levels is a necessary part of accountability. Basic financial statements (BFS), which aid in assessing probity and legality accountability, provide the foundation upon which other bases of accountability can be developed. The information provided in BFS is essential for assessing whether the entity has exercised adequate fiscal stewardship over the resources provided to it. Although level 1, policy accountability, represents an important part of accountability, the assessment of performance at that level requires the analysis of competing values among different services. Information on the value of services needed for assessing policy accountability requires determining the relative value of a service to society or recipients, or the comparative value of two or more distinct services, and is beyond the scope of GPEFR. Therefore, this information has been excluded from the elements of SEA reporting. [GASBCS 2, ¶22, as amended by GASBCS 3, ¶39]

24. In discussing the ladder, Stewart warns (see footnote 12) that there are no universal solutions to accountability. He states that analysis and assessment of what is needed for accountability may be different for each level, each service, and each entity in terms of the right to information, the duty to report, the power to impose sanctions, and the relevant information to provide. [GASBCS 2, ¶23]

25. A third view of accountability is from the perspective of the key characteristics of an accountability system, for example: (a) focuses on outcomes, (b) uses a few selected indicators to measure performance, (c) provides information for both policy and program management decisions, (d) generates data consistently over time, and (e) reports outcomes regularly and publicly.[13] [GASBCS 2, ¶24]

26. These three views highlight the need to develop and communicate information that encompasses both the financial and nonfinancial aspects of performance to those to whom the entity is accountable. [GASBCS 2, ¶25]

Evolution of Governmental Accountability

27. Governmental accountability in a representative democracy has its roots deep in history and is based on the underlying principle that the ultimate power to decide is vested in the people. Under a democratic system of government, the making of laws and the taking and use of public resources carry with them the responsibility to answer to the people as a whole. Although the essence of accountability is firmly embedded in the basic principles of democracy, the details of what is required to demonstrate accountability have evolved and continue to do so as the nature and scope of government and the needs of the people change. [GASBCS 2, ¶26]

28. Before the Industrial Revolution, accountability normally was enforced through personal contact and direct participation in the public processes of governance. Industrialization modified that process as society found that there was a need for more services to be provided by the public sector. State and local governments increasingly became active in the regulation of commerce and industry, the protection of life and property, and the provision of social services. [GASBCS 2, ¶27]

29. As a result, state and local governments grew in size and complexity and became more distant from the citizens they served. The public administration reform movements of the early 1900s grew out of the realization that the traditional methods of enforcing accountability no longer were sufficient. Out of these efforts came the balanced-budget laws, debt and tax restrictions, the civil service system, professional city management, and improved accounting and financial reporting practices. [GASBCS 2, ¶28]

30. The modification and expansion of the accountability systems associated with the reform movements and later developments were not sufficient, however, to provide the information needed to assess accountability for the increasingly complex programs of large governmental entities. Despite the improvements in the public administration process that resulted from those reform movements, concerns continued to mount about whether governmental entities were operating in an economical, efficient, and effective manner. As an outgrowth of these concerns and through the efforts of elected and appointed officials, external auditors, citizen groups, and others, new methods of assessing accountability and providing information for decision making have developed. [GASBCS 2, ¶29]

31. Techniques such as management by objectives, performance budgeting, operations research, compliance and performance auditing, program evaluation, cost accounting, financial analysis, and citizen surveys have provided tools for enhancing performance measurement and reporting and for improving the quality and effectiveness of services. These methods in turn have contributed to improving the information available for decision making and to strengthening the accountability system. For example, management has been using goals, objectives, and measures of results to plan, direct, evaluate, and modify operations and improve performance. Performance auditing has expanded the scope of traditional auditing to encompass audits designed to assess the economy, efficiency, and effectiveness of services. Budget professionals have been developing methods of gathering and using information on the performance of agencies, departments, programs, and services as part of the analysis of resource needs.[14] The increased use of citizen surveys has improved government's understanding of how citizens perceive the performance of the agencies, departments, programs, and services of their government.[15] [GASBCS 2, ¶30]

32. The increasing need for, and the expanding scope of, governmental accountability is highlighted in the *Guide to Productivity Improvement Projects* prepared for the National Center for Productivity and Quality of Working Life by the International City Management Association (1976). It concludes with the following points: (a) The need to establish accountability for the operations of government programs generally is recognized; (b) establishing accountability for government programs is directly analogous to the postaudit function presently used in the area of financial accounting; (c) methods for conducting the evaluations necessary to establish accountability have been developed to the point that they may be generally applied; and (d) the next logical step is to develop a comprehensive model for the application of these methods to governments and their programs. [GASBCS 2, ¶31]

33. Responsibility to provide performance information as part of a system of public administration is based on a fundamental tenet of a democratic society that holds that ". . . governments and agencies entrusted with public resources and the authority for applying them have a responsibility to render a full accounting of their activities. . . . Thus governmental accountability should identify not only the objects for which the public resources have been devoted but also the manner and effect of their application."[16] [GASBCS 2, ¶32]

34. Based on the foregoing, it is evident that there is a clear link between the needs of public administrators in making decisions and the needs of the citizenry in assessing the accountability of those administrators. The information needed by public administrators to allocate resources to services and to assess the effectiveness of those services is the same type of information needed (although not necessarily at the same level of detail or analysis) by the citizenry to hold elected and appointed officials to account. [GASBCS 2, ¶33]

Accountability and the Link to External Financial Reporting

35. Underlying the need for information to use in assessing accountability and for decision making is the basic nature of democratic government and its relationship to its resource providers and service consumers. The relationship between resource providers, especially taxpayers, and services often is indirect. In a pluralistic society, where different individuals or groups often have different needs and values, there are competing demands for services. These competing demands may result in multiple goals and objectives that may be in conflict between programs and even within a program. [GASBCS 2, ¶34]

36. The relationship between resource providers and services is highlighted in GASB Concepts Statement 1 (paragraph 17), which discusses the following characteristics of government:

a. Taxpayers generally are involuntary resource providers.
b. The amount of taxes individuals pay often seems to bear little relationship to the services they receive.
c. Often no "exchange" relationship exists between resources provided and services received.
d. Governments often have a monopoly on the goods and services they provide to the public.
e. It is extremely difficult to measure the optimal quantity or quality for many of the services provided by state and local governments.

[GASBCS 2, ¶35]

37. These characteristics affect the information that is necessary for making decisions and assessing accountability. For example, because services normally are financed in the form of a budgetary appropriation, there often is no market mechanism operating to regulate the amount of a service provided. Therefore, the primary constraints affecting the allocation of resources are political in nature and are based on individual or group values (including limits on the ability to raise revenues). It is therefore difficult to determine if the quantity or quality of the service being provided is appropriate to accomplish the purpose intended or if the appropriate mix of services is being provided. [GASBCS 2, ¶36]

38. Because the goal of an agency, department, program, or service is to affect the well-being of those receiving the service and the general public, the performance of the agency, department, program, or service cannot be measured satisfactorily by financial measurements such as return on investment, amounts of resources used, or the amount of revenue raised per dollar of resources used. There is no "net profit" measure of performance for governments. The accountability obligation therefore also requires that relevant information about the outcomes of the entity's programs be communicated to elected officials and the citizenry to assist them in assessing the entity's performance and exercising their power. This would require accountability information for level 5 up through level 2 on the "ladder of accountability" (paragraph 21). [GASBCS 2, ¶37]

39. Traditional governmental financial reporting has attempted to provide accountability and decision-making information primarily about fiscal stewardship. Consistent with this objective, governmental financial reports provide information that assists users in assessing whether financial resources were expended in compliance with the budget and other legal mandates. Financial reporting presently requires information about where resources were obtained, how they were expended, and the financial position of the entity. This means that financial reporting is primarily providing information that addresses probity (compliance)—level 5 on the "ladder of accountability." Fiscal stewardship, as reported by the financial report, is an important element of accountability. Reporting on fiscal stewardship, however, does not provide users all of the information about performance that is necessary to analyze the results of the entity's operations and to assess accountability. [GASBCS 2, ¶38]

40. In the past, financial reports for state and local governmental entities have not been intended to communicate information about what the citizens received for the public resources used or how economically, efficiently, and effectively the resources were used. Concepts Statement 1 established parameters of GPEFR that are beyond traditional accounting measures. Those parameters were based on the need for financial reporting to provide information to assist users in assessing accountability and making decisions. To assist in accomplishing this, another dimension to financial reporting was added in Concepts Statement 1: "to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity" (para. 77c). [GASBCS 2, ¶39]

The Focus of Private-Sector Financial Reporting on Measures of Performance

41. Before further exploring the role of financial reporting in state and local government, it is useful to examine the objectives of financial reporting for private-sector business enterprises and for private-sector not-for-profit organizations. The Financial Accounting Standards Board (FASB) Concepts Statements that set forth the financial reporting objectives for both business enterprises and not-for-profit organizations discuss the need for information about an organization's performance and how that need can be fulfilled. The paragraphs that follow are excerpted from FASB Concepts Statement No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations,* Appendix B (item c(2)), with emphasis added.

Objectives:

> *Business Enterprises*—Financial reporting should provide information about an enterprise's *financial performance* during a period. The primary focus of financial reporting is information about an enterprise's performance provided by *measures of earnings* [comprehensive income] and its components.
>
> *Not-for-Profit (Nonbusiness) Organizations*—Financial reporting should provide information about the performance of an organization during a period. Periodic measurement of the changes in the amount and the nature of the net resources of a nonbusiness organization and information about the service efforts and accomplishments of an organization together represent the information most useful in assessing its performance.

Comparison of Objectives:

> *Comparison of Objectives*—The goals of the two objectives are the same but, because of the distinguishing characteristics of nonbusiness organizations, somewhat different information is required to satisfy those goals. Both seek to measure the *efforts and accomplishments* of the entity but assessment of performance in nonbusiness lacks earnings [comprehensive income] as a focal measure. This creates the need for information on *service efforts and accomplishments.*

[GASBCS 2, ¶40]

42. FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises,* addresses the measurement of performance by business enterprises from an accountability perspective: "Financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it. Management of an enterprise is periodically accountable to the owners not only for the custody and safekeeping of enterprise resources but also for their efficient and profitable use and for protecting them to the extent possible from unfavorable economic impacts of factors in the economy such as inflation or deflation and technological and social changes. . . . Earnings [comprehensive income] information is commonly the focus for assessing management's stewardship or accountability. Management, owners, and others emphasize enterprise performance or profitability in describing how management has discharged its stewardship accountability" (paras. 50 and 51). The American Institute of Certified Public Accountants' (AICPA's) *Objectives of Financial Statements* states that because the principal goal of a business enterprise is to maximize monetary wealth so that over time it can return the maximum amount of cash to its owners, management is accountable for progress toward that goal, and the assessment of accountability requires information that measures performance in achieving that goal.[17] [GASBCS 2, ¶41]

43. Comprehensive income (and its components) and other information in the financial report provide an indication of many—but not all—aspects of a business enterprise's performance. For example, the information may provide some indication of factors such as the organization's efficiency, its share of market, and consumer satisfaction. But it does not provide all that a user may wish to know about an enterprise's performance—for example, whether the quality of the organization's products is sufficient to ensure maintenance of the existing market share. More recently, some have expressed the opinion that there is a need for reporting other indicators of performance for business enterprises—indicators of factors that help produce long-term earnings and value. They cite measures such as market standing, customer satisfaction, product quality, cost and productivity, management and worker productivity, and management and worker performance as examples of indicators that help in assessing the potential for future performance.[18] [GASBCS 2, fn16]
[GASBCS 2, ¶42]

44. For private not-for-profit organizations, the measurement of performance takes on a different character. As noted earlier, the FASB concluded that measurement of performance for not-for-profit organizations requires information of a different type from that required to measure the performance of business-type organizations: specifically, information about the service efforts and accomplishments of the not-for-profit organization together with information about changes in the amount and nature of net resources. Thus, FASB Concepts Statement 4 recognizes the need for types of information beyond that provided by the traditional financial statements for assessing performance of not-for-profit organizations. [GASBCS 2, ¶43]

45. Paragraphs 52 and 53 of FASB Concepts Statement 4 state that financial reporting should provide information about service efforts (how resources are used to provide different services) in the financial statements. That Statement recognizes that, ideally, if a not-for-profit organization reports on performance, information about service accomplishments should be provided as part of financial reporting. The Statement notes, however, that at the time it was issued (December 1980), the ability to measure accomplishments (particularly program results) was generally undeveloped. It indicated that research was needed to determine whether or not measures with the requisite characteristics of relevance, reliability, comparability, verifiability, and neutrality could be developed. If measures are developed and meet the requisite characteristics, the FASB believes that they should then be included in financial reports. [GASBCS 2, ¶44]

46. In developing its Concepts Statement on financial reporting objectives, the FASB had the benefit of the work of the Trueblood Committee. The 1973 report of that committee discusses financial reporting objectives not only of business enterprises but also of governmental and not-for-profit institutions. The report states:

> Since the goals of governmental and not-for-profit institutions are primarily nonmonetary, the indicators of earning power in commercial enterprises have limited value for assessing their performance. More useful indicators are those based upon the not-for-profit organization's principal goal, such as its ability to achieve national security, to reduce poverty, or to encourage research. But these are more difficult to measure and communicate in monetary terms, because the goals themselves are qualitative, not monetary. Goals vary widely and, when identified, are frequently difficult to measure. Useful measures of performance for one organization may be meaningless for another. Still, performance for each must be measured.
>
> An objective of financial statements for governmental and not-for-profit organizations is to provide information for evaluating the effectiveness of the management of resources in achieving the organization's goals. Performance measures should be quantified in terms of identified goals.[19]

[GASBCS 2, ¶45]

SEA Reporting by State and Local Governmental Entities

47. The GASB also had the benefit of the Trueblood Committee report as well as the National Council on Governmental Accounting's (NCGA) 1982 Concepts Statement 1,*Objectives of Accounting and Financial Reporting for Governmental Units.* One of the objectives set forth in that Statement was “to provide information useful for evaluating managerial and organizational performance.” The Statement noted that such information is needed for evaluating the efficiency and economy of operations, and for evaluating the results of programs, activities, and functions and their effectiveness in achieving their goals and objectives. [GASBCS 2, ¶46]

48. GPEFR should provide information that will assist users in assessing performance—that is, communicate performance information to those to whom the entity is accountable so they can assess that accountability and make informed decisions. This is not fundamentally different for the private for-profit, private not-for-profit, and public sectors. Although the focus of GPEFR for private for-profit organizations, private not-for-profit organizations, and governmental entities is on performance in achieving an entity's purpose(s), the information needed to measure that performance for a governmental entity and a private not-for-profit organization is inherently different from that needed for a private for-profit organization. [GASBCS 2, ¶47]

49. The primary purpose of governmental entities is to help maintain or improve the well-being of their citizens. To achieve that purpose, governmental entities are responsible for providing a wide variety of services. The entity’s efficiency and effectiveness in providing those services is an essential part of its performance. To provide information about essential aspects of governmental performance, measures that include information about both (a) the acquisition and use of financial and nonfinancial resources and (b) service efforts and accomplishments are needed as part of GPEFR. [GASBCS 2, ¶48]

50. Therefore, for GPEFR to provide information that will assist financial report users to assess performance for accountability and decision-making purposes, it is necessary to broaden its scope to keep pace with the evolving information needs of those users. Because those users now recognize that information about SEA (in terms of inputs, outputs, outcomes, and efficiency) is an essential part of the measurement of performance, financial reporting needs to be expanded to include those measures. Having considered the information users need for assessing accountability and making decisions, and the role of financial reporting in providing information to assess performance, the GASB believes that SEA performance information is an important part of GPEFR. [GASBCS 2, ¶49, as amended by GASBCS 5, ¶3]

The Elements of SEA Reporting and Related Information

51. As discussed in this section, the elements of SEA performance measures and the related information that provides a context for understanding and assessing results are important aspects of SEA reporting. SEA performance measurement and reporting should occur for services that the governmental entity is responsible for providing, regardless of whether the services are provided by the governmental entity itself or by another party such as volunteers or contractors. [GASBCS 2, ¶50, as amended by GASBCS 5, ¶8]

Elements of SEA Performance Measures

52. There are three elements of SEA performance measures for reporting purposes: those that measure service efforts, those that measure service accomplishments, and those that relate service efforts to service accomplishments. These elements, which complement each other, will provide more useful information if linked to one another. The elements also may be used to identify and classify SEA performance measures for reporting purposes.

a. *Measures of service efforts:* Efforts are the amount of financial and nonfinancial resources that are applied to a service. Measures of service efforts also include ratios that compare financial and nonfinancial resources with other information, such as general population, service population, or lane-miles of road.
   (1) *Financial measures:* These measures include the cost of providing a service.[20] For example, financial measures of service efforts may include the cost of road maintenance. The development of cost information for programs and services is a critical part of the reporting of SEA performance information.
   (2) *Nonfinancial measures:* These measures include other forms of resources that are used to provide services but that are not financial in nature, such as personnel or capital assets.
      (a) *Number of personnel:* These measures may include the number of full-time-equivalent employees or employee-hours used in providing a service. Personnel measures have the effect of removing wage, benefit, and cost-of-living differences from the resource inputs and may facilitate comparisons over time and with other organizations.
      (b) *Capital asset and other measures:* These measures may include the amount of equipment (such as number of vehicles) or other capital assets (such as lane-miles of road or acres of park land) used in providing a service.

b. *Measures of service accomplishments:* Accomplishment measures report what was provided and achieved with the resources used. There are two types of measures of accomplishments—outputs and outcomes. Outputs measure the quantity of services provided; outcomes measure the results associated with the provision of services.
   (1) *Output measures:*
      (a) *Quantity of a service provided:* These measures quantify the physical amount of a service provided. For example, measures may include the number of lane-miles of road repaired.
      (b) *Quantity of a service provided that meets a certain quality requirement:* These measures quantify the physical amount of a service provided that meets a test of quality. For example, measures may include the percentage of lane-miles of road repaired to a certain minimum satisfactory condition. In some cases, meeting a quality requirement may turn an “output” measure into an “outcome” measure.
   (2) *Outcome measures:*
      (a) These measures gauge the accomplishments or results that occur (at least partially) because of services provided.[21] Accomplishments also may include measures of public perceptions of results. For example, outcome measures may include the percentage of roads in good or excellent condition, or the residents’ rating of the smoothness of the roads.
      (b) Outcome measures may be divided into several types, such as:
         (i) Measures of results that occur soon after a service is provided versus those that occur later
         (ii) Measures of results that indicate progress toward desired end results but are not themselves final outcomes
         (iii) Measures of the level of the achievement of desired end results.

c. *Measures that relate service efforts to service accomplishments:*
   (1) *Efficiency measures that relate service efforts to outputs of services:* These measure the resources used per unit of output or the cost per unit of output. They provide information about the production of an output at a given level of resource use and demonstrate an entity’s relative efficiency when compared with previous results, internally established goals and objectives, generally accepted norms or standards, or results achieved by similar jurisdictions. For example, efficiency measures may include the cost per lane-mile of road maintained (or more specifically, resurfaced or seal-coated).
   (2) *Efficiency measures that relate service efforts to the outcomes or results of services:* These measures report the resources used per unit of outcome or result, or the cost per unit of outcome or result. They relate costs and results so that management, elected officials, and the public can begin to assess the value of the services provided by an entity. For example, efficiency measures may include the cost per lane-mile of road maintained in good or excellent condition.

[GASBCS 2, ¶50, as amended by GASBCS 5, ¶8]

Related Information That Provides Context for Understanding and Assessing Results

53. In addition to the preceding elements of SEA performance measures, the reporting of SEA performance information also includes related quantitative and narrative information that can help provide context for users to understand reported SEA performance measures, assess the entity's SEA performance, and evaluate the significance of underlying factors that may have affected the reported SEA performance. [GASBCS 2, ¶51, as amended by GASBCS 5, ¶8]

Comparisons

54. SEA performance information is particularly useful when comparisons are included, such as those with results from previous years, entity-established targets, progress towards the achievement of goals or objectives, generally accepted norms and standards, other parts of the entity, or other comparable jurisdictions (both public and private). For example, an output comparison for road maintenance may be that 125 lane-miles of road were maintained during the year, when the target was for at least 145 lane-miles of road to be maintained. An outcome comparison might be that 90 percent of the lane-miles of road were in good or excellent condition, when the target was for 85 percent to be in good or excellent condition. For efficiency of road maintenance, the cost per lane-mile maintained may be $2,450, whereas the target was $2,300. [GASBCS 5, ¶8]

Unintended Effects

55. Unintended effects of a service on the recipients, state, or community sometimes can be identified. These effects represent significant indirect consequences (positive or negative) that occur, at least partially, as a result of providing a service. For example, unintended effects may include a change in the number of traffic accidents because of an improvement in the condition of roads. These unintended effects often are difficult to identify and to relate to the actual service being provided. This occurs because of an inability to establish a definite cause-and-effect relationship between the unintended effects and the service, and because other extraneous factors also may affect the results. [GASBCS 5, ¶8]

Demand for Services

56. Services are provided to address the needs of certain stakeholders. These needs, when recognized and expressed by stakeholders, create a demand for a service. The level of resources committed to providing such a service may reflect what is required to satisfy that need and to achieve the desired results. The level of service provided, however, may be more or less than necessary to satisfy the need addressed or the results desired. In certain instances, information about the level of need or demand for a service may help users to understand the SEA performance achieved and whether the level of services provided meets the perceived need for a particular level of service. For example, a community has 1,000 lane-miles of road, and of those lane-miles, 400 are in fair or poor condition. The government has set as an objective to have less than 20 percent or 200 lane-miles in fair or poor condition and 80 percent or 800 lane-miles in good or excellent condition. However, due to competing demands for resources, the community provides resources sufficient to repair or bring only 250 of those lane-miles in fair or poor condition to good or excellent condition. The information about demand in this case, when considered with resources provided, is helpful in understanding why the desired objective was not achieved. [GASBCS 5, ¶8]

Factors That Influence Results

57. Other than the program or service delivery itself, there may be external and internal factors that influence SEA performance. Including information about these factors may help users to understand how both external and internal influences can affect results. External factors are substantially outside the control of the entity and may include economic, social, environmental, and demographic characteristics. For example, external factors that might affect highway maintenance cost and condition may include the weather conditions in the area where the highway is located. Other external factors include actions or services provided by other governmental entities, not-for-profit organizations, and business enterprises. Internal factors may include complementary services provided by other agencies, departments, or programs, staffing levels, contracting for services, delays in acquiring materials, or limitations in overall resources. [GASBCS 2, ¶52, as amended by GASBCS 5, ¶8]

Narrative Information

58. Narrative information provided with SEA performance measures can provide explanations of what the level of SEA performance reported by the measure means, the possible effects that the factors that influence results might have on SEA performance, and actions that have been (or are being) taken to change reported SEA performance. Explanations are particularly important when reporting comparisons with other jurisdictions or among similar components within the same jurisdiction. They are also important in conjunction with reporting unintended effects of a service. [GASBCS 2, ¶53, as amended by GASBCS 5, ¶8]

Objective and Characteristics of SEA Performance Information

Objective

59. The objective of SEA reporting as stated in GASB Concepts Statement 1 is founded on the belief that SEA performance information is an essential aspect of the measurement of governmental performance, and is necessary for assessing accountability and in making informed decisions. Therefore, to be more complete, GPEFR needs to include SEA performance information. [GASBCS 2, ¶54, as amended by GASBCS 5, ¶3]

60. The objective of SEA reporting is to provide more complete information about a governmental entity's performance than can be provided by the operating statement, balance sheet, and budgetary comparison statements and schedules to assist users in assessing the economy, efficiency, and effectiveness of services provided. The measurement of a governmental entity's performance requires information not only on the acquisition and use of resources, but also on the outputs and outcomes of the services provided and the relationship between the use of resources and outputs and outcomes. By focusing on a variety of financial and nonfinancial measures of inputs, outputs and outcomes, and measures that relate efforts to accomplishments, SEA reporting provides additional information needed to provide a basis for users of general purpose external financial reports to more fully assess governmental performance. [GASBCS 2, ¶55]

61. To meet this objective, SEA performance information should focus primarily on measures of service accomplishments (outputs and outcomes) and measures of the relationships between service efforts and service accomplishments (efficiency). Because the reporting of SEA performance information is directed at providing users with information about the results of the governmental entity's services, the measures reported should emphasize SEA performance. The SEA performance of governmental entities is primarily measured by output, outcome, and efficiency measures. These measures report what services the entity has provided, whether those services have achieved the objectives established, and what effects they have had upon the recipients and others. This information when compared to service efforts (inputs) also provides a basis for assessing the efficiency with which the entity operated. [GASBCS 2, ¶56, as amended by GASBCS 5, ¶3 and ¶8]

Characteristics

62. SEA performance information should meet the characteristics of relevance, understandability, comparability, timeliness, consistency, and reliability. The application of these characteristics to SEA performance information is discussed in the following paragraphs. [GASBCS 2, ¶57, as amended by GASBCS 5, ¶3]

Relevance

63. SEA performance information should include data that are essential to provide a basis for understanding the accomplishment of goals and objectives of the entity that have potentially significant decision-making or accountability implications. As with any other information provided in GPEFR, SEA performance information should be management's representations of performance. Because the purpose of governmental entities is to establish and enforce laws, regulate activities, and provide services economically, effectively, and efficiently—not to earn profits—no single measure of performance is readily available to assist users in assessing accountability and in making economic, political, and social decisions. A broad variety of performance measures may therefore be required to meet the diverse needs of the different users; report on the many goals and objectives of different agencies, departments, programs, and services;[22] and address the issues being considered for different decisions and levels of accountability. [GASBCS 2, ¶58, as amended by GASBCS 5, ¶3]

Understandability

64. SEA performance information should be communicated in a readily understandable manner. It should communicate the SEA performance of the agency, department, program, or service to any reasonably informed interested party. To enhance user understanding, different forms of reporting such as tables, charts, and graphs may be needed by different state and local governmental entities and for different services. [GASBCS 2, ¶59, as amended by GASBCS 5, ¶3]

65. SEA performance information should be concise, yet comprehensive with regard to which (and how many) measures of SEA performance are reported. Both conciseness and comprehensiveness in reporting SEA performance measures are important because of the number, diversity, and complexity of state and local governmental agencies, departments, programs, and services. SEA performance information should be provided at the most appropriate level of aggregation or disaggregation. A balance should be achieved among the number of services reported, the SEA performance measures reported, and the capability of users to understand and act on the information. [GASBCS 2, ¶60, as amended by GASBCS 5, ¶3]

66. SEA performance information should include explanations about important underlying factors and existing conditions that may have affected SEA performance. Explanatory information (including narrative explanations) should be reported with the measures of SEA performance, both for important factors that are substantially outside the control of the entity and for factors over which the entity has some control, which could affect SEA performance. Narrative explanations about SEA performance measures and any important factors that are known to have affected the reported results should be presented. [GASBCS 2, ¶61, as amended by GASBCS 5, ¶3]

67. SEA performance information may be accompanied by a description of the way in which the SEA performance measures should be used. This could include comments on the need to consider SEA performance measures in conjunction with explanatory information, the need to consider the multiple aspects of SEA performance when assessing results, instances where surrogate measures (see paragraph 72e) are being reported because of an inability to measure an outcome of a service, and the difficulty of using SEA performance information to assess policy accountability. The descriptions could also contain additional information about SEA performance measures that could assist users in understanding the reasons for the reported level of SEA performance and actions planned or being taken to change results. [GASBCS 2, ¶62, as amended by GASBCS 5, ¶3]

Comparability

68. SEA performance information should provide a clear frame of reference for assessing the SEA performance of the entity and its agencies, departments, programs, and services. SEA performance measures, when presented alone, do not provide a basis for assessing or understanding the level of SEA performance. Therefore, SEA performance information should include comparative information. This information may take various forms; for example, reported measures of SEA performance could include comparisons with (a) several earlier fiscal years, (b) targets established by the entity such as targets established as part of the budgetary process, (c) externally established norms or standards of SEA performance, (d) other parts or subunits of the same entity, or (e) other, comparable entities. [GASBCS 2, ¶63, as amended by GASBCS 5, ¶3]

Timeliness

69. SEA performance information should be reported in a timely manner so that it will be available to users before it loses its capacity to be of value in assessing accountability and making decisions. [GASBCS 2, ¶64, as amended by GASBCS 5, ¶3]

Consistency

70. SEA performance information should be reported consistently from period to period to allow users to have a basis for comparing SEA performance over time and to gain an understanding of the measures being used and their meaning. However, SEA performance measures also need to be reviewed regularly, and modified or replaced as needed to reflect changing circumstances. [GASBCS 2, ¶65, as amended by GASBCS 5, ¶3]

Reliability

71. For SEA performance information to be of value to users, it is essential that the information be reliable. To be reliable, the information should be verifiable and free from bias and should faithfully represent what it purports to represent. Therefore, SEA performance information should be derived from systems that produce controlled and verifiable data. The value of a strong internal control structure has long been recognized when dealing with financial information. If SEA performance information is to be considered for inclusion as part of the information required for GPEFR, it is important that the systems and methods used to gather and verify the information be subjected to analysis similar to that used for financial information systems. [GASBCS 2, ¶66, as amended by GASBCS 5, ¶3]

Limitations of SEA Performance Information

72. SEA performance measures are but one component of the information used to assess accountability and make decisions. As with any reported measures of performance, there are limitations associated with using SEA performance information. Users of SEA performance information need to be aware of those limitations so that the information can be used appropriately. The following list is not meant to be all-inclusive but is intended to provide a general understanding of the types of limitations that need to be considered:

a. Generally, a single measure or a composite of measures cannot adequately communicate the results of providing a service or group of services. Often, several results are desired or may occur because of a service. Therefore, users need to consider using several, perhaps widely disparate, measures to assess the performance of a service, especially for an entity or its agencies, departments, and programs because they each may be providing several services aimed at achieving different results.
b. SEA performance measures do not, by themselves, explain why SEA performance is at the level reported, how to improve SEA performance, or the degree to which a service or a factor contributed to the outcome reported. Users may require additional information, such as the factors that influence results, to fully understand the relationship between an outcome and the many factors affecting that outcome. For many outcomes, there may be a number of factors that affect the level of results. In some cases, the entity providing the service may not even be aware of all of the factors that influence results.
c. The elements of SEA performance measures set forth by this Concepts Statement do not include measures of the processes or activities being used to provide services. Nor do SEA performance measures provide all of the information needed to determine the relationship between results and (1) processes or (2) activities. However, processes and activities undertaken represent important information for understanding why outputs or outcomes are at the level reported. Measures of processes and activities normally do not provide information about the outputs or outcomes of an entity's operations; therefore, they have not been included as an element of SEA performance measures. However, these measures may be useful if reported as related information that provides a context for understanding and assessing results.
d. Determining whether the reported SEA performance measures are the most relevant measures of the achievement of desired results may be difficult.
e. For some services, measuring the most important outcome may not be possible, so a reported SEA performance measure may actually be a surrogate measure that is in some way related to the desired results. For example, directly measuring traffic accident prevention may not be possible. Instead, measures such as the percentage of roads in poor condition or the number of speeding incidents may be used as reasonable (though not fully satisfactory) surrogates.
f. For many services that are provided, other organizations (governmental, not-for-profit, or business enterprise) are concurrently providing similar or complementary services. These services have an influence on the desired results, but often the organizations providing the services are not accountable to the entity providing the primary service and do not provide information about their services.
g. SEA performance information does not provide all of the data needed to determine the value of a service to society or recipients, or the comparative value of two or more distinct services. For example, a governmental entity may be faced with a situation in which it is required to allocate scarce resources to either road

maintenance or preventive healthcare. Deciding which service should receive additional funds could depend on how decision makers value the results that are expected to be achieved in the future by each service, rather than the results that have been achieved in the past. Determining the value of a service to society or recipients, or the comparative value of two or more distinct services, is beyond the scope of any GASB guidance for reporting SEA performance information.

[GASBCS 2, ¶67, as amended by GASBCS 5, ¶9]

Enhancing the Usefulness of Reported SEA Performance Information

73. The Board recognizes that there are limitations associated with SEA performance information. The Board believes, however, that some of the limitations can be mitigated, and that, even with the limitations, SEA reporting provides essential information to assist users in assessing accountability and making decisions. Consideration of the following information can help to enhance the usefulness of reported SEA performance information:

a. The uses of SEA performance information and the potential difficulties associated with its use should be clearly communicated to intended users. This communication could include a description of how reported SEA performance information is part, but not necessarily all, of the data needed to measure the SEA performance of governmental agencies, departments, programs, and services. Descriptions also could explain that this information is intended to assist users in determining the degree to which desired results are being achieved in terms of efforts, outputs, outcomes, and the efficiency of operations, but related information and narrative explanations are usually needed to obtain a more complete understanding of results.
b. Descriptive information also could be used to communicate that SEA performance information should be considered in conjunction with narrative explanations and factors that influence results. The inclusion of descriptive information may help users understand why SEA performance is at the reported level, the degree to which the items reported as factors may have influenced results, and related information that may have affected the reported results. When surrogate measures are used, an explanation of how to interpret the surrogate measure, and what would be considered an ideal measure and why it was not used would be helpful.
c. Numerous factors beyond the control of the governmental entity can significantly affect results. Moreover, cause-and-effect relationships between services and outcomes are often unclear. An explanation of how these factors might have influenced the entity's results can provide valuable context when reporting SEA performance information.
d. Even with comparisons, narrative explanations, and factors that influence results, SEA performance information may not include sufficient information about why a service is performing at the reported level. Therefore, additional information gathered through program evaluations, performance audits, or other means would help users to understand the reasons for a given level of SEA performance. Such information, when available, could be provided or referenced with the reported SEA performance information.
e. Disaggregation of reported SEA performance information by geographical location within a jurisdiction, by operating division or facility within a department, and so forth, may be particularly helpful in enhancing users' ability to understand SEA performance. Disaggregation helps communicate information at a more meaningful level by separating variations in SEA performance that may be hidden by the aggregation of information.
f. SEA performance information should focus on those key measures that are essential to providing a basis for assessing the accomplishment of desired results or that have potentially significant decision-making or accountability implications. However, this need for conciseness should be balanced with the concern for completeness. If reported SEA performance information does not include key measures for major programs, the user may be left with gaps in understanding about the results of the service, or with an incomplete picture of results. Reporting of SEA performance information that balances conciseness with completeness can address concerns that could arise regarding selective reporting of only those measures that provide a positive indication of results. At the same time, the inclusion of too many measures may confuse and overwhelm users. Providing different levels of reported SEA performance information with a greater focus on key measures at higher (more selective) levels, and more detail and additional measures provided at lower (more comprehensive) levels also may assist users.

[GASBCS 2, ¶68, as amended by GASBCS 5, ¶10]

Appendix A: Background Information

[Appendix A of Concepts Statement 2 has not been reproduced in this Codification. See Original Pronouncements, GASB Concepts Statement 2, Appendix A.]

Appendix B: Discussion of Issues Raised During Due Process

[Appendix B of Concepts Statement 2 has not been reproduced in this Codification. See Original Pronouncements, GASB Concepts Statement 2, Appendix B.]

Appendix C: Codification Instructions

[Appendix C of Concepts Statement 2 has not been reproduced in this Codification.]

GASB Concepts Statement No. 3

In April 2005, the GASB issued Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements.* The Concepts Statement subsequently was amended by Concepts Statement No. 4, *Elements of Financial Statements*, in June 2007, and by Concepts Statement No. 7, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements*, in June 2022. Because Concepts Statements are not authoritative, this Statement has not been integrated into the *Codification,* but instead has been reproduced here (without appendices), as amended.

Summary

This Concepts Statement is one of a series of Concepts Statements that the GASB has issued. These Concepts Statements are intended to provide a conceptual framework of interrelated objectives and fundamental concepts that can be used as a basis for establishing consistent financial reporting standards.

Concepts Statements are not used to prescribe the financial reporting standards that apply to a particular item or event. Instead, Concepts Statements identify the objectives and fundamental principles of financial reporting that can be applied to solve numerous financial accounting and reporting issues. They provide the GASB with the basic conceptual foundation for considering the merits of alternative approaches to financial reporting and help the GASB develop well-reasoned financial reporting standards. These Statements also assist preparers and users in better understanding the fundamental concepts underlying financial reporting standards.

This Concepts Statement clarifies the relationship of basic financial statements, notes to basic financial statements, and supporting information presented with basic financial statements within the framework of general purpose external financial reporting. It provides a conceptual basis for selecting communication methods to present items of information within general purpose external financial reports that contain basic financial statements. These communication methods include recognition in basic financial statements, disclosure in notes to basic financial statements, presentation as required supplementary information, and presentation as supplementary information.

Each of these communication methods is defined, and criteria are developed to help the GASB or, in the absence of authoritative guidance, a preparer of a financial report determine the appropriate method to use to communicate an item of information. Using a consistent approach in the selection of communication methods should benefit users in understanding the location and nature of information in financial reports.

This Concepts Statement also addresses the necessary elements for the effective communication of relevant and reliable messages within financial reports. This includes a clarification of the roles and responsibilities of the preparer, the user, and the GASB for the effective communication of information.

Introduction

1. The objective of this Statement is to provide conceptual guidance regarding the placement of information within general purpose external financial reports that contain the basic financial statements, notes to basic financial statements, and supporting information presented with basic financial statements. This Statement defines methods of communicating information in those general purpose external financial reports. Those communication methods include:

a. Recognition in basic financial statements
b. Disclosure in notes to basic financial statements
c. Presentation as required supplementary information
d. Presentation as supplementary information.

This Statement also describes criteria for selecting the communication method that is most appropriate for the kind of information to be reported.

2. This Statement does not establish governmental financial reporting standards. Rather, it describes concepts that will be used by the GASB when selecting communication methods in future standards and as a framework for evaluating communication methods used under existing standards and practices. These concepts should also benefit preparers when selecting communication methods and users in attempting to understand the functions and limitations of communication methods.

Scope and Purpose

Scope

3. The concepts in this Statement apply to general purpose external financial reports issued by state and local governments that contain basic financial statements, notes to basic financial statements, and supporting information presented with basic financial statements. Additional communication methods not discussed in this Statement may be needed if *other general purpose external financial reports* that are not structured around basic financial statements are developed in the future, such as economic condition or service efforts and accomplishments reports.

4. Special-purpose reports are not part of general purpose external financial reporting and, therefore, are beyond the scope of this Statement. Examples of special-purpose reports include offering statements, budgets, and reports that federal grantor agencies and other senior levels of government or private donors require state and local governments to file with them. Special-purpose reports generally are issued to meet the needs and requirements of specific users. In contrast to the users of general purpose external financial reports, special-purpose report users often have statutory authority or other ability to require a governmental unit to issue reports that meet their needs; they do not have to rely solely on information in general purpose external financial reports. As part of their requirements, special-purpose report users often specify the communication methods that should be used, as well as the content of special-purpose reports. Although this Statement does not address special-purpose reports, the concepts it establishes may be useful for preparing and using them, especially when a special-purpose report contains information extracted from general purpose external financial reports.

5. This Statement amends Concepts Statement No. 1, *Objectives of Financial Reporting,* Figure 1 and paragraphs 6, 8, and 9; and Concepts Statement No. 2, *Service Efforts and Accomplishments Reporting,* Figure 1 and paragraphs 3 and 22.

Purpose

6. The principal user of the concepts in this Statement is likely to be the GASB itself. The GASB intends to apply these concepts in its deliberations of financial reporting standards in order to select the communication method or methods that will most appropriately convey the kinds of information to be required by a standard and as a framework for evaluating communication methods used under existing standards and practices. Application of the concepts in this Statement should enhance the consistency and understandability of governmental financial reporting standards and of the resulting information included in general purpose external financial reports.

7. The definitions and criteria in this Statement will also help preparers select appropriate communication methods for items of information that they choose to present in general purpose external financial reports but for which the GASB does not specifically prescribe a communication method. Greater consistency within and comparability among governments in the use of the various communication methods will enhance the usefulness of reported information.

8. The ultimate beneficiaries of improved communication of information in general purpose external financial reports are the users of those reports. The concepts in this Statement will enhance users' understanding of the functions and limitations of the various communication methods and the relationship between the method used and the information being reported. A greater understanding of these concepts will enhance users' ability to select and interpret the information they need for their decisions.

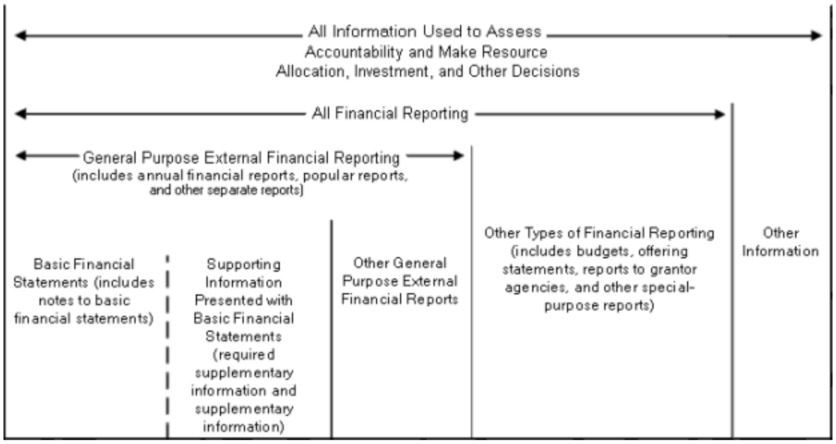
General Purpose External Financial Reporting and Basic Financial Statements

9. General purpose external financial reporting (GPEFR) is a means of communicating financial information to meet the common information needs of the primary users of a government's financial report.[1] Because of the diverse nature of the information that needs to be communicated to users to meet the various objectives of financial reporting,[2] no single general purpose external financial report may be sufficient to adequately meet all the objectives. Information that is relevant for meeting certain financial reporting objectives may be better provided by basic financial statements, notes to basic financial statements, and supporting information presented with basic financial statements, but other information may be better provided by using other methods of communication. Therefore, some general purpose external financial reports will contain basic financial statements, notes to basic financial statements, and supporting information (the methods of communication that are the subject of this Concepts Statement), whereas other general purpose external financial reports that may be developed in the future may use other methods of communication.

10. In a general purpose external financial report that contains basic financial statements, the *basic financial statements* and *notes to basic financial statements* are the principal means of communicating financial information to users. Supporting information—that is, required supplementary information and supplementary information—accompanies the basic financial statements and notes to place them in context.

11. Figure 1 illustrates the roles of financial reporting and GPEFR in providing information used to assess accountability and to make decisions. The figure shows the relationship between the basic financial statements, notes to basic financial statements, and the supporting information that is presented with basic financial statements in a general purpose external financial report. Other general purpose external financial reports also may be used to meet the common needs of users for other information that is necessary to assess accountability and make decisions. Information presented in “other” general purpose external financial reports may or may not have a clear and direct relationship to the information presented in general purpose external financial reports that contain the basic financial statements, notes to basic financial statements, and supporting information presented with basic financial statements.

Figure 1: Information Used by Financial Report Users



Communication and Financial Reporting

Communicating with Users of General Purpose External Financial Reports [3]

12. Effective reporting requires the communication of relevant and reliable messages. All communication requires that a sender (that is, a communicator) generate a message or messages, which are received and understood by a recipient. In the communication of accounting information, the sender of messages is the preparer.[4] Messages are contained in financial reports. The recipient of messages is the user of financial reports.

Preparer

13. The preparer is responsible for producing financial reports that recognize relevant events in the financial statements or that disclose or present messages about such events elsewhere in the financial report. Relevant events are happenings of economic or financial consequence to a reporting unit that the preparer believes have the potential to make a difference in a user's assessment of the reporting unit and should be considered within the context of the reporting objectives of a financial report.

14. The preparer is responsible for selecting events that are essential to assist the user in assessing accountability and making decisions. In selecting the events to be presented in a general purpose external financial report, the preparer is primarily guided by financial reporting standards established by the GASB. Other factors that affect the selection of events are the decision-making tasks for which financial reports are commonly used, the information needed for these decision-making tasks, and the information that can be provided in financial reports that will help such decision making.

15. The preparer observes and makes quantifiable measurements of the events that have been selected for recognition in financial statements. The preparer also is responsible for observing and gathering the data necessary for disclosures in the notes or presentations in supporting information about such events.

16. An understanding of accounting and financial reporting principles applicable to state and local governments and the exercise of due professional care help the preparer present messages in financial reports in a clear and understandable manner. For a particular message, a preparer may choose, within the confines of financial reporting standards, the method of presentation—narrative, tabular, or graphic—that has the greatest potential to clearly transmit a message.[5]

Financial Reports

17. Financial reports contain messages that have been generated by the preparer for transmission to and interpretation by the user. Financial reports are not the messages themselves, but rather contain messages, which are the representations of events, depicted in the form of words and numbers. To be useful, these messages require receipt and interpretation by the user.

18. Financial reporting may take many forms depending on numerous factors, such as whether the messages are intended for use by internal management or by external users or whether the messages are intended for a specific use or a general use. General purpose external financial reports are intended to meet the common needs of various external users.

19. Concepts Statement 1 (paragraph 30) identifies three groups as the primary users of general purpose external financial reports: "(a) those to whom government is primarily accountable (the citizenry), (b) those who directly represent the citizens (legislative and oversight bodies), and (c) those who lend or who participate in the lending process (investors and creditors)." In addition, that paragraph makes it clear that internal management may also use external financial reports: "Internal managers in the executive branch of government who have ready access to financial data through *internal* reporting are not considered *primary* users . . .; however, internal users also have many uses for external financial reports."

20. Financial reports may be transmitted through various channels. One channel of communication is a report printed on paper. However, other channels, such as various forms of electronic media, are available for transmitting financial reports.

User

21. The messages contained in financial reports are intended for users. To effectively interpret these messages, the user is responsible for obtaining a reasonable understanding of government and public finance activities and of the fundamentals of governmental financial reporting, for studying the messages with reasonable diligence, and for applying relevant analytical skills. The user's interpretation of messages may be affected by a variety of other factors including the user's past experiences and preferences (for example, risk preferences), as well as prevailing economic conditions and the availability of relevant information outside the financial report.

22. The user draws conclusions and makes decisions based on the user's interpretation of messages in financial reports or statements. Effective communication occurs when the user receives the messages that were intended to be sent and is able to draw conclusions or make decisions based on the messages.

The GASB's Role in the Communication Process

23. A mission of the GASB is to establish and improve standards of state and local governmental accounting and financial reporting that will result in useful information for users of financial reports. Standards setters act as intermediaries between preparers and users to help ensure that relevant information is communicated in a consistent manner. The credibility and comparability of governments' financial reports are enhanced when a user knows that the reports are prepared in conformity with publicly promulgated standards established by independent standards setters regarding the selection of relevant events and the measurement and presentation of the effects of those events on the reporting unit.

24. Standards setters help preparers fulfill their role in the communication process by studying the needs of users of financial reports, by identifying the types of information needed by users in making decisions and assessing accountability, and by requiring specific messages to be included in financial reports. To provide guidance for preparers and itself when selecting the messages that should be included, the GASB determined in Concepts Statement 1, (paragraphs 62–68) that information in financial reports should have certain basic characteristics.

25. Standards setters help preparers not only by providing guidance on the content of financial reports[6] but also by selecting the communication method that should be used to convey a particular message. A communication method is a financial reporting construct that conveys information to users of general purpose external financial reports that helps meet one or more of the objectives of financial reporting (Concepts Statement 1, paragraphs 74–79).

Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements

26. The following definitions of and criteria for communication methods are intended to inform decisions regarding the placement of a particular item of information within general purpose external financial reports that contain basic financial statements, notes to basic financial statements, and supporting information. A decision to include an item of information in general purpose external financial reports precedes a decision about the placement of the information in those reports. An item of information is a candidate for inclusion in general purpose external financial reports if it (a) is consistent with the objectives of state and local government financial reporting and (b) meets the basic characteristics for the communication of information in financial reports.

27. Concepts Statement 1, (paragraphs 77–79) identifies the specific objectives of state and local governmental financial reporting. These objectives generally indicate that governmental financial reporting should provide information to assist users in (a) assessing accountability and (b) making economic, social, and political decisions (Concepts Statement 1, paragraph 76).

28. Concepts Statement 1, (paragraphs 62–68) identifies the basic characteristics that are required to exist for effective communication of information in financial reports. Those characteristics are understandability, reliability, relevance, timeliness, consistency, and comparability. Although an item of information may contain all of those characteristics to some degree, the GASB would not require its presentation in general purpose external financial reports if the perceived cost of such information exceeds the expected benefit to users. Costs that should be considered in the cost–benefit analysis include the costs of preparing, auditing, and using information (Concepts Statement 1, paragraph 73).

Hierarchy for Selecting Communication Methods

29. The selection of an appropriate communication method to convey information to users of general purpose external financial reports enhances the consistency, comparability, and understandability of information in those general purpose external financial reports. The communication method to be used to convey a particular item of information should be determined based on the following order:

a. Recognition in basic financial statements
b. Disclosure in notes to basic financial statements
c. Presentation as required supplementary information
d. Presentation as supplementary information.

30. For example, in determining the communication method that should be used to convey a particular item of information, the GASB would begin by considering whether the item of information met the definition and criteria for recognition in basic financial statements. If so, the GASB would require recognition of the item in the basic financial statements. If the item did not meet the definition and criteria for recognition in the basic financial statements but it did meet the definition and criteria to be disclosed in the notes to basic financial statements, the GASB would require the item to be disclosed in the notes. If the item did not meet the definition and criteria for disclosure in the notes but it did meet the definition and criteria for presentation in required supplementary information (RSI), the GASB would require the item of information to be presented in RSI. If the item did not meet the definition and criteria for presentation in RSI, the GASB may choose to establish standards regarding its format and content for those preparers who elect to present (or are otherwise required by law or regulation to present) the item as supplementary information.

Financial Statement

31. A governmental financial statement is a tabulation of amounts, derived from accounting records and expressed in words and dollars, that displays either (a) the financial position[7] of the reporting unit (that is, the group of activities covered by the financial statement) at a moment in time or (b) inflows and outflows of resources from transactions or other events during a period of time. Amounts recognized in financial statements are assets, liabilities, deferred outflows of resources, deferred inflows of resources, and net position, as well as inflows of resources and outflows of resources. [GASBCS 3, ¶31, as amended by GASBCS 4, ¶2]

32. A reporting unit may be a governmental unit (that is, it has separate legal standing), part of a governmental unit (such as governmental activities or business-type activities, a major fund, an aggregation of funds, or a segment), or an aggregation or consolidation of two or more governmental units (such as a primary government and its component units). When the reporting unit is only part of a governmental unit, the assets, liabilities, residual balances, and changes in those amounts that are included in the reporting unit's financial statements have been assigned by the governmental unit to that reporting unit for control, management, or financial reporting purposes.

Criteria for Reporting Information Items in a Financial Statement

33. Items recognized in a financial statement are intended to provide reliable representations of the effects of transactions and other events. The term *recognition* means recording or incorporating an item into a financial statement as an asset, liability, revenue, expense, expenditure, or other element of financial statements. Recognition comprises both initial recognition and recognition of subsequent changes in or removal of previously recognized items. Recognized items are both described in words and measured in dollars. Recognized items are displayed in financial statements either individually or aggregated with similar items.

34. Items that are elements of financial statements and are measurable with sufficient reliability are recognized in financial statements. Disclosure in the notes to financial statements or presentation as supporting information is not an adequate substitute for recognition in the financial statements. Information disclosed in the notes to financial statements may provide more details about amounts recognized in the financial statements.

Notes to Financial Statements

Purpose of Notes to Financial Statements

35. The purpose of notes to financial statements is to provide information that (a) explains, describes, or supplements the financial statements and (b) is essential to users in making economic, social, or political decisions or assessing accountability. Notes to financial statements are integral to basic financial statements; they are necessary to make the basic financial statements complete. [GASBCS 7, ¶7]

Users of Notes to Financial Statements

36. In the context of this Concepts Statement, users of notes to financial statements are responsible for (a) obtaining a reasonable understanding of government and public finance activities and of the fundamentals of governmental financial reporting, (b) studying the information with reasonable diligence, and (c) applying relevant analytical skills. [GASBCS 7, ¶8]

Criteria for Disclosing Information Items in Notes to Financial Statements

37. The types of information in notes to financial statements are as follows:

a. Descriptions of the accounting and finance-related policies underlying amounts recognized in financial statements
b. More detail about or explanations of amounts recognized in financial statements
c. Information related to financial position or inflows and outflows of resources that does not meet the criteria for recognition
d. Other finance-related information associated with the accountability of the government.

Notes to financial statements may be narrative or quantitative with appropriate explanations and may include measures other than dollars. [GASBCS 7, ¶9]

38. The following types of information are not appropriate for notes to financial statements:

a. Subjective assessments of the effects of reported information on the government's future financial position, other than expectations and assumptions about the future that are inputs to current measures in the financial statements or notes to financial statements
b. Predictions about the effects of future events on future financial position
c. General or educational information that is not specific to the government.

[GASBCS 7, ¶10]

39. Notes to financial statements are essential to users in making economic, social, or political decisions or assessing accountability. The term *essential*, as used in this Concepts Statement, conveys the degree of importance that information contained in notes to financial statements should possess. The following are the characteristics of essential information:

a. The information has or is expected to have a meaningful effect on users' analyses for making decisions or assessing accountability.
b. A breadth or depth of users utilize or are expected to utilize the information in their analyses for making decisions or assessing accountability.

[GASBCS 7, ¶11]

40. The determination of whether information is essential is informed by the degree to which the characteristics in paragraph 11 are present. Those characteristics should be evaluated in combination to make that determination. The use of professional judgment generally will be necessary to evaluate the characteristics of essentiality and, therefore, determine whether information is essential. [GASBCS 7, ¶12]

41. The determination of whether information is essential should relate to individual information items. That is, each item disclosed should possess the characteristics of essentiality. [GASBCS 7, ¶13]

42. Information that meets the criteria for notes to financial statements should be reported in that manner. Presentation as supporting information is not an adequate substitute for disclosure in notes to financial statements. [GASBCS 7, ¶14]

Notes to Financial Statements and Reporting Units

43. Information in a government's financial statements is presented by reporting units. The information contained in notes to financial statements includes descriptions, explanations, or more detail about the financial position, changes in financial position, or, if applicable, cash flows of the reporting units of the government. Notes to financial statements should provide information that corresponds to the reporting units presented in the financial statements. [GASBCS 7, ¶15]

Considerations Related to Benefits and Costs for Notes to Financial Statements

44. Notes to financial statements are affected by the limitations of governmental financial reporting, including considerations of the expected benefits resulting from the information in notes to financial statements relative to the perceived costs of disclosing that information. [GASBCS 7, ¶16]

Supporting Information

45. Supporting information places basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context. By providing context, supporting information enhances the decision-usefulness of the basic financial statements and notes to basic financial statements it accompanies. This information either is required by the GASB to be presented with the basic financial statements and notes to basic financial statements, is required by laws or regulations to be presented, or is presented at the election of the preparer. [GASBCS 3, ¶40]

46. *Operational context* relates financial information to the activities, policies, and nonfinancial resources of a government. *Economic context* describes a government's economic environment or facilitates a comparison of financial information among governments. *Historical context* depicts a government's financial status over time and explains why a government's financial position or inflows and outflows of resources have changed. Providing historical context often involves referring to certain information presented in prior-period statements; however, it generally should not result in repeating the entire prior-period statements. [GASBCS 3, ¶41]

Required Supplementary Information

47. Required supplementary information (RSI) is supporting information that the GASB has concluded is essential for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context. RSI is required to accompany the basic financial statements and notes to basic financial statements in a government's general purpose external financial report. [GASBCS 3, ¶42]

Criteria for Presenting Information Items in RSI

48. RSI has a clear and demonstrable relationship to information in the basic financial statements or notes to basic financial statements to which it pertains. [GASBCS 3, ¶43]

49. RSI may include explanations of recognized amounts, analysis of known facts or conditions, or other information essential for placing the basic financial statements and notes to basic financial statements in context. However, RSI does not include (a) subjective assessments of the effects of reported information on the reporting unit's future financial position, (b) predictions about the effects of future events on future financial position, or (c) information unrelated to the financial statements. [GASBCS 3, ¶44]

50. Items of information that meet the definition of and criteria for RSI are presented in that manner. Information presented in RSI is distinguished from supplementary information because the RSI is *essential* for placing basic financial statements and notes to basic financial statements in a context and is required to be presented with basic financial statements and notes. [GASBCS 3, ¶45]

Supplementary Information

51. Supplementary information (SI) is supporting information that is useful for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context. SI is presented with the basic financial statements, notes to basic financial statements, and RSI in a government's general purpose external financial report. Although the GASB does not require SI to be presented, preparers of governmental financial reports who elect to present SI (or are otherwise required by law or regulations to present SI) with their basic financial statements, notes to basic financial statements, and RSI should follow any applicable GASB-issued or GASB-cleared guidance regarding the format and content of that information. [GASBCS 3, ¶46]

Appendix A: Background Information

[Appendix A of Concepts Statement 3 has not been reproduced in this Codification. See Original Pronouncements, GASB Concepts Statement 3, Appendix A.]

Appendix B: Discussion of Issues Raised During Due Process

[Appendix B of Concepts Statement 3 has not been reproduced in this Codification. See Original Pronouncements, GASB Concepts Statement 3, Appendix B.]

Appendix C: Codification Instructions

[Appendix C of Concepts Statement 3 has not been reproduced in this Codification.]

GASB Concepts Statement No. 4

In June 2007, the GASB issued Concepts Statement No. 4, *Elements of Financial Statements.* Because Concepts Statements are not a source of established accounting principles, this Statement has not been integrated into the *Codification*, but instead has been reproduced here (without appendices).

Summary

This Concepts Statement is one of a series of Concepts Statements that the Governmental Accounting Standard Board (GASB) has issued or will issue. These Concepts Statements are intended to provide a conceptual framework of interrelated objectives and fundamental concepts that can be used as a basis for establishing consistent financial reporting standards.

Concepts Statements identify the objectives and fundamental principles of financial reporting that can be applied to address numerous financial accounting and reporting issues. They provide the GASB with the basic conceptual foundation for considering the merits of alternative approaches to financial reporting and help the GASB develop well-reasoned financial reporting standards. These Statements also assist preparers, auditors, and users in better understanding the fundamental concepts underlying financial reporting standards. Concepts Statements are not used to prescribe the financial reporting standards that apply to a particular item or event.

This Concepts Statement establishes definitions for the seven elements of historically based financial statements of state and local governments. Elements are the fundamental components of financial statements. The elements of a statement of financial position are defined as follows:

- *Assets* are resources with present service capacity that the government presently controls.
- *Liabilities* are present obligations to sacrifice resources that the government has little or no discretion to avoid.
- A *deferred outflow of resources* is a consumption of net assets by the government that is applicable to a future reporting period.

- A *deferred inflow of resources* is an acquisition of net assets by the government that is applicable to a future reporting period.
- *Net position* is the residual of all other elements presented in a statement of financial position.

The elements of the resource flows statements are defined as follows:

- An *outflow of resources* is a consumption of net assets by the government that is applicable to the reporting period.
- An *inflow of resources* is an acquisition of net assets by the government that is applicable to the reporting period.

These definitions are primarily based upon the inherent characteristics of each element. Central to most of these definitions is a *resource,* which in the governmental context is an item that can be drawn on to provide services to the citizenry. These definitions apply to an entity that is a governmental unit (that is, a legal entity) and are applicable to any measurement focus under which financial statements may be prepared.

How This Concepts Statement Improves Financial Reporting

This Concepts Statement improves financial reporting by defining some of the most central terms used in GASB pronouncements, which will enhance consistency in future standards setting. These defined terms include deferred outflows of resources and deferred inflows of resources, which will, for example, allow for better presentation of interperiod equity in certain financial statements. This Concepts Statement also may benefit preparers and auditors when evaluating transactions, in certain cases, for which there are no existing standards. Financial statement users also may benefit from understanding these definitions that identify the items and events that should be reported as specific elements of financial statements.

Purpose, Scope, and Approach to Defining Elements of Financial Statements

Purpose

1. The purpose of this Statement is to provide conceptual guidance regarding the definitions, including the inherent characteristics, of the elements of historically based financial statements of state and local governments. This Statement is one of a series of Concepts Statements that will be used as a framework for evaluating existing standards and practices and for establishing future state and local government financial reporting standards. Although the Governmental Accounting Standards Board (GASB) is the principal user of the concepts in this Statement, these concepts also may benefit preparers and auditors, in certain cases, when evaluating transactions for which there are no existing standards. Financial statement users also may benefit from understanding these definitions that identify the items and events that should be reported as specific elements of financial statements. Existing accounting pronouncements and practices generally accepted as prevalent practice in an industry may be inconsistent with the principles in this Statement. However, this Statement does not (a) require a change in existing generally accepted accounting principles for either accounting and financial reporting for specific transactions or for presentation of financial statements or (b) amend, modify, or interpret established accounting principles.[1]

2. This Statement establishes definitions for elements of historically based financial statements of state and local governments. Elements are the broad fundamental components of financial statements. This Statement identifies five elements of statements of financial position—assets, liabilities, deferred outflows of resources, deferred inflows of resources, and net position—and two elements of resource flows statements—outflows of resources and inflows of resources. The names of the elements are neutral with respect to the measurement focus employed in a financial statement and do not necessarily reflect account titles that are expected to be used in financial statements. Financial statement account titles, such as cash, capital assets, accounts payable, bonds payable, tax revenue, user fees, interest expense, and salary expense, are reported within these broad categories of elements. The different elements have distinctive inherent characteristics. The items reported within the heading for an element do have some common characteristics because they all meet the definition for that element, but these different items have other distinguishing features.

Scope

3. The *entity* to which the definitions are to be applied is a governmental unit (a separate legal entity, which is an organization created, for example, as a body corporate or a body corporate and politic). A set of financial statements for a reporting entity may include more than one governmental unit and may include presentations for one or more reporting units. Certain inherent characteristics of elements of financial statements (for example, control over resources and obligations to sacrifice resources) are manifested only at the governmental unit level. Financial statements of reporting units present the elements of the legally separate governmental unit(s) that have been assigned to that reporting unit for control, management, or financial reporting purposes. As used in the definitions of elements of financial statements, *government* refers to a legally separate governmental unit.

4. This Statement amends Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements,* paragraph 31.

Approach to Defining Elements of Financial Statements

5. The elements of financial statements generally are defined by their inherent characteristics; that is, they are defined independently of each other to the extent possible. The element *net position,* however, is defined solely using the other elements in order to maintain articulation between statements of financial position and resource flows statements.

Definition of a Resource

6. A central feature of most of the definitions is a *resource*. For example, some of these definitions of elements refer to resources with present service capacity that are under the control of a government and some refer to resources that a government has little or no discretion to avoid sacrificing in the future; some of these definitions of elements refer to resources that were consumed by a government and some refer to resources that were acquired by a government. In a general sense, a resource is a supply or other means that can be drawn on when needed.[2] In the governmental context, a resource is an item that can be drawn on to provide services to the citizenry.

Relationship of Elements Definitions to Recognition in Financial Statements

7. For an item to be recognized in a financial statement, it should meet all relevant criteria. These criteria include meeting the definition of an element, as well as meeting recognition and measurement criteria. Recognition is affected by the measurement focus and basis of accounting of a financial statement. Measurement focus refers to *which* resources are being recognized, and basis of accounting refers to *when* an event is reported.

Definitions of Elements of Financial Statements

Assets

8. *Assets* are resources with present service capacity that the government presently controls.

Present Service Capacity

9. The present service capacity of a resource that is an asset is its existing capability to enable the government to provide services, which in turn enables the government to fulfill its mission. The present service capacity of an asset may be used by the government in different ways. Parks and roads are examples of assets with present service capacity that is directly deployed by the government in that the citizenry or public directly use the asset. Buildings or artifacts of historical significance also are examples of assets with present service capacity that can be directly used in that their preservation and continued existence is a service to society. One of the hallmarks of government is its deployment of assets that provide service directly, such as infrastructure, that need not be associated with charges to recipients of the service nor need to be able to be sold. Cash is an asset with present service capacity that is used by the government to procure services for the citizenry. The present service capacity of investments, land held for sale, or income-producing assets can be used in a similar manner because they can be sold to produce cash or to generate cash. This form of present service capacity is sometimes referred to as economic benefit.

10. An asset may be tangible and have physical form, such as buildings and equipment, or may be intangible, such as the right to use intellectual property. It remains an asset only so long as it is still capable of providing services. For example, a piece of equipment is considered an asset if the present service capacity embodied in the equipment either (a) can be used to provide services or (b) has economic benefit.

11. The power to tax is a distinguishing characteristic of government. Because governments are formed to provide services, frequently irrespective of the ability of specific individuals to pay for those services, governments are often established with the power to tax. That power, while central to the function of many governments, does not constitute an asset of those governments with that power. A government's power to tax may be considered one of the government's most important resources (that is, a means that can be drawn on), but it is not an asset of the government because the power to tax does not have present service capacity. The power to tax produces an asset for accounting and financial reporting purposes only when the power to tax is exercised and an enforceable tax levy or a taxable transaction has occurred, as applicable, resulting in a resource with present service capacity—taxes receivable. Similarly, other powers inherent in a government, such as regulatory or eminent domain powers, are not assets, but they may produce assets when exercised.

Definition and Characteristics of Control

12. Control of an asset is the ability of the government to utilize the resource's present service capacity and to determine the nature and manner of use of the present service capacity embodied in the resource. Generally, the government controlling the asset has the ability to determine whether to (a) directly use the present service capacity to provide services to citizens; (b) exchange the present service capacity for another asset, such as cash; or (c) employ the asset in any of the other ways it may provide benefit. For an asset that is provided for use by the citizenry and general public, control is held by the government that possesses the ability to control access to the present service capacity embodied in the asset. This control may be demonstrated, for example, by determining the level of service the asset will provide, such as setting hours of operation and fee levels for a public park. Many assets, such as investments of a trust or capital assets purchased with grant proceeds, are subject to legal or other external constraints. These assets can be used only as described in the trust agreement or to support the grant program, respectively. Such restrictions on use of an asset should not be considered to negate a government's control of the present service capacity of the asset.

13. Control of the present service capacity embodied in an asset generally arises from contractual rights or legal ownership. Some resources, such as real property, may represent a bundle of rights associated with the resource—for example, the right to develop the property, the right to extract minerals from the property, and the right to install and maintain utility lines crossing the property. Different entities may control different rights associated with a single property. Provided the various rights possess the other inherent characteristics of an asset and meet the recognition and measurement criteria, these different rights associated with real property, for example, would be reported as assets by different entities. In this example, no single entity would report the entire real property resource as its asset.

14. The same specific resource cannot simultaneously be an asset of more than one entity, although an asset of one entity may be related to an asset of another entity. For example, a city may indirectly exert control over assets, such as cash in a bank account of a joint venture, by virtue of having an ownership interest in the joint venture. In that example, cash of the joint venture is not an asset of the city. The ownership interest in the joint venture, however, is an asset of the city. Indirect control also applies to the situation of assets of trusts. Beneficiaries of a trust may have a claim against the trust or a right to receive specified benefits from the trust, which they would consider an asset. However, this asset of the beneficiaries is not the same as the assets held in the trust.

15. In some circumstances, a government receives the benefit from the present service capacity of a resource but does not control the resource. For example, a city government receives the benefit from an exit ramp from the state highway leading to the city. Employees and suppliers may more easily access the city, and the tax base of the city is enhanced through properties benefiting from the exit ramp. The city, however, does not control the exit ramp as it is part of the state highway system controlled by the state. Therefore, the city does not consider the exit ramp to be its asset.

16. Control over present service capacity embodied in a resource, through which an asset arises, occurs as a result of a past event. An example of a past event is the acquisition of a resource through a purchase or through exercising a government's power of eminent domain.

Liabilities

17. *Liabilities* are present obligations to sacrifice resources that the government has little or no discretion to avoid.

Obligations

18. An *obligation* is a social, legal, or moral requirement, such as a duty, contract, or promise that compels one to follow or avoid a particular course of action.[3] A present obligation that is a liability is a duty or responsibility to sacrifice resources that the government has little or no discretion to avoid. The reason that many liabilities cannot be avoided is that they are legally enforceable, meaning that a court could compel the government to fulfill the obligation. Generally, legally enforceable liabilities arise from legislation of other levels of government or contractual relationships, which may be written or oral. Examples of legally enforceable liabilities arising from contractual relationships include salaries payable, accounts payable for goods and services received, and bonds and notes payable. An example of a legally enforceable liability arising from legislation is certain pollution remediation obligations. The circumstances that constitute legal enforceability may be different depending upon whether the obligation arises from an exchange or a nonexchange transaction. For exchange transactions, the obligation becomes a liability and legally enforceable when the underlying exchange takes place. For some types of nonexchange transactions, mechanisms for legal enforcement may not be available or practical. In cases in which the government is a grantor or provider in a nonexchange transaction, a liability is considered to be created when eligibility requirements have been met by the recipient. In cases in which the government is the grantee or recipient in a nonexchange transaction, a liability exists until all eligibility requirements imposed on the government have been met.

19. Sometimes a liability will be created, not because it is legally enforceable, but because of a government's actions or conduct. In these cases, social, moral, or economic consequences leave the government little or no discretion to avoid the sacrifice of resources. Such constructive liabilities generally arise from exchange transactions. When parties engage in an exchange transaction, they evaluate the offer of resources to be exchanged using their understanding of the proposed exchange when deciding whether to accept the offer and consummate the transaction. This understanding may be different from what is legally enforceable. Once one party has transferred resources to a government, the government has a liability to fulfill its side of the agreement. Even if the agreement may not be legally enforceable, the government may have a liability due to the social, moral, or economic consequences should the government not fulfill its agreement. Examples include obligations in certain circumstances to an employee who has provided services, in part, in expectation of the government honoring its promise to provide certain deferred compensation, such as vacation pay, sick pay, or retiree health care benefits. For nonexchange transactions, an underlying agreement upon which to base a potential liability may not exist or may be difficult to ascertain. Generally, in a nonexchange transaction, a government is free to change or withdraw any offer of resources until a potential recipient has met eligibility requirements.

20. A government has little or no discretion to avoid the sacrifice when it does not have the power to decline making the sacrifice of resources, when it cannot indefinitely defer when the sacrifice of resources will occur, or when the penalty or consequences for failing to sacrifice the resource is more than insubstantial. Further, a government's discretion to avoid a future sacrifice may be influenced as a result of actions or conduct of the government and by the reliance of others on the government's actions or conduct.

21. The specific party to whom a liability is owed need not be identified for a liability to exist; however, the other party or parties should be external to the government. For example, a government may have a liability for refunds of overpayments of estimated income taxes or refunds for adjustments arising from property tax assessment appeals; however, the government may not know specifically to whom this liability is owed until tax returns are filed or appeals are made and adjudicated. Similarly, a government cannot have a liability to perform maintenance on an asset it owns in cases in which it would be a liability to itself.

Present Obligation

22. For an obligation to be a liability, it should be a present obligation. The event that created the liability has taken place. This distinguishes the item from a commitment that may become a liability in the future when the event giving rise to the liability occurs. The government may be able to withdraw from or avoid the commitment until a future event giving rise to the liability occurs.

23. Governments make a number of commitments that are not liabilities. For example, the mission of the government, which may be broad, such as promoting the general welfare of its citizens or educating all school-aged children residing in the district, or narrow, such as operating a library in the case of a special district, does not constitute a liability. Furthermore, changes to the mission of a government do not create a liability. Likewise, political commitments, which are more specific statements about the level of service to be provided, do not constitute liabilities. Both approval of a budget and establishment of a grant program further express a government's intent to provide specific services but do not constitute a liability. Generally, commitments to provide services or to acquire assets in the future do not result in liabilities at the time of the commitment. Further action, either on the part of the government or the grant recipients, is necessary before a liability is created. For example, the government would need to engage in providing the services authorized by the budget through initiating exchange transactions, and recipients of grants would need to meet eligibility requirements. Liabilities resulting from exchange transactions generally arise when consideration has been exchanged (for example, goods or services have been received in exchange for a promise to compensate the vendor or service provider). Liabilities resulting from nonexchange transactions generally arise when commitments to sacrifice resources reach a similar stage of maturity (for example, when the government engages in exchange transactions for goods or services that fulfill the nonexchange commitment or when the recipient meets eligibility requirements in cases in which direct payments are to be made).

Outflows of Resources

24. An *outflow of resources* is a consumption of net assets[4] by the government that is applicable to the reporting period.

Consumption of Net Assets

25. Net assets consumed may have been under the control of the government for a period of time or may have been used up directly when acquired from an external party. A consumption of net assets results in (a) a decrease in assets in excess of any related decrease in liabilities or (b) an increase in liabilities in excess of any related increase in assets. Examples of a consumption of net assets include (1) the use of cash resources to make direct aid payments when recipients meet eligibility requirements or the loss of a building through a fire and (2) having employees provide government services for which they will be paid in the next reporting period. In the first example, existing assets of the government (cash or a building) have been consumed and there was no associated increase in liabilities. In the second example, the government has consumed net assets (received services of employees) that were directly acquired from an external party (employees) that also increased liabilities without an increase in assets.

26. In many cases, the net decrease in assets or net increase in liabilities associated with the consumption of net assets occurs in the same reporting period as the period to which the outflow of resources is applicable, as discussed in paragraph 27. In some cases, however, the net decrease in assets or net increase in liabilities occurs in a *prior* period, but the outflow of resources is nevertheless applicable to the *current* period. In these cases, a deferred outflow of resources, as discussed in paragraph 32, would have been reported in the prior period. In the current reporting period (that is, the period to which the outflow of resources is applicable), the outflow of resources now being reported will be accompanied by a decrease in the previously reported deferred outflow of resources without a further change in net assets.

Applicability to the Reporting Period

27. The measurement focus of the resource flows statement is critical to determining the nature and period to which an outflow of resources is applicable. For resource flows statements prepared using the economic resources measurement focus, the period to which an outflow (or inflow) of resources is applicable is determined using the concept of *interperiod equity*. Interperiod equity is the state in which current period inflows of resources equal current period costs of services. For example, the burden of the cost of services is borne by present-year taxpayers and revenue providers. This burden is not shifted to future-year taxpayers or revenue providers through an increase in the level of borrowing, for example, and accumulated net resources are not used to provide current-period services. Interperiod equity is a relevant metric to assess accountability, rather than a goal that is expected to be met for any particular period of time. For resource flows statements prepared using the current financial resources measurement focus, the period to which an outflow (or inflow) of resources is applicable is the period in which the use (or acquisition) of current financial resources is expected to take place. For resource flows statements prepared using the cash measurement focus, the period to which an outflow (or inflow) of resources is applicable is the period in which cash is disbursed (or received).

Inflows of Resources

28. An *inflow of resources* is an acquisition of net assets by the government that is applicable to the reporting period.

Acquisition of Net Assets

29. The *acquisition of net assets* occurs when net assets are obtained by the government even if those net assets are consumed directly when acquired. An acquisition of net assets results in (a) an increase in assets in excess of any related increase in liabilities or (b) a decrease in liabilities in excess of any related decrease in assets. Examples of acquisition of net assets include (1) the occurrence of a taxable event, such as the sale of taxable merchandise by a retailer, and (2) performing under the conditions of a grant received in advance. In the first example, net assets have newly come under the control of the government. In the second, liabilities of the government have been satisfied, thereby increasing the government's net assets.

30. In many cases, the net increase in assets or net decrease in liabilities associated with the acquisition of resources occurs in the same reporting period as the period to which the inflow of resources is applicable, as discussed in paragraph 27. In some cases, however, the net increase in assets or net decrease in liabilities occurs in a *prior* period, but the inflow of resources is nevertheless applicable to the *current* period. In these cases, a deferred inflow of resources, as discussed in paragraph 34, would have been reported in the prior period. In the current reporting period (that is, the period to which the deferred inflow of resources is applicable), the inflow of resources now being reported will be accompanied by a decrease in the previously reported deferred inflow of resources without a further change in net assets.

Applicability to the Reporting Period

31. Applicability to the reporting period has the same meaning as under *outflows of resources,* as discussed above in paragraph 27.

Deferred Outflows of Resources

32. A *deferred outflow of resources* is a consumption of net assets by the government that is applicable to a future reporting period.

33. A deferred outflow of resources is reported in a statement of financial position. The meaning of the inherent characteristic of consumption of net assets by the government is the same as that characteristic discussed above under *outflows of resources*. The inherent characteristic of being applicable to a future reporting period is similar to the characteristic of applicable to the reporting period discussed above under *outflows of resources* with one important exception. For a deferred outflow of resources, the outflow is applicable to a future reporting period rather than to the current reporting period.

Deferred Inflows of Resources

34. A *deferred inflow of resources* is an acquisition of net assets by the government that is applicable to a future reporting period.

35. A deferred inflow of resources is reported in a statement of financial position. The meaning of the inherent characteristic of acquisition of net assets by the government is the same as that discussed above under *inflows of resources*. The inherent characteristic of being applicable to a future reporting period is similar to the characteristic of applicable to the reporting period discussed above under *outflows of resources* and *inflows of resources* with one important exception. For a deferred inflow of resources, the inflow is applicable to a future reporting period rather than to the current reporting period.

Net Position

36. *Net position* is the residual of all other elements presented in a statement of financial position.

37. Net position is an element of the statement of financial position and is measured by the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. The amount of net position maintains a specific relationship with the net activity in the resource flows statement. The increase or decrease in net position from one period to the next equals the net of all activity reported in the resource flows statement for that period. Also, the total balance of net position at any point in time theoretically equals the cumulative total of all resource flows statement activity from inception. Net position may have a positive or a negative balance.

Limitation on the Application of the Definitions of Certain Elements

38. Recognition of deferred outflows of resources and deferred inflows of resources should be limited to those instances identified by the GASB in authoritative pronouncements, which are established after applicable due process procedures.

Application of Definitions of Elements of Financial Statements to Different Measurement Focuses

39. The term *resource* has the same meaning in all of the definitions of elements; however, the scope of the resources measured in a particular financial statement may be different depending upon the measurement focus of the financial statement. When transactions affect multiple groupings of resources, they may meet definitions of different elements under different measurement focuses. For example, the purchase of a capital asset on account is a transaction that does not meet the definition of any element of financial statements prepared under the cash measurement focus. For financial statements prepared using a current financial resources measurement focus, however, this transaction meets the definition of an outflow of resources and results in a liability. For financial statements prepared using the economic resources measurement focus, this transaction is reported as an asset and a liability. An additional example is receipt of proceeds from the issuance of long-term bonds. For financial statements prepared under the cash or current financial resources measurement focus, the proceeds are reported as an inflow of resources. For financial statements prepared under the economic resources measurement focus, the proceeds are reported as a liability and not as an inflow of resources. All elements described in this Concepts Statement, including deferred outflows and inflows of resources, may be applicable to any measurement focus except the cash measurement focus. Due to the limitations on resources reported, the cash measurement focus reports only an asset (that is, cash), outflows of cash resources, and inflows of cash resources. Sometimes in financial statement presentations, different terms will be used for these elements. These terms include expense, expenditure, other financing use, disbursement, loss, revenue, other financing source, receipt, gain, and fund balance. Some of these terms are used only with certain measurement focuses.

Internal Balances and Transfers

40. Governmental financial presentations often include financial statements of reporting units, such as governmental activities, business-type activities, and major funds, that are subcomponents of a governmental unit, the entity to which these definitions of elements of financial statements apply. Activity between reporting units of a governmental unit should be reported as internal balances and transfers along with the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, outflows of resources, and inflows of resources of these reporting units. These internal balances and activities will not meet the definition of elements of financial statements; however, they are reported for purposes of fairly presenting each reporting unit.

Uncertainty

41. Assessment of whether or not an item meets the definition of a particular element often requires consideration of future events, which are uncertain. For example, to assess whether an item is an asset, a determination is required to be made as to whether the item is capable of providing a future benefit. For most assets there is a circumstance that may prevent that potential benefit from being realized in the future. Some receivable balances may never be collected. An investment may lose all of its value before it is sold. Software specific to a government program may become obsolete if new technology is developed. Similar circumstances also exist for liabilities. For example, there may be circumstances in which a liability is satisfied without a future sacrifice of resources. A liability for a tort claim may be extinguished if a court decision is in favor of the governmental entity. Similarly, any outflows and inflows of resources associated with these assets and liabilities also may be affected by these uncertainties. The definitions in this Concepts Statement do not require certainty regarding such future events because that would be impractical. Neither does this Concepts Statement specify a level of probability of an event occurring for an item to meet the definition of an element.

Appendix A: Background Information

[Appendix A of Concepts Statement 4 has not been reproduced in this Codification. See Original Pronouncements, GASB Concepts Statement 4, Appendix A.]

Appendix B: Basis for Conclusions

[Appendix B of Concepts Statement 4 has not been reproduced in this Codification. See Original Pronouncements, GASB Concepts Statement 4, Appendix B.]

GASB Concepts Statement No. 5

In November 2008, the GASB issued Concepts Statement No. 5, *Service Efforts and Accomplishments Reporting,* an amendment of GASB Concepts Statement No. 2. Because Concepts Statements are not a source of established accounting principles, this Statement has not been integrated into the Codification, but instead has been reproduced here (without appendices).

Summary

This summary provides highlights of the changes to Concepts Statement No. 2, *Service Efforts and Accomplishments Reporting*. The Board has amended Concepts Statement 2 to reflect developments that have occurred since it was issued in 1994. The changes are based on the findings of extensive research by the GASB and others, as well as the results of the GASB's monitoring of state and local governments that have been reporting service efforts and accomplishments (SEA) performance information.

This amendment eliminated one section and modified four sections of Concepts Statement 2. The section of Concepts Statement 2 on Developing Reporting Standards for SEA Information has been deleted. The sections of Concepts Statement 2 on Purpose and Scope, The Elements of SEA Reporting, Limitations of SEA Information, and Enhancing the Usefulness of SEA Information are presented first in this Concepts Statement as modified. Only these modified sections of Concepts Statement 2 are reflected in Concepts Statement 5. Conforming terminology changes were made to other sections as noted in the scope paragraph. For an entire version of the Concepts Statement, including those sections not modified, see the *Codification of Governmental Accounting and Financial Reporting Standards,* Appendix B, GASB Concepts Statement No. 2, *Service Efforts and Accomplishments Reporting,* as amended.

The changes to the purpose and scope section include a clarification that it is beyond the scope of the GASB to establish (a) the goals and objectives of state and local governmental services, (b) specific nonfinancial measures or indicators of service performance, or (c) standards of, or benchmarks for, service performance.

The section on the elements of SEA performance measures separates the elements of SEA reporting from related information. Elements of SEA performance measures for reporting purposes focus on the three different types of SEA performance measures—measures of service efforts, measures of service accomplishments, and measures that relate service efforts to service accomplishments. The discussion of related information that provides a context for understanding and assessing results has been expanded to include comparisons, unintended effects, the concept of demand for services, factors that influence results, and narrative information. A discussion of the initial, intermediate, and long-term nature of outcome measures also has been added. Changes to the discussion of explanatory factors shift the focus to both external and internal factors that influence results.

Clarifying revisions were made to the section on the limitations of SEA performance information and to the section on the usefulness of SEA performance information.

Introduction to This Amendment

1. The objective of this Statement is to update provisions in Concepts Statement No. 2, *Service Efforts and Accomplishments Reporting*, in order to reflect developments that have occurred since that Concepts Statement was issued in 1994. The proposed changes are based on the findings of extensive research by the Governmental Accounting Standards Board (GASB) and others and the results of the GASB's monitoring of state and local governments that have been using and reporting service efforts and accomplishments (SEA) performance information.

Scope of This Amendment

2. This Statement amends paragraphs 1, 3, 50–53, 67, and 68 and supersedes paragraphs 2, 6, 7, and 69–79 of Concepts Statement 2. In addition, it results in amendments to reflect conforming terminology changes in paragraphs 4, 5, 8, 9, 14, 16, 17, 49, 54, 56, 57, and 63–66 of Concepts Statement 2.

Amendments to Concepts Statement 2

3. Paragraph 1 is amended to read as follows:

SCOPE

The concepts in this Statement provide a framework that will be used by the Governmental Accounting Standards Board (GASB) in considering guidance for reporting service efforts and accomplishments (SEA) by state and local governmental entities. This Statement provides a rationale for the objective of SEA reporting, and identifies the elements of SEA reporting and the qualitative characteristics that SEA performance information should possess. This Statement also serves as a link between the financial reporting objectives of GASB Concepts Statement No. 1, *Objectives of Financial Reporting,* and future pronouncements or other communications that provide guidance for the reporting of SEA performance information. This Statement does not establish SEA reporting requirements; rather, it broadly describes why external reporting of SEA performance information assists users in assessing accountability and in making better informed decisions.

4. Paragraph 2 is superseded by the following:

It is beyond the scope of the GASB to establish (a) the goals and objectives of state and local governmental services, (b) specific nonfinancial measures or indicators of service performance, or (c) standards of, or benchmarks for, service performance. Selection of goals and objectives, specific nonfinancial measures or indicators of service performance, or standards of, or benchmarks for, service performance should be made by those charged with that responsibility.

5. Paragraph 3 is amended to read as follows:

The services provided by state and local governmental entities are diverse and often complex in nature. Therefore, those directly involved in SEA reporting may need to collaborate with individuals and organizations that have specific technical knowledge, such as other management personnel, elected officials, legislative staff, citizens, auditors, professional associations, and other interested parties. [1] The unique perspectives and professional and technical knowledge of these individuals and groups can inform the selection of SEA performance measures by the government.

General purpose external financial reporting (GPEFR) focuses on providing information to meet the needs of external users. SEA reporting is an important part of GPEFR. [2] (See Figure 1.)

Concepts Statement 1 recognizes that GPEFR should provide information to assist users in assessing accountability and in making economic, social, and political decisions. In Concepts Statement 1, *accountability* is recognized as being the paramount objective of GPEFR by state and local governmental entities. Concepts Statement 1 (paragraph 77) states that GPEFR should assist in fulfilling a government's duty to be publicly accountable and in enabling users to assess that accountability by:

a. Providing information to determine whether current-year revenues were sufficient to pay for current-year services.

b. Demonstrating whether resources were obtained and used in accordance with the entity's legally adopted budget, and demonstrating compliance with other finance-related legal or contractual requirements.
c. Providing information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity.

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[1] For example, see Harry P. Hatry and Others, *How Effective Are Your Community Services? Procedures for Measuring Their Quality.* 3rd ed. (Washington, DC: The Urban Institute and International City/County Management Association, 2006).

[2] SEA reporting was first identified in the state and local government conceptual framework in National Council on Governmental Accounting (NCGA) Concepts Statement 1, *Objectives of Accounting and Financial Reporting for Governmental Units* (1982). NCGA Concepts Statement 1 stated that "the overall goal of accounting and financial reporting for governmental units is to provide: 1) financial information useful for making economic, political and social decisions, and demonstrating accountability and stewardship; and 2) information useful for evaluating managerial and organizational performance" (paragraph 8). For more detail, see paragraph 9.V. of NCGA Concepts Statement 1.

6. Paragraph 6 is superseded by the following:

The costs and benefits of SEA reporting need to be considered. The Board recognizes both the importance and the complexity of assessing the costs and benefits of reporting SEA performance information. Costs and benefits are affected by many factors, such as the gathering, reporting, and use of the information.

7. Paragraph 7 is superseded by the following:

PURPOSE

The purpose of this Statement is to provide conceptual guidance regarding the reporting of SEA performance information. This Statement is one of a series of Concepts Statements that will be used as a framework for evaluating existing guidance and practices, and for establishing future state and local reporting guidance. Although the GASB is the principal user of the concepts in this Statement, these concepts also may benefit the preparers and users of SEA performance information. The concepts in this Statement may help preparers and others develop effective methods of communicating SEA performance information. Greater consistency within, and comparability among, governments in their development of SEA reports will enhance the usefulness of reported information. The concepts in this Statement may enhance users' understanding of the elements and related information, qualitative characteristics, limitations, and usefulness of SEA performance information.

8. Paragraphs 50–53 are amended to read as follows:

THE ELEMENTS OF SEA REPORTING AND RELATED INFORMATION

As discussed in this section, the elements of SEA performance measures and the related information that provides a context for understanding and assessing results are important aspects of SEA reporting. SEA performance measurement and reporting should occur for services that the governmental entity is responsible for providing, regardless of whether the services are provided by the governmental entity itself or by another party such as volunteers or contractors.

Elements of SEA Performance Measures

There are three elements of SEA performance measures for reporting purposes: those that measure service efforts, those that measure service accomplishments, and those that relate service efforts to service accomplishments. These elements, which complement each other, will provide more useful information if linked to one another. The elements also may be used to identify and classify SEA performance measures for reporting purposes.

a. *Measures of service efforts:* Efforts are the amount of financial and nonfinancial resources that are applied to a service. Measures of service efforts also include ratios that compare financial and nonfinancial resources with other information, such as general population, service population, or lane-miles of road.
   (1) *Financial measures:* These measures include the cost of providing a service. [20] For example, financial measures of service efforts may include the cost of road maintenance. The development of cost information for programs and services is a critical part of the reporting of SEA performance information.
   (2) *Nonfinancial measures:* These measures include other forms of resources that are used to provide services but that are not financial in nature, such as personnel or capital assets.
      (a) *Number of personnel:* These measures may include the number of full-time-equivalent employees or employee-hours used in providing a service. Personnel measures have the effect of removing wage, benefit, and cost-of-living differences from the resource inputs and may facilitate comparisons over time and with other organizations.
      (b) *Capital asset and other measures:* These measures may include the amount of equipment (such as number of vehicles) or other capital assets (such as lane-miles of road or acres of park land) used in providing a service.

b. *Measures of service accomplishments:* Accomplishment measures report what was provided and achieved with the resources used. There are two types of measures of accomplishments—outputs and outcomes. Outputs measure the quantity of services provided; outcomes measure the results associated with the provision of services.

- (1) *Output measures:*
  - (a) *Quantity of a service provided:* These measures quantify the physical amount of a service provided. For example, measures may include the number of lane-miles of road repaired.
  - (b) *Quantity of a service provided that meets a certain quality requirement:* These measures quantify the physical amount of a service provided that meets a test of quality. For example, measures may include the percentage of lane-miles of road repaired to a certain minimum satisfactory condition. In some cases, meeting a quality requirement may turn an "output" measure into an "outcome" measure.
- (2) *Outcome measures:*
  - (a) These measures gauge the accomplishments or results that occur (at least partially) because of services provided. [21] Accomplishments also may include measures of public perceptions of results. For example, outcome measures may include the percentage of roads in good or excellent condition, or the residents' rating of the smoothness of the roads.
  - (b) Outcome measures may be divided into several types, such as:
    - (i) Measures of results that occur soon after a service is provided versus those that occur later
    - (ii) Measures of results that indicate progress toward desired end results but are not themselves final outcomes
    - (iii) Measures of the level of the achievement of desired end results.

c. *Measures that relate service efforts to service accomplishments:*

- (1) *Efficiency measures that relate service efforts to outputs of services:* These measure the resources used per unit of output or the cost per unit of output. They provide information about the production of an output at a given level of resource use and demonstrate an entity's relative efficiency when compared with previous results, internally established goals and objectives, generally accepted norms or standards, or results achieved by similar jurisdictions. For example, efficiency measures may include the cost per lane-mile of road maintained (or more specifically, resurfaced or seal-coated).
- (2) *Efficiency measures that relate service efforts to the outcomes or results of services:* These measures report the resources used per unit of outcome or result, or the cost per unit of outcome or result. They relate costs and results so that management, elected officials, and the public can begin to assess the value of the services provided by an entity. For example, efficiency measures may include the cost per lane-mile of road maintained in good or excellent condition.

Related Information That Provides Context for Understanding and Assessing Results

In addition to the preceding elements of SEA performance measures, the reporting of SEA performance information also includes related quantitative and narrative information that can help provide context for users to understand reported SEA performance measures, assess the entity's SEA performance, and evaluate the significance of underlying factors that may have affected the reported SEA performance.

Comparisons

SEA performance information is particularly useful when comparisons are included, such as those with results from previous years, entity-established targets, progress towards the achievement of goals or objectives, generally accepted norms and standards, other parts of the entity, or other comparable jurisdictions (both public and private). For example, an output comparison for road maintenance may be that 125 lane-miles of road were maintained during the year, when the target was for at least 145 lane-miles of road to be maintained. An outcome comparison might be that 90 percent of the lane-miles of road were in good or excellent condition, when the target was for 85 percent to be in good or excellent condition. For efficiency of road maintenance, the cost per lane-mile maintained may be $2,450, whereas the target was $2,300.

Unintended Effects

Unintended effects of a service on the recipients, state, or community sometimes can be identified. These effects represent significant indirect consequences (positive or negative) that occur, at least partially, as a result of providing a service. For example, unintended effects may include a change in the number of traffic accidents because of an improvement in the condition of roads. These unintended effects often are difficult to identify and to relate to the actual service being provided. This occurs because of an inability to establish a definite cause-and-effect relationship between the unintended effects and the service, and because other extraneous factors also may affect the results.

Demand for Services

Services are provided to address the needs of certain stakeholders. These needs, when recognized and expressed by stakeholders, create a demand for a service. The level of resources committed to providing such a service may reflect what is required to satisfy that need and to achieve the desired results. The level of service provided, however, may be more or less than necessary to satisfy the need addressed or the results desired. In certain instances, information about the level of need or demand for a service may help users to understand the SEA performance achieved and whether the level of services provided meets the perceived need for a particular level of service. For example, a community has 1,000 lane-miles of road, and of those lane-miles, 400 are in fair or poor condition. The government has set as an objective to have less than 20 percent or 200 lane-miles in fair or poor condition and 80 percent or 800 lane-miles in good or excellent condition. However, due to competing demands for resources, the community provides resources sufficient to repair or bring only 250 of those lane-miles in fair or poor condition to good or excellent condition. The information about demand in this case, when considered with resources provided, is helpful in understanding why the desired objective was not achieved.

Factors That Influence Results

Other than the program or service delivery itself, there may be external and internal factors that influence SEA performance. Including information about these factors may help users to understand how both external and internal influences can affect results. External factors are substantially outside the control of the entity and may include economic, social, environmental, and demographic characteristics. For example, external factors that might affect highway maintenance cost and condition may include the weather conditions in the area where the highway is located. Other external factors include actions or services provided by other governmental entities, not-for-profit organizations, and business enterprises. Internal factors may include complementary services provided by other agencies, departments, or programs, staffing levels, contracting for services, delays in acquiring materials, or limitations in overall resources.

Narrative Information

Narrative information provided with SEA performance measures can provide explanations of what the level of SEA performance reported by the measure means, the possible effects that the factors that influence results might have on SEA performance, and actions that have been (or are being) taken to change reported SEA performance. Explanations are particularly important when reporting comparisons with other jurisdictions or among similar components within the same jurisdiction. They are also important in conjunction with reporting unintended effects of a service.

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[20] *Cost* has yet to be defined for purposes of SEA reporting. Appropriate measures of cost may vary based on specific SEA performance measures and the purpose or the context of the measurement. Certain components of cost such as overhead and capital asset use charges (for example, depreciation) might be appropriately included or excluded in different circumstances.

[21] For many outcomes, a definite cause-and-effect relationship between the output and the outcome cannot be established because of their complex nature and factors beyond the control of the entity that affect the outcome being measured.

9. Paragraph 67 is amended to read as follows:

LIMITATIONS OF SEA PERFORMANCE INFORMATION

SEA performance measures are but one component of the information used to assess accountability and make decisions. As with any reported measures of performance, there are limitations associated with using SEA performance information. Users of SEA performance information need to be aware of those limitations so that the information can be used appropriately. The following list is not meant to be all-inclusive but is intended to provide a general understanding of the types of limitations that need to be considered:

a. Generally, a single measure or a composite of measures cannot adequately communicate the results of providing a service or group of services. Often, several results are desired or may occur because of a service. Therefore, users need to consider using several, perhaps widely disparate, measures to assess the performance of a service, especially for an entity or its agencies, departments, and programs because they each may be providing several services aimed at achieving different results.
b. SEA performance measures do not, by themselves, explain why SEA performance is at the level reported, how to improve SEA performance, or the degree to which a service or a factor contributed to the outcome reported. Users may require additional information, such as the factors that influence results, to fully understand the relationship between an outcome and the many factors affecting that outcome. For many outcomes, there may be a number of factors that affect the level of results. In some cases, the entity providing the service may not even be aware of all of the factors that influence results.
c. The elements of SEA performance measures set forth by this Concepts Statement do not include measures of the processes or activities being used to provide services. Nor do SEA performance measures provide all of the information needed to determine the relationship between results and (1) processes or (2) activities. However, processes and activities undertaken represent important information for understanding why outputs or outcomes are at the level reported. Measures of processes and activities normally do not provide information about the outputs or outcomes of an entity’s operations; therefore, they have not been included as an element of SEA

performance measures. However, these measures may be useful if reported as related information that provides a context for understanding and assessing results.

d. Determining whether the reported SEA performance measures are the most relevant measures of the achievement of desired results may be difficult.
e. For some services, measuring the most important outcome may not be possible, so a reported SEA performance measure may actually be a surrogate measure that is in some way related to the desired results. For example, directly measuring traffic accident prevention may not be possible. Instead, measures such as the percentage of roads in poor condition or the number of speeding incidents may be used as reasonable (though not fully satisfactory) surrogates.
f. For many services that are provided, other organizations (governmental, not-for-profit, or business enterprise) are concurrently providing similar or complementary services. These services have an influence on the desired results, but often the organizations providing the services are not accountable to the entity providing the primary service and do not provide information about their services.
g. SEA performance information does not provide all of the data needed to determine the value of a service to society or recipients, or the comparative value of two or more distinct services. For example, a governmental entity may be faced with a situation in which it is required to allocate scarce resources to either road maintenance or preventive healthcare. Deciding which service should receive additional funds could depend on how decision makers value the results that are expected to be achieved in the future by each service, rather than the results that have been achieved in the past. Determining the value of a service to society or recipients, or the comparative value of two or more distinct services, is beyond the scope of any GASB guidance for reporting SEA performance information.

10. Paragraph 68 is amended to read as follows:

ENHANCING THE USEFULNESS OF REPORTED SEA PERFORMANCE INFORMATION

The Board recognizes that there are limitations associated with SEA performance information. The Board believes, however, that some of the limitations can be mitigated, and that, even with the limitations, SEA reporting provides essential information to assist users in assessing accountability and making decisions. Consideration of the following information can help to enhance the usefulness of reported SEA performance information:

a. The uses of SEA performance information and the potential difficulties associated with its use should be clearly communicated to intended users. This communication could include a description of how reported SEA performance information is part, but not necessarily all, of the data needed to measure the SEA performance of governmental agencies, departments, programs, and services. Descriptions also could explain that this information is intended to assist users in determining the degree to which desired results are being achieved in terms of efforts, outputs, outcomes, and the efficiency of operations, but related information and narrative explanations are usually needed to obtain a more complete understanding of results.
b. Descriptive information also could be used to communicate that SEA performance information should be considered in conjunction with narrative explanations and factors that influence results. The inclusion of descriptive information may help users understand why SEA performance is at the reported level, the degree to which the items reported as factors may have influenced results, and related information that may have affected the reported results. When surrogate measures are used, an explanation of how to interpret the surrogate measure, and what would be considered an ideal measure and why it was not used would be helpful.
c. Numerous factors beyond the control of the governmental entity can significantly affect results. Moreover, cause-and-effect relationships between services and outcomes are often unclear. An explanation of how these factors might have influenced the entity's results can provide valuable context when reporting SEA performance information.
d. Even with comparisons, narrative explanations, and factors that influence results, SEA performance information may not include sufficient information about why a service is performing at the reported level. Therefore, additional information gathered through program evaluations, performance audits, or other means would help users to understand the reasons for a given level of SEA performance. Such information, when available, could be provided or referenced with the reported SEA performance information.
e. Disaggregation of reported SEA performance information by geographical location within a jurisdiction, by operating division or facility within a department, and so forth, may be particularly helpful in enhancing users' ability to understand SEA performance. Disaggregation helps communicate information at a more meaningful level by separating variations in SEA performance that may be hidden by the aggregation of information.
f. SEA performance information should focus on those key measures that are essential to providing a basis for assessing the accomplishment of desired results or that have potentially significant decision-making or accountability implications. However, this need for conciseness should be balanced with the concern for completeness. If reported SEA performance information does not include key measures for major programs, the user may be left with gaps in understanding about the results of the service, or with an incomplete picture of results. Reporting of SEA performance information that balances conciseness with completeness can address concerns that could arise regarding selective reporting of only those measures that provide a positive indication of results. At the same time, the inclusion of too many measures may confuse and overwhelm users. Providing different levels of reported SEA performance information with a greater focus on key measures at higher (more selective) levels, and more detail and additional measures provided at lower (more comprehensive) levels also may assist users.

11. Paragraphs 69–79 are superseded.

Appendix A: Background Information

[Appendix A of Concepts Statement 5 has not been reproduced in this Codification. See Original Pronouncements, GASB Concepts Statement 5, Appendix A.]

Appendix B: Basis for Conclusions

[Appendix B of Concepts Statement 5 has not been reproduced in this Codification. See Original Pronouncements, GASB Concepts Statement 5, Appendix B.]

Appendix C: Codification Instructions

[Appendix C of Concepts Statement 5 has not been reproduced in this Codification.]

GASB Concepts Statement No. 6

In March 2014, the GASB issued Concepts Statement No. 6, *Measurement of Elements of Financial Statements*. Because Concepts Statements are not authoritative, this Statement has not been integrated into the Codification, but instead has been reproduced here (without appendices).

Summary

This Concepts Statement is one of a series that the GASB has issued or will issue. Concepts Statements are intended to provide a conceptual framework of interrelated objectives and fundamental principles that can be used as a basis for establishing consistent accounting and financial reporting standards.

Concepts Statements identify the objectives and fundamental principles of financial reporting that can be applied to solve numerous accounting and financial reporting issues. They provide the GASB with the basic conceptual foundation for considering the merits of alternative approaches to financial reporting and help the GASB develop well-reasoned accounting and financial reporting standards. These Concepts Statements also assist preparers, auditors, and users in better understanding the fundamental concepts underlying accounting and financial reporting standards. Concepts Statements do not prescribe the accounting and financial reporting standards that apply to a particular item or event.

This Concepts Statement establishes concepts for measurement of elements of financial statements. The Concepts Statement addresses both measurement approaches and measurement attributes. The measurement approach identifies the point in time to which the amount reported for an element of financial statements directly refers. The choice of a measurement approach determines whether an asset or liability presented in a financial statement should (1) be reported at an amount that reflects a value at the date the asset was acquired or the liability was incurred or (2) be remeasured and reported at an amount that reflects a value at the financial statement date. A measurement attribute is the feature or characteristic of the asset or liability that is measured.

This Concepts Statement establishes the two measurement approaches that are used in financial statements, as follows:

- **Initial-Transaction-Date-Based Measurement (Initial Amount)**—The transaction price or amount assigned when an asset was acquired or a liability was incurred, including subsequent modifications to that price or amount that are derived from the amount at which the asset or liability was initially reported.
- **Current-Financial-Statement-Date-Based Measurement (Remeasured Amount)**—The amount assigned when an asset or liability is remeasured as of the financial statement date.

This Concepts Statement identifies circumstances in which one measurement attribute is more appropriate than the other. *Initial amounts* are more appropriate for assets that are used directly in providing services. *Remeasured amounts* are more appropriate for assets that will be converted to cash (financial assets). *Remeasured amounts* also are more appropriate for liabilities for which there is uncertainty about the timing and amount of payments.

This Concepts Statement also establishes the four measurement attributes that are used in financial statements, as follows:

- **Historical cost** is the price paid to acquire an asset or the amount received pursuant to the incurrence of a liability in an actual exchange transaction.
- **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- **Replacement cost** is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the measurement date.
- **Settlement amount** is the amount at which an asset could be realized or a liability could be liquidated with the counterparty, other than in an active market.

How This Concepts Statement Improves Financial Reporting

This Concepts Statement improves financial reporting by augmenting the framework through which the Board maintains consistency in standards setting. These concepts address measurement, which is a necessary component of a complete framework for reporting in traditional financial statements. These concepts also may benefit preparers and auditors when evaluating transactions for which there are no existing standards or in implementing existing standards.

Purpose and Scope

1. Concepts Statements are intended to provide a framework of interrelated objectives and fundamental principles that can be used as a basis for establishing consistent accounting and financial reporting standards. The conceptual framework provides the Board with the basic conceptual foundation for the development of accounting and financial reporting standards and for consideration of the merits of alternative approaches to accounting and financial reporting. Concepts Statements also assist preparers, auditors, and users of state and local government financial statements to better understand the fundamental concepts underlying accounting and financial reporting standards in the governmental environment. Concepts Statements are not used to prescribe the accounting and financial reporting standards that apply to a particular item or event.

2. Existing accounting and financial reporting pronouncements may be inconsistent with the concepts in this Concepts Statement. However, this Concepts Statement does not (a) require a change in existing generally accepted accounting principles either for accounting and financial reporting for specific transactions or for presentation of financial statements or (b) amend, modify, or interpret established accounting principles.

3. The objective of this Concepts Statement is to identify concepts for the Board to consider when developing standards for measurement of elements of financial statements. This Concepts Statement addresses both measurement approaches and measurement attributes. The choice of a measurement approach determines whether an asset or liability presented in a financial statement should (a) be reported at an amount that reflects a value at the date the asset was acquired or the liability was incurred or (b) be remeasured and reported at an amount that reflects a value of the asset or liability at the date of the financial statements. A measurement attribute is the feature or characteristic of the asset or liability that is measured.

4. The scope of this Concepts Statement is measurement of elements for traditional financial statements of state and local governments. In the context of this Concepts Statement, traditional financial statements consist of a statement of financial position prepared as of a certain date and a statement of resource flows prepared for a period ended as of that date. The statements articulate through the element of net position. Traditional financial statements present a single measurement for each item presented. Other types of financial statements, measurement approaches, and measurement attributes may be appropriate for information presented in other methods of communication used in general purpose external financial reporting, including notes, required supplemental information, and supplemental information to traditional financial statements.

Measurement Approaches in Financial Statements

5. Measurement is the act or process of determining a value for the elements presented in financial statements. Concepts Statement No. 4, *Elements of Financial Statements*, defines the elements of financial statements, which include assets, liabilities, deferred outflows of resources, deferred inflows of resources, net position, outflows of resources, and inflows of resources.

6. The measurement approach identifies the point in time to which the amount reported for an element of financial statements directly refers. There are two measurement approaches for elements of traditional financial statements.

- *Initial-Transaction-Date-Based Measurement (Initial Amount)*—The transaction price or amount assigned when an asset was acquired or a liability was incurred, including subsequent modifications to that price or amount that are derived from the amount at which the asset or liability was initially reported.
- *Current-Financial-Statement-Date-Based Measurement (Remeasured Amount)*—The amount assigned when an asset or liability is remeasured as of the financial statement date.

7. In applying either measurement approach, various measurement attributes may be used. Measurement attributes are discussed in paragraphs 34–43.

Focus on Assets and Liabilities

8. Measurement concepts focus on assets and liabilities because assessment of whether remeasurement is appropriate is directly relevant only for assets and liabilities. Evaluation of the measurement approach for deferred outflows of resources and deferred inflows of resources is not included in this Concepts Statement because measurement of deferred outflows of resources and deferred inflows of resources is based on the measurement of the related asset or liability, either at the initial date of the transaction or at a subsequent financial statement date. Evaluation of measurement approaches for outflows of resources and inflows of resources also is not included because outflows of resources and inflows of resources result from (a) the acquisition or consumption of assets, (b) the incurrence or satisfaction of liabilities, or (c) increases or decreases in existing assets or liabilities (or deferred outflows of resources or deferred inflows of resources). As such, measurement of outflows of resources and inflows of resources is determined through measurement of other elements. Evaluation of the measurement approach for the element of net position also is not included because net position is defined in Concepts Statement 4 as the residual of the other elements in the statement of net position.

9. It is expected that one measurement approach will be applied to certain assets and liabilities and that the other measurement approach will be applied to other assets and liabilities. Applying a single measurement approach to all assets and liabilities would reduce the ability of financial statements to meet as many of the objectives of financial reporting described in Concepts Statement No. 1, *Objectives of Financial Reporting*, as possible and would reduce the alternatives for achieving an appropriate balance among the qualitative characteristics of information.

Initial Amounts

10. The initial amount at which an asset or a liability is reported may be determined in a variety of ways according to the nature of the asset or liability, with the goal of reporting it at an amount that reflects a value at the transaction date (when the asset was acquired or liability incurred).

11. The amount at which an asset or liability is initially reported may be adjusted over time, such as through depreciation or impairment. The resulting net amount still is considered to be an initial amount because it is derived from the amount at which the asset or liability was initially reported. Long-lived assets reported at initial amounts generally are associated with cost allocations to reporting periods. Balances of long-lived assets net of cost allocations are considered a form of initial amount.

12. Certain features of an asset or a liability may make identification of an initial amount difficult. For example:

- Costs associated with some asset acquisitions, such as installation costs, generally are considered to be part of the initial amount of the asset.
- More than one asset may be acquired or liability incurred in a single transaction, requiring the total transaction amount to be allocated to its components.
- The initial amounts of certain assets may include allocations that are inherently subjective in nature, such as overhead allocations to self-constructed assets or allocations of costs to reporting periods.

These features present practical issues to be resolved in standards setting and do not present conceptual disadvantages to the use of initial amounts as the measurement approach.

Remeasured Amounts

13. Remeasured amounts reflect the conditions in effect at the financial statement date and may be determined using a number of methods. Remeasurement changes the amount reported for an asset or liability from an initial amount or previous remeasured amount to an amount indicative of a value at the financial statement date. Remeasured amounts establish a new carrying value for the asset or liability that is determined without reference to previously reported amounts.

Considerations for Evaluation of the Measurement Approaches

14. This Concepts Statement builds upon the existing components of the GASB's conceptual framework. Concepts Statement 1, in particular, provides support for evaluating the measurement approaches. The overriding criterion in evaluating the measurement approaches is the degree to which the use of the measurement approach promotes achievement of the applicable objectives of financial reporting, with consideration of the qualitative characteristics of information in financial reporting. The objectives of financial reporting reflect the needs of users of financial statements. For this purpose, the applicable objectives of financial reporting are those that contain components that can be met through traditional financial statements. These objectives include providing information about:

- The relationship between current-year revenues and the cost of providing current-year services
- The sources and uses of financial resources
- How the governmental entity financed its activities and met its cash requirements
- Whether the entity's financial position improved or deteriorated as a result of the year's operations (activities)
- The financial position and condition of a governmental entity to be used in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due
- A governmental entity's physical and other nonfinancial resources having useful lives that extend beyond the current year, including information that can be used to assess the service potential of those resources.

15. Some objectives are met only through a statement of financial position, some only through a resource flows statement, and some through both. It is possible that application of one of the measurement approaches might promote an objective met through a statement of financial position, and application of the other measurement approach might promote a different objective met through a resource flows statement. However, only a single measurement approach should be applied to a specific asset or liability in traditional financial statements. If that measurement approach is to report a remeasured amount, then remeasurement gains or losses generally should be reported in the resource flows statement. Such remeasurement gains and losses generally cannot be reported as deferred outflows of resources and deferred inflows of resources because they relate to the current reporting period, not to future periods.

16. In addition, the qualitative characteristics of understandability, reliability, relevance, timeliness, and comparability should be considered when evaluating measurement approaches. The qualitative characteristic of consistency is not directly applicable to the evaluation of the measurement approaches. Rather, applying measurement approaches and measurement attributes in the same manner from period to period promotes consistency. In addition to the qualitative characteristics, the limitations identified by cost-benefit analyses should be considered.

Objectives of Financial Reporting, Qualitative Characteristics, and Cost-Benefit Limitations

Relationship to the Objectives of Financial Reporting

17. Financial reporting should help users assess whether current-year revenues are sufficient to pay for the services provided that year and whether future taxpayers will be required to assume burdens for services previously provided—an assessment of interperiod equity.[1] The cost of current-year services associated with assets used to provide those services described in the objectives of financial reporting traditionally has been viewed as a historical cost-based notion. In the assessment of whether current-year revenues cover the cost of the government's services, the most relevant cost associated with these assets is the cost that has been incurred by the government—the cost based on the initial amount. By contrast, costs that have not been incurred for assets used to provide services—those based on remeasured amounts—do not reflect a burden on current resource providers. Replacing the service capacity of assets used to provide current service is a future event. Consequently, the use of initial amounts for assets used to provide services, such as capital assets and prepaid items, is consistent with the objective of providing information about the cost of current-year services.

18. Initial amounts generally are not as useful as remeasured amounts in providing information to assess financial position, including the service potential of assets and the ability to meet obligations when due. A statement of financial position includes assets acquired and liabilities incurred at varying points in time. Critical factors such as prices and interest rates change over time. Assets and liabilities measured using initial amounts will reflect the prices and interest rates at their respective transaction dates, not at the financial statement date. Remeasured amounts, however, would provide better information about the remaining service potential of assets at the financial statement date. For assets that will be used in providing services, a remeasured amount reflects an assessment of the value that the use of those assets will provide in the future. For assets that will be converted to cash, a remeasured amount better reflects the current value of the cash flows that the assets are expected to produce. Understanding of financial position is enhanced when liabilities are presented at a remeasured amount because a remeasured amount generally provides a better assessment of the magnitude of resources that are expected to be needed currently to satisfy the obligation. When remeasured amounts are used in the statement of financial position, those assets and liabilities have more meaning because they reflect a value as of a common date.

19. It may not be possible to report some assets or liabilities using a measurement approach that promotes the objectives of both (a) providing information about the cost of current-year services and (b) providing information about the financial position of a governmental entity to be used in assessing the level of services that can be provided by the governmental entity. When only one measurement approach is applied for a specific asset or liability, one objective will necessarily be given priority over the other. In these circumstances, the cost-of-services information has greater relevance in the governmental environment than the service-potential information because of the importance of providing information that can be used to assess interperiod equity.

20. Use of remeasured amounts generally results in reporting gains and losses in a resource flows statement. Reporting of gains and losses based upon remeasurement of assets and liabilities provides better information to assist in determining whether the entity's financial position improved or deteriorated as a result of the year's operations (activities).

Qualitative Characteristics

> Understandability

21. The understandability characteristic recognizes that users of financial statements have varying levels of knowledge about financial reporting and that information should be presented as simply as possible. It does not, however, preclude presenting information only because it may be difficult to understand. Remeasurement of assets and liabilities and the reporting of unrealized gains and losses resulting from remeasurement may be less understandable than use of initial amounts for some types of assets and liabilities, such as capital assets.

> Reliability

22. The reliability of information about assets and liabilities reported using initial amounts generally is high. However, determining initial amounts may involve complexities that affect the faithful representation of initial amounts. The need to allocate the initial amounts of certain assets to periods may decrease reliability of the information because judgments may be needed to determine allocation periods. However, this concern can be addressed through communication methods other than recognition and display in financial statements, such as through an explanatory disclosure in the notes to the financial statements.

23. Assessing reliability of remeasured amounts may be complex. Reliability of remeasured amounts varies depending upon circumstances. Certain types of assets and liabilities can be remeasured reliably. These would include assets and liabilities for which there are active markets. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. With an active market, there is little doubt that a government could have sold the asset or transferred the liability at the remeasured amount at the financial statement date if it had chosen to do so. A stock exchange and the market for most U.S. Treasury securities are examples of active markets.

24. Some assets and liabilities can be remeasured with sufficient reliability because there is a valuation methodology that is verifiable, widely accepted as representationally faithful, and reasonably free from bias. For example, a remeasured amount for many financial instruments, whether receivables or payables, can be determined by computing the present value of the expected cash flows. Reliability does not imply precision or certainty. However, as uncertainty associated with the estimates used in determining the remeasured amount increases, such as with determination of the appropriate discount rate in conjunction with changes in the creditworthiness of the payer, the reliability of the measurement decreases. Some assets and liabilities are so unusual that the estimates used in determining remeasured amounts are uncertain to the extent that the resulting remeasured amounts would not be sufficiently reliable. In other circumstances, however, remeasured amounts are more reliable because remeasurement incorporates the effect of more recent events and changes in circumstances in the estimates of the cash flows. A measurement that is biased would be inconsistent with the qualitative characteristic of reliability.

25. Some assets and liabilities do not trade in active markets, yet are traded in reasonably well-organized markets in which transactions involving similar assets or liabilities occur with some frequency. The markets for common types of vehicles or certain types of real estate are examples. These remeasured amounts would be sufficiently reliable when based on recent sales of similar items.

> Relevance

26. Relevance requires the presence of many of the other qualitative characteristics. For example, if the information provided in a financial report is not timely or reliable, it may not be relevant. However, information can meet all other characteristics and still not be relevant. To be relevant, there should be a close logical relationship between the information provided and the purpose for which it is needed. The objectives of financial reporting identify the information that users of financial statements need for making decisions. Measurements are relevant when they promote the objectives of financial reporting.

> Timeliness

27. Timeliness does not limit measurement to the use of initial amounts. The effect that using remeasured amounts has on the ability to provide timely information may vary depending on the extent of the measurement procedures and the availability of the information needed. In some circumstances, concerns regarding the potential effect of remeasurement on the timeliness of financial reporting can be addressed through sufficient planning.

> Comparability

28. Information about governments is comparable when it is presented using the same accounting principles. Thus, when governments report different information, it should be due to differences in their underlying transactions. Initial amounts provide greater comparability for cost-of-services information, which includes the cost of the use of capital assets in providing services. Use of initial amounts reflects differences in cost of services, which may be due to one government acquiring the capital assets used in providing services at a time when prices were more or less favorable than when another government acquired its capital assets. Use of remeasured amounts would result in not reporting this difference in cost of services.

29. Remeasured amounts provide greater comparability than initial amounts for information reported in a statement of financial position, including information that can be used to assess the service potential of the resources reported. Remeasurement results in measurements of assets and liabilities as of the same point in time. By contrast, use of initial amounts results in measurements of assets and liabilities at the various respective dates when they were acquired or incurred. Comparability would be further enhanced through use of both the same measurement attribute and the same measurement method.

Cost-Benefit Limitations

30. The cost of producing information should be considered in relation to the expected benefits provided by that information. Costs associated with continuing to report assets and liabilities at their initial amounts generally are minimal and do not limit the use of initial amounts. The cost of determining a remeasured amount is low when there are active markets for the asset or liability such that remeasurement can be made by reference to recent transaction prices. The cost of determining a remeasured amount may be higher for assets and liabilities that do not trade in active markets or for which the methodologies for remeasurement are complex and may require specific expertise. However, a significant cost for remeasurement does not automatically rule out the use of a remeasured amount. Failure to remeasure may lead to incomplete or misleading information being reported in financial statements. This is the case for liabilities associated with significant uncertainties, such as certain pollution remediation obligations.

Application of Measurement Approaches

Assets Used Directly in Providing Services

31. As previously noted, initial amounts are more appropriate for assets that are used directly in providing services. The objectives of financial reporting that are most relevant to the selection of a measurement approach for assets used directly in providing services are (a) providing information about the cost of current-year services and (b) providing information that can be used to assess the remaining service potential of assets. The amounts that are reported in a statement of resource flows related to assets used directly in providing services are a component of the information presented to meet the objective of providing information about the cost of current-year services. As discussed in paragraph 17, initial amounts are more appropriate for reporting information on cost of services. On the other hand, the amounts reported in a statement of financial position relate to the objective of providing information that can be used to assess the remaining service potential of assets used directly in providing services, and remeasured amounts generally would better represent the value of that service potential. If only one measurement approach can be applied for a specific asset or liability, one objective has to be viewed as more important in this circumstance. For assets used directly in providing services, the cost-of-services information has greater relevance to financial statement users than the service-potential information because of the importance of providing information that can be used to assess interperiod equity. Additionally, application of initial amounts to assets that are used directly in providing services is supported by cost-benefit and timeliness considerations. The cost of reporting assets used directly in providing services at a remeasured amount frequently is greater than the cost of reporting them at their initial amounts and may negatively affect timeliness of financial reporting.

Assets That Will Be Converted to Cash

32. Remeasured amounts are more appropriate for assets that will be converted to cash (for example, financial assets). A remeasured amount provides better information about financial assets for assessing financial position and the ability to satisfy obligations as they become due. The usefulness of financial assets is in their conversion to cash—whether through the sale of the asset or the cash proceeds it generates through the course of ownership of the asset—which can then be used to acquire services or to meet existing obligations. A remeasured amount is most relevant to the objective of assessing financial position and the ability to satisfy obligations as they become due because it presents financial assets using a consistent scale of measurement—that of values related to the date of the financial statements. Some remeasured amounts take into account the time value of money—acknowledgement that amounts that will be collected further into the future generally are less valuable than the same amounts that will be collected closer to the financial statement date. Remeasured amounts for financial assets also are understandable to users of financial statements, are sufficiently reliable, and provide information that is useful for comparing one government to another. Use of remeasured amounts for financial assets generally does not raise concerns with timeliness or cost of financial reporting, except in circumstances in which the applicable valuation model is highly complex or may require use of professional expertise of other disciplines.

Variable-Payment Liabilities

33. Remeasured amounts are more appropriate for liabilities for which there is uncertainty about the timing and amount of payments (variable-payment liabilities), such as with compensated absences or pollution remediation obligations. Remeasured amounts for variable-payment liabilities incorporate additional information about the amount and timing of the payments. More relevant information about the government's financial position is provided by using remeasured amounts for variable payment liabilities because they more faithfully represent the amount of resources the government needs to sacrifice in order to satisfy the liabilities. The related cost-of-services information should reflect the most accurate cost, and the most recent estimate for these types of liabilities is the most relevant cost to the government. Because the estimates consider additional information and the resulting amount is closer to final settlement amounts, remeasured amounts for variable-payment liabilities are more understandable and reliable. Remeasured amounts for variable-payment liabilities are more comparable than initial amounts because remeasured amounts reflect measurements at the same point in time. Generally, there is a higher cost associated with remeasuring variable-payment liabilities, sometimes because additional professional expertise is needed; however, there also is a cost to the user of outdated or misleading information. Cost constraints and potential timeliness issues generally do not preclude the use of remeasured amounts for liabilities for which there is uncertainty about the timing and amount of payments.

Measurement Attributes

34. Another dimension to measurement is the particular measurement attribute that is used, regardless of whether measurement is made as an initial amount or as a remeasured amount. A measurement attribute is the particular characteristic of an asset or liability that is being measured. There are four measurement attributes for elements of traditional financial statements: historical cost,[2] fair value, replacement cost, and settlement amount.

Historical Cost

35. Historical cost is the price paid to acquire an asset or the amount received pursuant to the incurrence of a liability in an actual exchange transaction. Historical cost is an entry price and can only be used when measuring initial amounts.

36. Use of historical cost, particularly with assets used in providing services, generally results in a cost-of-services amount that is relevant for assessing interperiod equity. However, use of historical cost presents challenges when presenting information about assets and liabilities that is comparable and useful for assessing financial position. Assets and liabilities presented at historical cost reflect the prices at the dates of transactions, rather than at the financial statement date. Consequently, amounts presented may reflect prices at multiple dates and may impede the ability (a) to compare this information with that of other entities, (b) to understand the service potential embodied in assets, and (c) to assess the amount of resources that will be required to satisfy liabilities.

37. Historical cost typically is an amount that is readily determinable with minimal cost, is considered to be understandable and reliable, and does not adversely affect the timeliness of financial reporting. At times, however, complications such as allocation of costs of a single transaction to the multiple items acquired, or reductions in the reported original cost to represent the estimated usage of an asset over time, can reduce the understandability and reliability of the reported measure.

Fair Value

38. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is an exit price. The market to which the definition of fair value refers is the principal market or, when there is not a principal market, the entity's most advantageous market. For nonfinancial assets, the price should represent the value of the asset at its highest and best use as determined by market participants. The highest and best use notion takes into account uses that are physically possible, legally permissible, and financially feasible. For liabilities, the price should take into consideration the credit standing of the entity. Multiple valuation techniques may be used to measure fair value.

39. Fair value is appropriate for use either as an initial amount or as a remeasured amount. Fair value could be applied as an initial amount in circumstances in which a historical cost amount is not available, typically because the asset or liability did not arise from an exchange transaction or because the asset or liability was acquired in a group without amounts assigned to the individual assets and liabilities in the group. Relevance of the use of fair value to presenting information that promotes the objectives of financial reporting is tied to (a) whether it is applied as an initial amount or a remeasured amount and (b) the nature of the asset or liability being measured. The extent to which a fair value is understandable, reliable, and timely depends upon the techniques and inputs used to measure fair value. Comparability of information in a statement of financial position is improved when fair value is used as a remeasured amount. Fair value generally is not appropriate for assets that will be used directly to provide services because fair value is an exit price and governments will not be selling or otherwise exiting from these assets.

Replacement Cost

40. Replacement cost is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the measurement date. Replacement cost generally is considered to be appropriate only for assets that will be used in providing services, rather than assets that will be converted to cash. Replacement cost is an amount that reflects an entry value. Because this measurement attribute reflects the entity-specific service potential of an asset, it may or may not reflect (a) the highest and best use of the asset from the perspective of market participants or (b) an identical asset. A measurement of an asset at the initial transaction date using the replacement cost measurement attribute is referred to as *acquisition value*. Acquisition value may be used in circumstances in which historical cost is not available, typically when the asset did not arise from an exchange transaction or when the asset was acquired as part of a group of items without values assigned to the individual items in the group.

41. Consistent with the considerations regarding the use of initial and remeasured amounts, the use of replacement cost in conjunction with the application of the remeasured approach generally results in a cost-of-services amount that is less relevant for assessing interperiod equity than the use of either acquisition value or historical cost. Use of replacement cost in conjunction with the application of the remeasured approach, however, provides information about assets that is more comparable and useful for assessing financial position. The cost of determining replacement cost, along with the effect on understandability, reliability, and timeliness of financial reporting, varies depending upon the specific method of determining the amount.

Settlement Amount

42. Settlement amount is the amount at which an asset could be realized or a liability could be liquidated with the counterparty, other than in an active market. A settlement amount can be either (a) the amount that the counterparty would accept to settle the liability or would pay to satisfy a receivable at the measurement date or (b) the amount that will be realized from an asset or will be needed to liquidate the liability in due course according to the terms of the arrangement between the government and the counterparty. A settlement amount may be an undiscounted amount (which generally is the case for assets and liabilities with short durations) or a discounted amount (which generally is the case for assets and liabilities with long durations). In circumstances in which the acquisition of an asset or incurrence of a liability is related to activities that occur in multiple reporting periods, a settlement amount also may be a proportion of the amounts expected to be received or paid. Settlement amount generally is not appropriate for (a) assets and liabilities for which there is no counterparty or (b) assets and liabilities that are likely to be realized or settled through a transaction in a market. A measurement of a liability at the initial transaction date using the settlement amount measurement attribute is sometimes referred to as *acquisition value*.

43. Settlement amount can be used in either an initial measurement approach or a remeasured approach. When used as a remeasured amount, settlement amount provides more relevant information for use in assessing an entity's financial position and information that is more comparable with information of other entities. The cost of determining settlement amount, along with the effect on understandability, reliability, and timeliness of financial reporting, varies depending upon the nature of the asset or liability being measured and the relative certainty or uncertainty of projected cash flows and other inputs to the measurement.

Appendix A: Background Information

[Appendix A of Concepts Statement 6 has not been reproduced in this Codification. See Original Pronouncements, GASB Concepts Statement 6, Appendix A.]

Appendix B: Basis for Conclusions and Dissent

[Appendix B of Concepts Statement 6 has not been reproduced in this Codification. See Original Pronouncements, GASB Concepts Statement 6, Appendix B.]

Appendix C: Codification Instructions

[Appendix C of Concepts Statement 6 has not been reproduced in this Codification.]

GASB Concepts Statement No. 7

In June 2022, the GASB issued Concepts Statement No. 7, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements*. Because Concepts Statements are not a source of established accounting principles, this Concepts Statement has not been integrated into the Codification, but instead has been reproduced here (without appendices).

Summary

This Concepts Statement is one of a series of Concepts Statements that the GASB has issued or will issue. Concepts Statements are intended to provide a conceptual framework of interrelated objectives and fundamental principles that can be used as a basis for establishing consistent accounting and financial reporting standards.

Concepts Statements identify the objectives and fundamental principles that can be applied to address numerous accounting and financial reporting issues. They assist the GASB in considering the merits of alternative approaches and facilitate the development of well-reasoned accounting and financial reporting standards. Concepts Statements also assist preparers, auditors, users, and other stakeholders to better understand the fundamental concepts underlying accounting and financial reporting standards. Concepts Statements do not, however, prescribe the accounting and financial reporting standards that apply to a particular item or event.

This Concepts Statement supersedes paragraphs 35–39 of Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements,* which address the communication method of disclosure in notes to financial statements.

This Concepts Statement describes the purpose of notes to financial statements and the users of those notes. It also defines the following criteria for disclosing information items in notes to financial statements:

- The types of information disclosed in notes to financial statements
- The types of information that are not appropriate for notes to financial statements
- The degree of importance that information disclosed in notes to financial statements should possess.

Information that is *essential,* as that term is used in this Concepts Statement, describes the degree of importance that information included in the notes to financial statements should possess. The following are the characteristics of essential information:

- The information has or is expected to have a meaningful effect on users' analyses for making decisions or assessing accountability.
- A breadth or depth of users utilize or are expected to utilize the information in their analyses for making decisions or assessing accountability.

The concepts included in this Concepts Statement establish that information disclosed in notes to financial statements should correspond to the reporting units presented in the financial statements.

How This Concepts Statement Improves Financial Reporting

This Concepts Statement improves financial reporting by enhancing the framework through which the GASB maintains consistency in standards setting. These concepts will be used to establish and reexamine requirements for notes to financial statements, which are an integral component of basic financial statements. The concepts also may benefit preparers and auditors in certain circumstances when evaluating potential information (based on the hierarchy of generally accepted accounting principles) to be included in notes to financial statements for which there are no specific existing authoritative standards.

Introduction

1. Disclosure in notes to financial statements is one of the four methods of communicating information in general purpose external financial reports identified in Concepts Statement No. 3, *Communication Methods in General Purpose External*

Financial Reports That Contain Basic Financial Statements. The primary objective of this Concepts Statement is to establish concepts for evaluating whether information is appropriate for disclosure in notes to financial statements.

2. Concepts Statements do not establish authoritative guidance for accounting and financial reporting. This Concepts Statement primarily is intended to provide the GASB with criteria to consistently evaluate notes to financial statements in the standards-setting process. The fundamental concepts also may be used by preparers, auditors, users, and other stakeholders in understanding the conceptual foundation for notes to financial statements.

Purpose and Scope of this Concepts Statement

3. This Concepts Statement provides a framework of interrelated objectives and fundamental principles that can be used to establish consistent accounting and financial reporting standards for notes included in basic financial statements (hereafter referred to as notes to financial statements or note disclosures). The conceptual framework facilitates the development of accounting and financial reporting standards and the consideration of the merits of alternative approaches to accounting and financial reporting. This Concepts Statement may be used by preparers and auditors when applying the hierarchy of generally accepted accounting principles (GAAP) in assessing specific information items in certain circumstances for which there is no authoritative note disclosure guidance. Concepts Statements also may be used by all stakeholders to better understand the fundamental concepts underlying accounting and financial reporting standards for state and local governments. Concepts Statements are not used to prescribe the accounting and financial reporting standards that apply to a particular item or event.

4. The four communication methods defined in Concepts Statement 3 have a hierarchical relationship. This Concepts Statement does not modify the relationship of notes to financial statements to the other communication methods in the selection of the most appropriate communication method.

5. This Concepts Statement establishes concepts for note disclosures included in basic financial statements issued by state and local governments. Existing financial reporting pronouncements may be inconsistent with the concepts in this Concepts Statement. This Concepts Statement does not (a) require a change in existing GAAP for financial reporting or (b) amend, modify, or interpret established financial reporting principles.

6. This Concepts Statement supersedes paragraphs 35–39 of Concepts Statement 3.

Notes to Financial Statements

Purpose of Notes to Financial Statements

7. The purpose of notes to financial statements is to provide information that (a) explains, describes, or supplements the financial statements and (b) is essential to users in making economic, social, or political decisions or assessing accountability. Notes to financial statements are integral to basic financial statements; they are necessary to make the basic financial statements complete.

Users of Notes to Financial Statements

8. In the context of this Concepts Statement, users of notes to financial statements are responsible for (a) obtaining a reasonable understanding of government and public finance activities and of the fundamentals of governmental financial reporting, (b) studying the information with reasonable diligence, and (c) applying relevant analytical skills.

Criteria for Disclosing Information Items in Notes to Financial Statements

9. The types of information in notes to financial statements are as follows:

a. Descriptions of the accounting and finance-related policies underlying amounts recognized in financial statements
b. More detail about or explanations of amounts recognized in financial statements
c. Information related to financial position or inflows and outflows of resources that does not meet the criteria for recognition
d. Other finance-related information associated with the accountability of the government.

Notes to financial statements may be narrative or quantitative with appropriate explanations and may include measures other than dollars.

10. The following types of information are not appropriate for notes to financial statements:

a. Subjective assessments of the effects of reported information on the government's future financial position, other than expectations and assumptions about the future that are inputs to current measures in the financial statements or notes to financial statements
b. Predictions about the effects of future events on future financial position
c. General or educational information that is not specific to the government.

11. Notes to financial statements are essential to users in making economic, social, or political decisions or assessing accountability. The term *essential,* as used in this Concepts Statement, conveys the degree of importance that information contained in notes to financial statements should possess. The following are the characteristics of essential information:

a. The information has or is expected to have a meaningful effect on users' analyses for making decisions or assessing accountability.
b. A breadth or depth of users utilize or are expected to utilize the information in their analyses for making decisions or assessing accountability.

12. The determination of whether information is essential is informed by the degree to which the characteristics in paragraph 11 are present. Those characteristics should be evaluated in combination to make that determination. The use of professional judgment generally will be necessary to evaluate the characteristics of essentiality and, therefore, determine whether information is essential.

13. The determination of whether information is essential should relate to individual information items. That is, each item disclosed should possess the characteristics of essentiality.

14. Information that meets the criteria for notes to financial statements should be reported in that manner. Presentation as supporting information is not an adequate substitute for disclosure in notes to financial statements.

Notes to Financial Statements and Reporting Units

15. Information in a government's financial statements is presented by reporting units. The information contained in notes to financial statements includes descriptions, explanations, or more detail about the financial position, changes in financial position, or, if applicable, cash flows of the reporting units of the government. Notes to financial statements should provide information that corresponds to the reporting units presented in the financial statements.

Considerations Related to Benefits and Costs for Notes to Financial Statements

16. Notes to financial statements are affected by the limitations of governmental financial reporting, including considerations of the expected benefits resulting from the information in notes to financial statements relative to the perceived costs of disclosing that information.

Appendix A: Background Information

[Appendix A of Concepts Statement 7 has not been reproduced in this Codification. See Original Pronouncements, GASB Concepts Statement 7, Appendix A.]

Appendix B: Basis for Conclusions and Dissent

[Appendix B of Concepts Statement 7 has not been reproduced in this Codification. See Original Pronouncements, GASB Concepts Statement 7, Appendix B.]

Appendix C: Codification Instructions

[Appendix C of Concepts Statement 7 has not been reproduced in this Codification.]

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[1]Appendix B, GASB Concepts Statement 1, Footnote 1—Because the scope of NCGA Concepts Statement 1 includes accounting as well as financial reporting objectives, the Board [considered] it to be a useful reference [until it completed its financial reporting project, and previously it was included in the GASB *Codification of Governmental Accounting Standards.* Currently, it is included in the GASB Original Pronouncements.]

[2]Appendix B, GASB Concepts Statement 1, Footnote 2—This discussion of users and uses of governmental general purpose external financial reporting is based in part on the October 1985 GASB staff Research Report, *The Needs of Users of Governmental Financial Reports.*

[3]Appendix B, GASB Concepts Statement 1, Footnote 3—For governments that prepare biennial budgets, interperiod equity encompasses that two-year period. Multiyear information may also be used to assess interperiod equity over the longer term.

[4]Appendix B, GASB Concepts Statement 1, Footnote 4—The essential characteristics of information in financial reports and the limitations of financial reporting, as they appear in paragraphs 63–73 of this Statement, are discussed in detail in FASB Concepts Statements No. 1, *Objectives of Financial Reporting by Business Enterprises,* and No. 2, *Qualitative Characteristics of Accounting Information.* Readers interested in a more detailed discussion of these issues are referred to those two FASB Statements.

[5]Appendix B, GASB Concepts Statement 1, Footnote 5—For some items it may be sufficient to demonstrate compliance by identifying items or instances of noncompliance.

[1]Appendix B, GASB Concepts Statement 2, Footnote 1—For example, see Harry P. Hatry and Others, *How Effective Are Your Community Services? Procedures for Measuring Their Quality.* 3rd ed. (Washington, DC: The Urban Institute and International City/County Management Association, 2006). [GASBCS 2, fn21, as amended by GASBCS 5, ¶5]

[2]Appendix B, GASB Concepts Statement 2, Footnote 2—SEA reporting was first identified in the state and local government conceptual framework in National Council on Governmental Accounting (NCGA) Concepts Statement 1, *Objectives of Accounting and Financial Reporting for Governmental Units* (1982). NCGA Concepts Statement 1 stated that "the overall goal of accounting and financial reporting for governmental units is to provide: 1) financial information useful for making economic, political and social decisions, and demonstrating accountability and stewardship; and 2) information useful for evaluating managerial and organizational performance" (paragraph 8). For more detail, see paragraph 9.V. of NCGA Concepts Statement 1. [GASBCS 5, ¶5]

[3]Appendix B, GASB Concepts Statement 2, Footnote 3—David H. Rosenbloom, *Public Administration: Understanding Management, Politics, and Law in the Public Sector,* 2nd ed. (New York: Random House, 1989), p. 6. [GASBCS 2, fn1]

[4]Appendix B, GASB Concepts Statement 2, Footnote 4—For examples of this or similar processes, see Thomas D. Lynch, *Public Budgeting in America* (Englewood Cliffs, NJ: Prentice-Hall, 1979), pp. 23–25; Peter F. Drucker, *Management: Tasks, Responsibilities, Practices* (New York: Harper & Row, 1974), pp. 158 and 159; and State of Connecticut, Office of Policy and Management, *"Best Practices" in Gubernatorial Management of State Government* (Hartford, July 1991). [GASBCS 2, fn2]

[5]Appendix B, GASB Concepts Statement 2, Footnote 5—Irwin D. J. Bross, *Design for Decision* (New York: Macmillan, 1953), pp. 19–21 and 150–152. [GASBCS 2, fn3]

[6]Appendix B, GASB Concepts Statement 2, Footnote 6—As used in this Concepts Statement, *services* includes general governance, the establishment and enforcement of laws, the regulation of public and private activities, and the provision of products and services. [GASBCS 2, fn4]

[7]Appendix B, GASB Concepts Statement 2, Footnote 7—*Economy* has been defined as essentially a resource-acquisition concept with a least-cost notion and is concerned with the acquisition of resources of appropriate quality and quantity at the lowest reasonable cost. *Efficiency* has been defined as essentially a resource-usage concept, also with a least-cost notion, that is concerned with the maximization of outputs at minimal cost or the use of minimum input resources. *Effectiveness* has been defined as an ends-oriented concept that measures the degree to which predetermined goals and objectives for a particular activity or program are achieved. Others have included both intended and unintended results of a program as part of the measurement of effectiveness. (Lee D. Parker, *Value-for-Money Auditing: Conceptual, Development and Operational Issues* [Caulfield, Victoria: Australian Accounting Research Foundation, 1986], p. 13.) [GASBCS 2, fn5]

[8]Appendix B, GASB Concepts Statement 2, Footnote 8—The notion of equity is also used when discussing governmental goals and objectives. "Equity" is a concept that refers to the fairness, impartiality, or equality of service. Because of the complexity of determining what is equitable, for purposes of this Concepts Statement equity is included as a measurable outcome only when specific goals or objectives have been established for it. [GASBCS 2, fn6]

[9]Appendix B, GASB Concepts Statement 2, Footnote 9—Cited in Parker, *Value-for-Money Auditing,* p. 22. [GASBCS 2, fn7]

[10]Appendix B, GASB Concepts Statement 2, Footnote 10—Lesley Browder, *Who's Afraid of Educational Accountability?* (Denver: Cooperative Accountability Project, 1975). [GASBCS 2, fn8]

[11]Appendix B, GASB Concepts Statement 2, Footnote 11—J. D. Stewart, "The Role of Information in Public Accountability," in Anthony Hopwood and Cyril R. Tomkins, eds., *Issues in Public Sector Accounting* (Oxford, Eng.: Philip Allan, 1984), pp. 14 and 15; Andrew Dunsire, *Control in a Bureaucracy* (New York: St. Martin's Press, 1979); George W. Jones, *Responsibility in Government* (London: London School of Economics and Political Science, 1977). [GASBCS 2, fn9]

[12]Appendix B, GASB Concepts Statement 2, Footnote 12—Stewart, "The Role of Information," pp. 13–34. [GASBCS 2, fn10]

[13]Appendix B, GASB Concepts Statement 2, Footnote 13—Jack A. Brizius and Michael D. Campbell, *Getting Results* (Washington, DC: Council of Governors' Policy Advisors, 1991), pp. 17–21. [GASBCS 2, fn11]

[14]Appendix B, GASB Concept Statement 2, Footnote 14—Raymond K. Suutari, "Rethinking Budgeting," *CA Magazine,* October 1991, pp. 53–55; National Association of State Budget Officers (NASBO), Performance Measures Special Study Group, "The Use of Performance Measures by the States," NASBO spring meeting, Chicago, April 6, 1991. [GASBCS 2, fn12]

[15]Appendix B, GASB Concept Statement 2, Footnote 15—Thomas I. Miller and Michelle A. Miller, *Citizen Surveys: How to Do Them, How to Use Them, What They Mean* (Washington, DC: International City Management Association, 1991). [GASBCS 2, fn13]

[16]Appendix B, GASB Concept Statement 2, Footnote 16—Comptroller General of the United States, *Standards for Audit of Governmental Organizations, Programs, Activities & Functions* (Washington, DC: U.S. General Accounting Office, 1972), pp. 1 and 2. [GASBCS 2, fn14]

[17]Appendix B, GASB Concepts Statement 2, Footnote 17—The AICPA Study Group on the Objectives of Financial Statements, *Objectives of Financial Statements* (New York: AICPA, October 1973). (This is also referred to as the Trueblood Committee report.) [GASBCS 2, fn15]

[18]Appendix B, GASB Concept Statement 2, Footnote 18—Ernest J. Pavlock, Frank S. Sato, and James A. Yardley, "Accountability Standards for Corporate Reporting," *Journal of Accountancy* (May 1990), pp. 94–104; Robert Mednick, "Reinventing the Audit," *Journal of Accountancy* (August 1991), pp. 71–78; Robert G. Eccles, "The Performance Measurement Manifesto," *Harvard Business Review* (January–wwwFebruary 1991), pp. 131–137. [GASBCS 2, fn16]

[19]Appendix B, GASB Concept Statement 2, Footnote 19—Trueblood Committee report, pp. 50 and 51. [GASBCS 2, fn17]

[20]Appendix B, GASB Concept Statement 2, Footnote 20—*Cost,* has yet to be defined for purposes of SEA reporting. Appropriate measures of cost may vary based on specific SEA performance measures and the purpose or the context of the measurement. Certain components of cost such as overhead and capital asset use charges (for example, depreciation) might be appropriately included or excluded in different circumstances. [GASBCS 2, fn18, as amended by GASBCS 5, ¶8]

[21]Appendix B, GASB Concept Statement 2, Footnote 21—For many outcomes, a definite cause-and-effect relationship between the output and the outcome cannot be established because of their complex nature and factors beyond the control of the entity that affect the outcome being measured. [GASBCS 2, fn19]

[22]Appendix B, GASB Concept Statement 2, Footnote 22—This applies to services the entity is responsible for providing regardless of whether the governmental entity provides the service itself or contracts for it. [GASBCS 2, fn20]

[1]Appendix B, GASB Concepts Statement 3, Footnote 1—Concepts Statement 1, paragraphs 7, 8, and 30.

[2]Appendix B, GASB Concepts Statement 3, Footnote 2—Concepts Statement 1, paragraphs 74–79.

[3]Appendix B, GASB Concepts Statement 3, Footnote 3—The discussion of the communication of accounting information in this section of the Concepts Statement benefits from the definitive contributions of communication and accounting scholars and researchers. These contributions include those of Norton M. Bedford and Vahe Baladouni, "A Communication Theory Approach to Accountancy," *The Accounting Review* (October 1962), pp. 650–659; Vahe Baladouni, "The Accounting Perspective Re-Examined," *The Accounting Review* (April 1966), pp. 215–225; and Jacob G. Birnberg, "An Information Oriented Approach to the Presentation of Common Shareholders' Equity," *The Accounting Review* (October 1964), pp. 963–971.

[4]Appendix B, GASB Concepts Statement 3, Footnote 4— Preparers produce financial reports that contain messages that are the assertions of management. Management of a government, therefore, is the ultimate sender of messages in financial reports.

[5]Appendix B, GASB Concepts Statement 3, Footnote 5—A narrative presentation presents information using words (and possibly numbers) in the form of sentences and paragraphs. A tabular presentation presents information using rows and columns in the form of a table. A financial statement is one form of a tabular presentation that expresses in words and dollars either the financial position of the reporting unit at a moment in time or the inflows and outflows of resources during a period of time. A schedule is any other tabular presentation of information expressed in words (and possibly numbers). A graphic presentation presents information using pictorial representations, diagrams, graphs, or charts.

[6]Appendix B, GASB Concepts Statement 3, Footnote 6—Standards setters typically set minimum reporting requirements. Preparers may include additional information in their financial reports to meet the needs of users.

[7]Appendix B, GASB Concepts Statement 3, Footnote 7—The term financial position is used in a broad sense and does not refer to specific financial statements, such as a "statement of financial position." In this Statement, financial position refers to the state or status of assets, liabilities, and residual balances at a moment in time.

[1]Appendix B, GASB Concepts Statement 4, Footnote 1—[Deleted.]

[2]Appendix B, GASB Concepts Statement 4, Footnote 2—Based on *The American Heritage Dictionary of the English Language.* 4th ed. New York: Houghton Mifflin Company, 2000.

[3]Appendix B, GASB Concepts Statement 4, Footnote 3—*The American Heritage Dictionary of the English Language.* 4th ed. New York: Houghton Mifflin Company, 2000.

[4]Appendix B, GASB Concepts Statement 4, Footnote 4—Net assets are assets netted with liabilities.

[1]Appendix B, GASB Concepts Statement 6, Footnote 1—Interperiod equity is discussed in paragraphs 59–61 of Concepts Statement 1 and in paragraph 27 of Concepts Statement 4.

[2]Appendix B, GASB Concepts Statement 6, Footnote 2—*Historical cost* is the term most appropriate for assets; *historical proceeds* is the term most appropriate for liabilities. For the purposes of this Concepts Statement, however, *historical cost* is used when referring to both assets and liabilities.