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# Governmental Accounting Standards Series

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Concepts Statement No. 3 of the  
Governmental Accounting  
Standards Board

on concepts related to

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



Governmental Accounting Standards Board  
of the Financial Accounting Foundation

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## 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.

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**Governmental Accounting Standards Board**  
of the Financial Accounting Foundation  
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**on concepts related to**

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

**April 2005**

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**April 2005**

**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.<sup>1</sup> Because of the diverse nature of the information that needs to be communicated to users to meet the various objectives of financial reporting,<sup>2</sup> 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

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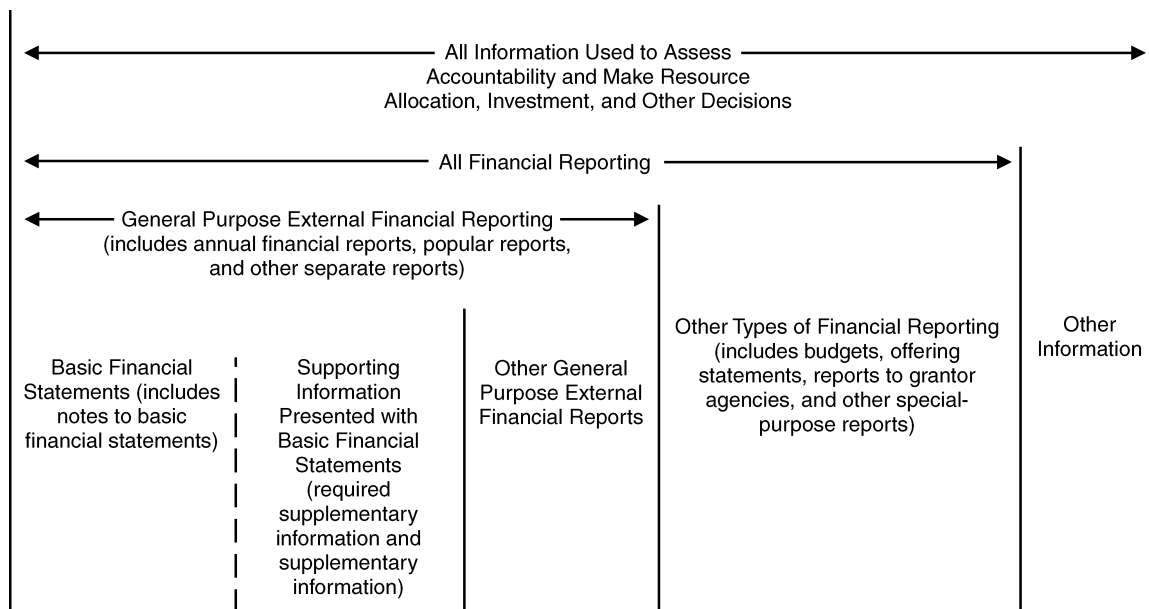
<sup>1</sup>Concepts Statement 1, paragraphs 7, 8, and 30.

<sup>2</sup>Concepts Statement 1, paragraphs 74–79.

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<sup>3</sup>

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.<sup>4</sup> 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

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<sup>3</sup>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.

<sup>4</sup>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.

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.<sup>5</sup>

### **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

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<sup>5</sup>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.

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<sup>6</sup> 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

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<sup>6</sup>Standards setters typically set minimum reporting requirements. Preparers may include additional information in their financial reports to meet the needs of users.

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<sup>7</sup> 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, and residual balances and the effects of transactions and other events that result in changes in those assets, liabilities, and residual balances.

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.

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<sup>7</sup>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.

## Notes to Financial Statements<sup>8</sup>

35. Notes to financial statements are integral to financial statements and are essential to a user's understanding of financial position or inflows and outflows of resources. Notes provide:

- 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. Additional information about financial position or inflows and outflows of resources that does not meet the criteria for recognition.

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

### Criteria for Disclosing Information Items in Notes to Financial Statements

36. Notes have a clear and demonstrable relationship to information in the financial statements to which they pertain and are essential to a user's understanding of those financial statements. In this context, "essential to a user's understanding" means so important as to be indispensable to a user (a) with a reasonable understanding of government and public finance activities and of the fundamentals of governmental financial reporting and (b) with a willingness to study the information with reasonable diligence. The use of professional judgment may be necessary for making a determination about whether an item of information is "essential to a user's understanding."

37. Unlike financial statements, notes may include management's objective explanation of recognized amounts and related known facts, contingencies, certain risks that affect financial statements, subsequent events, measurement methods, accounting policies, and other information essential to understanding the financial statements and to assess compliance with finance-related legal or contractual requirements. However, notes do not include either (a) subjective assessments of the effects of reported information on the reporting unit's future financial position or (b) predictions about the effects of future events on future financial position.

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<sup>8</sup>Notes to financial statements are considered to be an integral part of financial statements. However, for purposes of this Statement, both a financial statement and notes to financial statements are defined as separate communication methods because each is a financial reporting construct used to convey information to users.

38. Items of information that meet the definition of and criteria for notes to financial statements are reported in that manner. Presentation as supporting information is not an adequate substitute for disclosure in notes to financial statements.

### **Basic Financial Statements and Notes to Basic Financial Statements**

39. Basic financial statements and notes to basic financial statements are presentations of information that (a) meet the definition of and criteria for a financial statement or for notes to financial statements, respectively, *and* (b) are essential for communicating with users the financial position or inflows and outflows of resources of the reporting unit in conformity with generally accepted accounting principles.

### **Supporting Information**

40. 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.

41. *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.

### **Required Supplementary Information**

42. 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.

### ***Criteria for Presenting Information Items in RSI***

43. RSI has a clear and demonstrable relationship to information in the basic financial statements or notes to basic financial statements to which it pertains.

44. 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.

45. 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.

### **Supplementary Information**

46. 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.

*This Concepts Statement was adopted by unanimous vote of the seven members of the Governmental Accounting Standards Board:*

Robert H. Attmore, *Chairman*  
Cynthia B. Green  
William W. Holder  
Edward J. Mazur  
Paul R. Reilly  
Richard C. Tracy  
James M. Williams

## Appendix A

### BACKGROUND INFORMATION

47. During deliberations of the note disclosures project in the fall of 1997, the Board discussed whether specific items of information then required to be disclosed in notes to financial statements should continue to be disclosed and whether additional items should be required. These discussions often centered around individual Board members' views of the concepts of "accountability" and "decision-usefulness" of financial information. Although these concepts were somewhat helpful in determining whether an item should be included in a government's financial report, they provided little help in determining whether an item should be disclosed in notes to the financial statements, presented in required supplementary information (RSI), or presented as supplementary information. Because Board members often were not in agreement about whether items of information should be disclosed in notes or be presented elsewhere, the Board decided that it would be beneficial to reach agreement on definitions and criteria for notes to financial statements and RSI before making a determination about the placement of an item within a government's financial report.

48. In October 1997, the Board tentatively approved the scope of a project that would define and establish criteria for methods of communicating information in general purpose external financial reports. The role of the criteria would be to help the Board select the appropriate communication method for financial information in a manner that would be consistent from standard to standard. The initial discussions of the communication methods project culminated in an internal working paper titled "Tentative Definitions of Four Methods of Communication in Financial Reports and Criteria for Selecting Them: Financial Statements (Recognition), Notes, Required Supplementary Information, and Management's Discussion and Analysis," which was first circulated in January 1998. In subsequent years, this paper often has been referenced during the Board's deliberations—particularly during the financial reporting model and note disclosures projects. The tentative definition and criteria for notes to the financial statements from the working paper were reproduced in the Basis for Conclusions of Statement No. 38, *Certain Financial Statement Note Disclosures*, and the tentative definition was repeated in the Basis for Conclusions of Statement No. 40, *Deposit and Investment Risk Disclosures*.

49. Because of the importance of the working paper on communication methods in the development of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, in July 1999 the Board decided to add a conceptual framework project on communication methods to its technical agenda, and Board deliberations on the project began the next month. The Board expanded the initial scope of the project to include not only the communication methods that previously had been considered, but also the purpose and scope of general purpose external financial reporting, including definitions of economic condition and its components.

50. The Board temporarily removed the project from its active agenda in February 2002, and the project did not return to the active agenda until July 2003. At that time, the Board again considered the scope of the project and determined that the scope should be narrowed to focus on the methods of communicating information in general purpose external financial reports that contain basic financial statements and notes to basic financial statements. The Board believed that the narrower scope would result in an important addition to the accounting literature by formally defining and establishing criteria for communication methods for the first time in a Concepts Statement, while allowing the project to progress more rapidly.

51. In June 2004, the Board issued an Exposure Draft (ED), *Communication Methods*, which led to this Concepts Statement. The Board received twenty-four comment letters to the ED. As discussed in Appendix B, “Discussion of Issues Raised during Due Process,” the comments and suggestions made by respondents contributed to the Board’s deliberations in finalizing the concepts in this Statement.

## **Appendix B**

### **DISCUSSION OF ISSUES RAISED DURING DUE PROCESS**

52. The Board reviewed the responses to the Exposure Draft (ED) and discussed the positions and reasoning of the respondents. This appendix includes a discussion of the Board's consideration of respondents' comments and the Board's reasons for accepting some and rejecting others. Individual Board members gave greater weight to some factors than to others.

#### **Scope and Purpose**

53. Some respondents to the ED raised issues regarding its scope and purpose, with some suggesting an expanded scope for the Concepts Statement. Most of the issues raised had been considered by the Board when developing the ED. The Board had previously discussed the possibility of expanding the scope to include communication methods for general purpose external financial reports that do not contain basic financial statements, but decided that a narrower scope was more appropriate for this project. An important reason for that decision was a belief that the goals, objectives, and general approach to reporting in other general purpose external financial reports not structured around basic financial statements should be further developed before considering whether communication methods for such reports should be developed. The Board acknowledges in paragraph 3 of this Statement that additional communication methods may be needed if other general purpose external financial reports are developed or refined in the future.

54. Some respondents expressed concern about the reasons given in the ED for how preparers would benefit from the Concepts Statement. Although the Board believes that the GASB will be the principal user of this Statement, it continues to believe that both preparers and users will benefit. The Board believes preparers should benefit directly by being able to use the definitions and criteria in the Concepts Statement to determine the placement of information that is not required by GASB standards but that the preparer believes should be included as part of a government's general purpose external financial report. The Board modified the language in paragraph 7 of the Concepts Statement to make it clear that the definition and criteria should help preparers select appropriate communication methods for items of information that they *choose* to present.

## **Figure 1**

55. Some respondents asked for clarification regarding the distinction between “general purpose external financial reporting” and “other types of financial reporting” in Figure 1, “Information Used by Financial Report Users.” The Board decided to modify Figure 1 in this Statement to make it clear that the category of “other types of financial reporting” is reserved for special-purpose reports. The Board believes that this clarification along with the discussion of special-purpose reports and general purpose external financial reports elsewhere in the Statement should make clear the Board’s intent for each category. As explained in paragraph 4 of this Statement, special-purpose reports generally are issued to meet the needs and requirements of specific users. In contrast, paragraph 11 explains that general purpose external financial reports are used to meet the common needs of users.

### **Hierarchy for Selecting Communication Methods**

56. After reading the ED, some respondents were uncertain about how the hierarchy for selecting communication methods would be used. The Board added paragraph 30 to this Statement to illustrate how the hierarchy could be used to determine the appropriate communication method to convey a particular item of information.

### **Essential**

57. Several respondents commented on the use of the word *essential* in the definition of notes to financial statements and required supplementary information (RSI). Most were concerned that the word *essential* is subject to interpretation and that some other idea should be used to distinguish between notes to financial statements and RSI. The Board extensively discussed the use of the word *essential* in the definitions prior to issuance of the ED and decided that its use was appropriate because it best conveys the conceptual idea that is intended. The Board acknowledges that the word is subject to interpretation and that reasonable people may reach different decisions regarding the communication method that should be used to convey a particular item of information depending on their interpretation of the meaning of *essential*.

58. The Board also believes, however, that some of the concerns about the use of the word *essential* in the definitions of notes to financial statements and RSI may be mitigated when one considers that this Concepts Statement establishes a hierarchy for considering where a particular item of information should be placed within a general purpose external financial report. That is, if an item of information is essential to a user’s understanding of

financial position or inflows and outflows of resources, it should be disclosed in the notes to the financial statements. Only when an item of information does not meet the definition and criteria for notes to financial statements would it be compared to the definition and criteria for RSI. Thus, a decision about whether an item of information was essential for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context (and if so, presented as part of RSI) would be made only after a decision had been made that the item of information was not essential to a user's understanding of financial position or inflows and outflows of resources.

### **Supplementary Information**

59. Some respondents were concerned that the definition of supplementary information (SI) in the ED stated that SI is presented with the basic financial statements, notes to basic financial statements, and RSI on a *voluntary* basis. These respondents stated that presentations in SI often are required by regulatory bodies and, therefore, although considered voluntary from a standards-setting perspective, are not truly voluntary. The Board decided to remove the reference to “voluntary” in the Concepts Statement and to clarify that SI may be required by law or regulation although the GASB does not require its presentation. The Board also clarified that preparers of governmental financial reports should follow applicable GASB-issued or GASB-cleared guidance for any information that they present in SI.

## Appendix C

### CODIFICATION INSTRUCTIONS

60. The section that follows updates the June 30, 2004, *Codification of Governmental Accounting and Financial Reporting Standards* for the effects of this Statement. Only the paragraph number of this Statement is listed if the paragraph will be cited in the Codification.

[Amend Appendix B as follows:]

#### **GASB CONCEPTS STATEMENTS**

#### **APPENDIX B**

##### **Concepts Statement No. 1**

[Amend the text to GASBCS 1 as follows:]

[Replace Figure 1 with Figure 1 of GASBCS 3] [GASBCS 1, Fig. 1, as amended by GASBCS 3, ¶39]

Paragraph 6 [In the second sentence, replace “general purpose financial statements (GPFS)” with “basic financial statements (BFS).”] [GASBCS 1, ¶6, as amended by GASBCS 3, ¶39]

Paragraphs 8 and 9 [Replace “general purpose financial statements” and “GPFS” with “basic financial statements” and “BFS.”] [GASBCS 1, ¶8 and ¶9, as amended by GASBCS 3, ¶39]

\* \* \*

##### **Concepts Statement No. 2**

[Amend the text to GASBCS 2 as follows:]

[Replace Figure 1 with Figure 1 of GASBCS 3] [GASBCS 2, Fig. 1, as amended by GASBCS 3, ¶39]

Paragraph 3 [In the second sentence, replace “general purpose financial statements” with “basic financial statements.”] [GASBCS 2, ¶3, as amended by GASBCS 3, ¶39]

Paragraph 22 [Replace “general purpose financial statements” and “GPFS” with “basic financial statements” and “BFS.”] [GASBCS 2, ¶22, as amended by GASBCS 3, ¶39]

\* \* \*

[Insert Concepts Statement 3 as follows:]

### **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*. Because Concepts Statements are not authoritative, this Statement has not been integrated into the *Codification*, but instead has been reproduced here (without appendixes).

### **Communication Methods**

[Insert GASBCS 3, ¶1–¶46.]