



Governmental Accounting Standards Board
of the Financial Accounting Foundation

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GASB Proposal to Amend Concepts Statement 2 Reflects Recent Developments in SEA Performance Reporting

Service efforts and accomplishments (SEA) performance information has been recognized for nearly forty years by the accounting community as a key component of governmental financial reporting. SEA information includes performance data regarding a governmental entity's:

- Inputs (like the number of teachers, or tons of asphalt used to repair roads)
- Outputs (such as the number of students promoted, or the number of potholes filled)
- Outcomes (for instance, percentage of students entering college, or the physical condition rating of roads) and
- Efficiency (cost per pupil educated, or cost per pothole filled).

Without such actual SEA performance information, it is difficult—if not impossible—to gauge how well a government is achieving its intended results or how effective it is in relation to the resources it receives from taxpayers.

Much has transpired in the measurement, use, and reporting of SEA performance information in the 14 years since the Governmental Accounting Standards Board (GASB) issued its Concepts Statement No. 2, *Service Efforts and Accomplishments Reporting*. Consequently, the GASB has concluded that amendments to portions of the Concepts Statement are needed to reflect these developments and to clarify certain issues.

The proposed changes are based both on the findings of extensive research by the GASB and others, and on the results of the GASB's monitoring of state and local governments that report SEA performance information.

Why Is SEA Performance Information Important?

The overriding concern of someone examining the financial statements of a corporation is, "Did it make a profit?" The performance of governments is not so easily pinpointed. Most governmental entities do not have a profit motive, though they do try to ensure that

sufficient resources are raised to cover their costs. Making ends meet is important because it helps to ensure a government's long-run financial viability. But knowing only whether a government raised more or less money than it spent is not sufficient to evaluate its success. To understand how well a government performed and, therefore, to establish improved accountability, resource providers need information about what a government did with the resources it raised. How much service did it provide? Were the services provided efficiently and effectively? What did the government accomplish?

What Is the GASB Proposing?

The GASB is proposing to modify four sections of Concepts Statement 2—*Purpose and Scope, Elements of SEA Reporting, Limitations of SEA Information, and Enhancing the Usefulness of SEA Information*—and to eliminate one section—*Developing Reporting Standards for SEA Information*. It is the GASB's belief that this proposal will enhance a common understanding of the elements, characteristics, limitations, and methods of communicating SEA performance information.

The proposed changes to the Purpose and Scope section would clarify that *it is beyond the scope of the GASB to: establish the goals and objectives of state and local government services; develop specific nonfinancial measures or indicators of service performance; or set targets for service performance.*

Some provisions of the section of the Concept Statement entitled *Developing Reporting Standards for SEA Information* have been interpreted in ways that cause confusion. The GASB believes that the best way to avoid future confusion is to eliminate that section from the Concepts Statement entirely.

The *Elements of SEA Reporting* section would be amended to update terminology and to modify certain provisions to reflect what has taken place over the course of the past 14 years of research and practice. As proposed, the section would separate the *elements* of SEA performance measurement from *related factors*. The amended Concepts Statement would state that the elements of SEA reporting consist of three different types of measures—measures of service efforts (inputs), measures of service accomplishment (outputs and outcomes), and measures that relate service efforts to service accomplishments (efficiency). The section also would be reorganized to make clear that the elements of SEA performance measures constitute the various types of SEA measures that can be used in reporting SEA performance information.

The discussion of other factors related to SEA reporting would be expanded to discuss the value of comparisons, secondary effects of providing services, and the relevance of demand for services. The proposed changes would clarify that *explanatory factors* (as they are currently termed in the Concepts Statement) should be understood to mean *external factors that influence results*.

The proposed changes to the other two sections—*Limitations of SEA Information* and *Enhancing the Usefulness of SEA Information*—are largely editorial. These editorial changes are being proposed to further clarify these sections.

How Can You Help the GASB Complete This Proposal?

You can assist the GASB with the process of finalizing its proposed amendment of *Concepts Statement 2* by reading the Exposure Draft and providing feedback. The document is available to download free from the GASB website, www.gasb.org. It is most helpful if you react to not only the aspects you disagree with, but also those that you support. In addition, it is most valuable to the GASB when respondents explain why they support or oppose a particular facet of a proposal.

You can submit comments by email (director@gasb.org) or traditional mail. *The deadline for submitting written comments is July 3.* The GASB also will be holding a public hearing in Atlanta, Georgia on July 29 in conjunction with the Association of Government Accountants' Professional Development Conference. You can participate in person or via telephone. Additional information about responding to the proposal or participating in the hearing can be found in the front of the Exposure Draft.

Why Is the GASB Working on SEA Performance Reporting?

As stated earlier, for four decades the accounting community has identified SEA information as a key component of governmental financial reporting. The notion that accounting and financial reporting includes more than just numbers and traditional financial information predates the creation of both the GASB and its sister organization, the Financial Accounting Standards Board (FASB). The importance of SEA reporting was already ingrained in the professional literature when the FASB and the GASB began to develop their conceptual frameworks.

The GASB's predecessor organization, the National Council on Governmental Accounting (NCGA), stated that governments should provide information that can be used to evaluate "the efficiency and economy of operations" and "the results of programs, activities, and functions and their effectiveness in achieving their goals and objectives." When the GASB was created, it was required to adopt the NCGA's pronouncements (including the NCGA's conceptual framework) as its own. The GASB subsequently carried the SEA performance reporting concepts forward in the first two Concepts Statements it published.

Simply put, SEA is not a creation of the GASB, but an established concept that GASB is continuing to further develop as part of its mission to improve financial reporting in the government environment.

Is the GASB Doing Anything Else in This Area?

The GASB's SEA reporting project has two parts, which the GASB is deliberating concurrently. The objective of the second portion of the project is to develop and propose principles-based suggested guidelines for voluntary reporting of SEA performance information. However, it is important to emphasize that GASB is not proposing that any government be required to follow these suggested guidelines or even to report SEA information at all.

The GASB is expected to issue a preliminary document seeking constituent feedback on proposed guidelines later this year. Unlike most GASB projects, which are planned to proceed from a draft proposal to a final pronouncement, the GASB has not yet decided how this portion of the SEA reporting project will proceed. Not until the public feedback in response to the preliminary document has been thoroughly analyzed will the GASB decide what, if anything, it will do regarding the further development of suggested reporting guidelines.