



Federal Accounting Standards Advisory Board

**Reclassification of Stewardship Responsibilities and
Eliminating the Current Services Assessment**

Statement of Federal Financial Accounting Standards No. 25

July 17, 2003

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Federal Accounting Standards Advisory Board (FASAB or "the Board") was established by the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General in October 1990. It is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, and analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standard is published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard, with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards.

Additional background information is available from the FASAB or its website:

- *Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.*
- *Mission Statement: Federal Accounting Standards Advisory Board*

Exposure drafts, Statements of Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB's website, at www.fasab.gov.

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Summary

This Statement of Federal Financial Accounting Standards (SFFAS) changes the classification of information about stewardship responsibilities required by federal accounting standards. It also eliminates the requirement to present certain information about stewardship responsibilities, known as the “Current Services Assessment,” previously required by SFFAS 8.

Scope of this Statement

This Statement deals with

- **Risk Assumed** information required by SFFAS 5, *Accounting for Liabilities of the Federal Government*
- The **Current Services Assessment** (CSA) required by SFFAS 8, *Supplementary Stewardship Reporting*, and
- **Social Insurance** information required by SFFAS 17, *Accounting for Social Insurance*.

Information about stewardship responsibilities is currently designated Required Supplementary Stewardship Information (RSSI), a category unique to federal financial reporting. Pursuant to this SFFAS, information about Risk Assumed will become required supplementary information (RSI). The Statement of Social Insurance (SOSI) will become a basic financial statement, while the remaining information about Social Insurance required by SFFAS 17 will be reported as RSI.

Reasons for Issuing this Statement

For reasons explained in Appendix A, the Board decided to review the classification of all RSSI required by federal accounting standards. The Board eliminated use of RSSI to report information about weapons systems when it issued SFFAS 23, *Eliminating the Category “National Defense Property, Plant, and Equipment.”* Classification of other items of information currently designated RSSI (stewardship land, stewardship investments, and heritage assets) may be dealt with in one or more future exposure drafts. The Board also decided to eliminate the requirement to present the CSA now, because timely issuance of federal financial reports, a practice that was not possible when SFFAS 8 was published, will make it infeasible to present the CSA in the Government’s annual financial report. The same information will, however, continue to be publicly available in the *Budget of the United States Government*.

How the Changes in this Statement Improve Federal Financial Reporting

These changes will improve the clarity and significance of federal financial reporting in two ways: (1) by defining the SOSI as essential to fair presentation and (2) by using reporting categories that are well defined in existing professional literature and familiar to report users.

The Effective Date

The requirement to report the CSA will be eliminated effective for reporting periods beginning after September 30, 2002. Information about Risk Assumed shall be presented as RSI for reporting periods beginning after September 30, 2002. The information required by paragraphs 27(3) and 32(3) of SFFAS 17 shall be presented as a basic financial statement rather than as RSSI for periods beginning after September 30, 2004, with earlier implementation encouraged. Other information required by SFFAS 17 shall be presented as RSI rather than as RSSI, except to the extent that the preparer elects to include some or all of that information in notes that are presented as an integral part of the basic financial statements, for periods beginning after September 30, 2004.

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Abbreviations

AGA	Association of Government Accountants
AICPA	American Institute of Certified Public Accountants
AT	Attestation Standards codified and published by AICPA
AU	Audit Standards codified and published by AICPA
CBO	Congressional Budget Office
CFR	Consolidated Financial Report of the U.S. Government (formerly the "CFS")
CMS	Centers for Medicare and Medicaid Services (formerly HCFA)
CSA	Current Services Assessment
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GAO	General Accounting Office
GASB	Governmental Accounting Standards Board
OAI	Other Accompanying Information (also known as "other supplementary information" – i.e., supplementary information not required by GAAP)
OMB	Office of Management and Budget
PCIE	President's Council on Integrity and Efficiency (Inspectors General)
RSI	Required Supplementary Information (as used in SFAS 25 and other accounting standards and in AU Section 558)
RSSI	Required Supplementary Stewardship Information (as used in SFFAS 5, 8 and 17)
SFAC	Statement of Financial Accounting Concepts
SFFAC	Statement of Federal Financial Accounting Concepts
SFAS	Statement of Financial Accounting Standards
SFFAS	Statement of Federal Financial Accounting Standards
SSA	Social Security Administration

Statement of Federal Financial Accounting Standards
Reclassification of Stewardship Responsibilities
And Eliminating the Current Services Assessment

Introduction

1. Federal accounting standards require the following information to be reported regarding stewardship responsibilities:
 - **Risk Assumed** information required by SFFAS 5, *Accounting for Liabilities of the Federal Government*,
 - The **Current Services Assessment** (CSA) required by SFFAS 8, *Supplementary Stewardship Reporting*, and
 - **Social Insurance** information required by SFFAS 17, *Accounting for Social Insurance*.

2. This information is currently designated Required Supplementary Stewardship Information (RSSI). RSSI is a reporting category unique to federal accounting. Pursuant to this Statement, Risk Assumed information will become required supplementary information (RSI),¹ and the CSA will not be required after FY 2002. For FY 2005 the Statement of Social insurance (SOSI) will become a basic financial statement, essential for fair presentation in conformity with generally accepted accounting principles (GAAP). Other Social Insurance information required by SFFAS 17 shall be presented as RSI rather than as RSSI, except to the extent that the preparer elects to include some or all of that information in notes that are presented as an integral part of the basic financial statements. Appendix A presents background information and the reasons for these changes.

3. This Statement amends SFFAS 5 and SFFAS 17 by reclassifying Risk Assumed information and Social Insurance information. Those standards would remain unchanged in all other respects. The requirement in SFFAS 8 to report the CSA is rescinded.

¹ RSI was added to the accounting literature by Statement of Financial Accounting Standards (SFAS) 25, *Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies*, published by the Financial Accounting Standards Board (FASB) in 1979. That Statement has been amended, but the RSI category continues to be used in a variety of standards published by the FASB, the Governmental Accounting Standards Board (GASB), and the FASAB. The auditor's responsibility for RSI is discussed in section AU 558 of the codification of professional auditing standards published by AICPA.

Standards of Federal Financial Accounting

Risk Assumed

4. Information about Risk Assumed, required by SFFAS 5 and previously designated required supplementary stewardship information (RSSI), shall be designated required supplementary information (RSI).

Current Services Assessment

5. Chapter 8 and paragraphs 14-16 of SFFAS 8 are rescinded, as is the associated illustration of the Current Services Assessment in Appendix B of SFFAS 8.

Social Insurance

6. The information required by paragraphs 27(3) and 32(3) of SFFAS 17 shall be presented as a basic financial statement rather than as required supplementary stewardship information (RSSI). Other information required by SFFAS 17 shall be presented as RSI, except to the extent that the preparer elects to include some or all of that information in notes that are presented as an integral part of the basic financial statements,

Effective Date

7. Chapter 8 and paragraphs 14-16 of SFFAS 8 are rescinded, as is the associated illustration of the Current Services Assessment in Appendix B of SFFAS 8, effective for reporting periods beginning after September 30, 2002. Information about Risk Assumed shall be presented as RSI for reporting periods beginning after September 30, 2002. The information required by paragraphs 27(3) and 32(3) of SFFAS 17 shall be presented as a basic financial statement for periods beginning after September 30, 2004, with earlier implementation encouraged. Other information required by SFFAS 17 shall be presented as RSI, except to the extent that the preparer elects to include some or all of that information in notes that are presented as an integral part of the basic financial statements, for periods beginning after September 30, 2004.

The provisions of this Statement need not be applied to immaterial items.

Appendix A: Basis for Conclusions

This appendix summarizes the considerations deemed significant by the Board in reaching the conclusions in this Statement. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background

8. In SFFAS 8, FASAB stated:

A key aspect of the stewardship objective requires that Federal reporting provide information that helps users determine (1) whether the Government's financial condition improved or deteriorated over the period and (2) whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.

Information on 'stewardship responsibilities' will aid in these determinations. It will provide an essential perspective on the Government's commitment to discretionary and mandatory programs.²

These objectives have not changed. However, for reasons discussed below, the Board believes that information about stewardship responsibilities should be reported in the context of the basic financial statements, the associated notes,³ and required supplementary information, rather than as RSSI. The Board eliminated use of RSSI to report information about weapons systems when it issued SFFAS 23, *Eliminating the Category "National Defense Property, Plant, and Equipment."* The Board will consider in other projects the proper classification of other items that are now classified as RSSI.

9. The Board originally contemplated that GAO and OMB would provide special guidance regarding the audit procedures or "fieldwork" to be performed on RSSI. At the same time, the Board expected that the auditor would report on this information in much the same way as on the basic financial statements, in the sense that the auditor would qualify or disclaim an opinion when the RSSI was omitted or materially misstated. The category was seen as a response to the unique aspects of the federal accounting and reporting environment, and to the broad objectives of federal financial reporting. It was intended to permit flexibility

² SFFAS 8, paragraphs 14 and 15.

³ The notes are regarded as an integral part of the basic financial statements, essential for fair presentation in conformity with GAAP.

on the part of preparers and auditors that would facilitate reporting relevant, reliable information, including nonfinancial and nonhistorical information.⁴

10. Some members became concerned that users: (1) may pay insufficient attention to some important information because it is called “supplementary,” and (2) may be confused by complicated reports in which information is reported in various places. They believed this might impede users’ understanding and reduce the credibility of federal financial reports. Some members believed that FASAB’s use of the RSSI category invites suspicion of accounting in which items that are as important as the basic financial statements are labeled “supplementary.” Accordingly, in *Preliminary Views on Eliminating the Category “Required Supplementary Stewardship Information”* (December 2000), the Board proposed to eliminate the RSSI category by reviewing and reconsidering the appropriate classification of each item classified as RSSI.
11. In deciding to review the classification of components of RSSI, some members were influenced by the fact that existing audit standards do not discuss RSSI. Therefore, auditors do not know what to do with respect to information in this category without consulting federal publications that provide additional guidance on how to conduct or contract for audits of federal financial statements. Furthermore, as practice evolved, it was not clear that auditors would qualify or disclaim their opinion on the basic financial statements when RSSI was missing or misstated, because it was not clear to everyone that the information was essential to fair presentation in conformity with GAAP. Some FASAB members were concerned that, under these circumstances, even sophisticated users might not understand fully the significance of certain information classified as RSSI. Some members believed that it would be desirable for FASAB to use categories that are widely understood by the broader accounting and auditing professions, particularly now that FASAB has been recognized by AICPA as the body that promulgates generally accepted accounting principles for the federal government.
12. The Board received 29 written comments on its December 2000 *Preliminary Views* from the following sources:
 - 16 preparers (all federal),
 - 8 auditors (three nonfederal, including AICPA),

⁴See the *Implementation Guide to Statement of Federal Financial Accounting Standards No. 7: Accounting for Revenue and Other Financing Sources*, June 1996, paragraphs 22-24, the diagram on page 15, and minutes of associated Board discussions. See also SFFAS 8, *Supplementary Stewardship Reporting*, June 1996, paragraphs 21, 34, 111-115, and minutes of associated Board discussions.

- 5 others. (This category includes academics, retired federal employees, and the Association of Government Accountants (AGA), a professional association of federal and nonfederal accountants and auditors.)
13. The comments reflected the views of more than 29 people. Comments from the President's Council on Integrity and Efficiency (PCIE), AGA, federal agencies, and AICPA were the work of numerous individuals. Twenty of the respondents would have retained the RSSI category, at least for some period. Some typical concerns expressed include the following:
- Elimination of the category would provide less stewardship information to users, lead to a qualified opinion that would send a less-clear signal to users than is available with current and potential alternatives, and raise audit costs. The category provides a clear and unique method to prominently display stewardship information essential to meeting taxpayer accountability. The category has been successful in communicating our financial condition.
 - The separate category and section of the report is an effective and practical means of reporting. It is appropriate for the unique environment and objectives of federal financial reporting. Approaches to providing audit assurance over RSSI are evolving. FASAB should work with specialists in the relevant disciplines to define common units of reporting for items not expressed in monetary terms.
 - Unique aspects of the federal financial reporting environment and objectives led the Board to create the new category. If used properly, the category should be a mechanism to provide much-needed information to decision makers, including citizens, when they consider the consequences of decisions relating to public lands, heritage assets, and similar items.
14. In April 2001 the Board held a public hearing to discuss the *Preliminary Views* proposal with interested parties. Fourteen individuals, representing seven organizations, made presentations and discussed issues with the Board. Comments were similar to those expressed in the 29 comment letters.
15. After considering these comments, the Board continued to believe that federal accounting standards may be able to address the objectives of federal financial reporting, including accountability and reporting on stewardship, without a unique category. The Board noted that eliminating the RSSI category need not result in a reduction of information required by existing standards. (The Board subsequently decided to rescind the requirement to present the CSA in the annual consolidated financial report of the U.S. Government (CFR) for other reasons, which are explained on page 8, but the information will continue to be available to the public). Furthermore, the Board noted, preparers will continue to have the option of voluntarily presenting supplementary information beyond what

is required. This “other accompanying information” would be unaudited, unless special arrangements were made to extend the auditor’s work in the context of a particular audit.

16. The Board continued to believe that avoiding use of the RSSI category where it is not essential would eliminate some potential confusion and ambiguity. In particular, it should clarify the Board’s expectation that when material information that is essential to fair presentation is missing or materially misstated, the auditor should consider whether a qualified or adverse opinion is appropriate regarding whether the basic financial statements are prepared in conformity with GAAP. After consultation with AICPA staff, the Board concluded that this result could best be assured by designating such information as an integral part of the basic financial statements.
17. Accordingly, in February 2002, the Board published an exposure draft entitled *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*. The exposure draft proposed to eliminate the Current Services Assessment, reclassify information about Risk Assumed as RSI, and reclassify all Social Insurance information as an integral part of the basic financial statements. The Board received 22 comment letters from the following sources:
 - 11 preparers (all federal),
 - 7 auditors (6 federal and AICPA),
 - 4 others. (This category includes an academic, two former Board members, and the AGA.)
18. Some letters reflected the views of an organization, while others were from individuals. Comments generally supported or did not oppose eliminating the CSA and reclassifying Risk Assumed information as RSI. Some letters did express concern about the feasibility of auditing Social Insurance information as an integral part of the basic financial statements and/or questioned whether the benefit of doing so would outweigh the cost. In response to these concerns, the Board consulted with representatives of AICPA, and decided (1) to designate only the SOSI as a basic financial statement, while classifying other Social Insurance information as RSI, and (2) to extend the time allowed to implement this change. More detailed explanation of the basis for the Board’s conclusions follows.

Conclusions Regarding Each Type of Stewardship Responsibility Information

19. Figure 2 on page 14 presents a list of general factors that one or more Board members considered relevant for the classification choices. Specific decisions on each of the three types of stewardship responsibility information are discussed in the remainder of this Appendix.

Risk Assumed

20. The Board agreed that information about Risk Assumed should be RSI rather than an integral part of the basic financial statements, because the amounts are not sufficiently reliable and measurement methods are still experimental. This information is potentially valuable, but it is not yet a suitable basis for recognition or disclosure.⁵ The Office of Management and Budget (OMB), the General Accounting Office (GAO), and the Congressional Budget Office (CBO) have considered the use of Risk Assumed information as a basis for budgeting for insurance programs. These agencies have concluded that more experience is needed before the measurements can be regarded as sufficiently reliable for budgeting. Similar considerations lead the FASAB to conclude that information about Risk Assumed should be included in financial reports as RSI, at least until agencies and auditors have more experience with this information.
21. The Board believes that analogies with insurance offered by private insurers, (where, for example, an expected premium deficiency on long-duration contracts such as life insurance is recognized), may be misleading due to differences in the length of the policy coverage, nature of insured risk, or other relevant variables. The Board believes that additional guidance from FASAB on definition and measurement of “Risk Assumed” would be necessary before it would be feasible to require recognition or disclosure of this information as an integral part of the basic financial statements. Developing and promulgating such guidance would require a separate project. Before the Board undertakes such a project, it is desirable to encourage continued improvement in agencies’ data systems and modeling capabilities to support reporting Risk Assumed. The RSI requirement has the effect of providing this encouragement in an appropriate, cost-beneficial manner. The Board notes that the “state of the art” for such projections is constantly evolving. Should the Board in the future decide that it would be desirable to develop more specific criteria for reporting Risk Assumed, the Board will be able to learn from this ongoing experience.

⁵ FASAB uses the term “disclosure” to refer to information that is not recognized on the face of the basic financial statements but is regarded as an integral part of the basic financial statements, essential for fair presentation in conformity with generally accepted accounting principles (GAAP). Normally such disclosures are presented in footnotes, but federal accounting standards published by FASAB do not currently prescribe the format for presentation of such disclosures. GAAP does not prohibit formatting or combining pieces of information in appropriate ways to direct the reader’s attention, provided that the results are not misleading.

Current Services Assessment (CSA)

22. The CSA provides receipt and outlay data on the basis of the President's projections of future activities pursuant to current law. It is relevant for assessing the sustainability of programs established by current law; that is, relevant for assessing the sufficiency of future resources to sustain public services and to meet obligations as they come due. The CSA focuses on the totality of government operations rather than on individual programs. It provides an analytical perspective on the Government because it shows the short- and long-term direction of current programs.
23. SFFAS 8 defines the CSA by reference to what is published in the President's Budget. The Board did not then foresee the possibility that the CFR would be published before the Budget. Because the Board now expects that within a few years the CFR will be published before the President's Budget is available, the requirement to include the CSA in the CFR will expire in FY 2002 (i.e., the CSA will not be required in the CFR after FY 2002). In order to continue to require something comparable to the CSA as part of the CFR when the CFR is published before the Budget, federal accounting standards would need to define the CSA in some way other than by reference to the Budget. Developing the criteria for such a projection is beyond the scope of this project.
24. The Board considered the alternative of including OMB's current services estimates prepared for the "midsession review." The Board concluded that certain technical problems would make this alternative problematic. Furthermore, supplementary reporting on this basis would not add value, because the estimates are publicly available in any event, and because the base year actual data published in the budget would not be subject to review by the auditor.
25. The Board notes that OMB, CBO, and others regularly publish similar projections; therefore, similar information will continue to be available, regardless of whether it is required to be part of the CFR. The Board also notes that the "state of the art" for such projections is constantly evolving. Should the Board in the future decide that it would be desirable to develop criteria for such a projection as a part of federal financial reporting, the Board will be able to learn from this ongoing experience.

Social Insurance

26. The Board believes that the SOSI should be treated as a basic financial statement because it is essential to fair presentation and is important to achieve the objectives of federal financial reporting. The related stewardship objectives include helping users to assess the impact on the country of the Government's activities, determine whether the Government's financial position improved or deteriorated over the period, and predict whether future budgetary resources will likely be sufficient to sustain public services and meet obligations as they come due. In that regard, the multi-trillion dollar obligations associated with Social Insurance over the next 75 years could significantly exceed the largest liabilities currently recognized in the U.S. Government Balance Sheet.
27. The Board acknowledges that there is great uncertainty inherent in long term projections, but believes that if the uncertainty is suitably disclosed--as is required by SFFAS 17--it need not preclude designating the information as a basic financial statement, essential for fair presentation in conformity with GAAP. The Board rejects the idea that information based on projections cannot be an integral part of the basic financial statements. FASAB has not limited the content of federal financial statements to historical information.
28. Even within the context of historical financial reporting, the Board notes that accrual-basis "historical" financial statements include many measurements that involve assumptions about the future. The distinction between reporting on the financial effects of events that have occurred and the effects of future events depends, obviously, upon the definition of the event. The information required by SFFAS 17 reports on the financial effects of existing law and demographic conditions and assumptions, just as the pension obligation at a point in time is based on existing conditions. In that sense, Social Insurance information can be viewed as reflecting events that have occurred and, therefore, as "historical."
29. Measuring the future effects of existing law and conditions for Social Insurance involves projections of economic and demographic trends, just as measuring the pension benefit obligation at a point in time involves assumptions about future salary progression. It is true that SFFAS 5 specifies a different measurement method for pensions and retiree healthcare than the method SFFAS 17 specifies for Social Insurance. It is also true that Social Insurance measurements are more sensitive to assumptions about the most distant years of the projection period. Nevertheless, the Board believes that it is appropriate to report the SOSI as a basic financial statement, essential for fair presentation in conformity with GAAP.
30. Classifying the SOSI as a basic financial statement will mean that auditors will consider a modification of their opinion if this information is materially misstated. A modification would send a clear and appropriate signal to users in such a

circumstance. The Board understands that some added audit expense will be incurred as a result of this change in status for Social Insurance information, and added demands may be made on the accounting and actuarial staff of agencies that report Social Insurance information. The Board believes that the benefits in this case outweigh the expense. The SOSI is important to those who would understand the Government's financial condition and its impact on the financial condition of individual citizens, interesting to the public, and essential to fair presentation.

31. The exposure draft proposed to reclassify all Social Insurance information as an integral part of the basic financial statements. In response to concerns expressed about the cost and feasibility of auditing this information, the Board decided to define only the SOSI as a basic financial statement, and provided additional time for implementation. The impact of the change in audit status for the SOSI should be mitigated by the fact that preparers and users have experience with similar information. Also, much of the actuarial and audit work can be done before the end of the fiscal year, if the preparer and auditor prefer. SFFAS 17 provides for considerable flexibility in selecting the measurement date. Paragraph 26 of SFFAS 17 states:

All projections and estimates required in these standards should be made as of a date (the valuation date) as close to the end of the fiscal year being reported upon ("current year") as possible and no more than one year prior to the end of the current year. This valuation date should be consistently followed from year to year.

Conclusions Regarding Effective Date

32. The standard eliminates the requirement to present the CSA, and does not change the definition, presentation guidelines, or audit status for Risk Assumed information. (RSSI is currently treated as RSI for audit purposes, pursuant to instructions in OMB's *Audit Bulletin*.) No delay is needed as a result of the changes regarding these two items. Accordingly, these changes are effective immediately.
33. Audit status for the SOSI would change; however, as noted above, the information is not new. Most of the relevant agencies have produced similar information for several years, and analysts and public officials have routinely used this information. Also, the impact of the audit requirement on the auditor and preparer should be reduced by the flexibility SFFAS 17 provides in selecting a measurement date for Social Insurance. The Board consulted with AICPA regarding the time needed to develop appropriate audit guidance. The Board also noted that federal agencies will be confronted with a challenging requirement for accelerated financial reporting in FY 2004. As a result, the Board

concluded that the SOSI should be presented as a basic financial statement for reporting periods that begin after September 30, 2004, with earlier implementation encouraged.

Distinguishing RSI from the Basic Financial Statements and Associated Notes

34. To help readers understand the Board's deliberations, this section provides more details about some practical and conceptual factors that affected the Board's decision whether to designate an item as RSI or as an integral part of the basic financial statements. The basic financial statements include the principal financial statements and associated notes on which the auditor expresses an opinion as to whether the information is presented in conformity with GAAP. The terms "basic financial statements" and "principal financial statements" have been used synonymously in federal accounting.
35. FASB tends to use the term "basic financial statements" or simply "financial statements" consistent with the definition in FASB Concepts Statement 5, *Recognition and Measurement in Financial Statements of Business Enterprises*:

. . . a financial statement is a formal tabulation of names and amounts of money derived from accounting records that displays either financial position of an entity at a moment in time or one or more kinds of changes in financial position of the entity during a period of time. Items that are recognized in financial statements are financial representations of certain resources (assets) of an entity, claims to those resources (liabilities and owners' equity), and the effects of transactions and other events and circumstances that result in changes in those resources and claims. The financial statements of an entity are a fundamentally related set that articulate with each other and derive from the same underlying data. (SFAC 5, paragraph 5, footnote omitted.)

AICPA tends to use the term "basic financial statements" or simply "financial statements" also to encompass footnotes that are regarded as an integral part of the basic financial statements as defined in SFAC 5. Depending on the context, FASAB may use the term either way. The following discussion focuses on the distinction between information on which the auditor expresses an opinion (whether reported on the face of the basic statements or in the notes to the statements) and supplementary information that is also required by GAAP.

Operational Differences Between the Basic Financial Statements and RSI

36. Figure 1 (on page 12) identifies some operational differences under current auditing standards. Given these operational differences between basic financial statements and RSI, the Board must determine whether it would be more appropriate for a given item of required information to be deemed an integral part of the basic financial statements or RSI. The appropriateness depends on the

particular benefits (based on various federal financial reporting objectives) and the costs (preparing, auditing, user processing, other) of making it subject to audit (vs. more limited procedures) and varying the potential audit opinion treatment (qualification vs. mere mention in the auditor's report).

Figure 1

<u>Comparison Dimension</u>	<u>Basic Financial Statements</u>	<u>RSI</u>
Is the information required to be in the financial report ? (That is, it is either an integral part of the basic financial statements or it must accompany them.)	Yes	Usually ⁶
Is the information deemed essential if the financial statements are to "present fairly" in conformity with GAAP?	Yes	No
What audit fieldwork is required?	Audit	Limited procedures pursuant to AU 558
Auditor's report	Positive assurance regarding "fair presentation"	Silent, no explicit assurance unless engaged to audit the RSI. However, if the RSI is financial information that has been subjected to audit procedures in connection with auditing the basic financial statements, the auditor may express assurance "in relation to the financial statements taken as a whole."
What audit report mention is required if the information is missing or not prepared in conformity with guidelines?	Qualified or adverse opinion	Mention in report; no qualification of opinion on the basic financial statements.

37. It should be noted that the value of information to users and the value added by auditing it are separate, though certainly related, considerations. For example, some information may be valuable to some users, yet auditing it might add little value. On the other hand, some information (e.g., aggregated financial information for a federal agency as a whole) may not be used directly by decision makers as input to a particular "decision model," but auditing it might provide some degree of valuable assurance about other information (e.g., detailed program cost or budgetary expenditure information) or objectives of interest (e.g., internal accounting control and finance-related legal compliance). Auditing

⁶ In some cases, RSI need not physically accompany the basic financial statements in the same document; certain GASB standards permit reference to another publicly-available report as an option for specified RSI.

financial statements may also deter fraud and unintentional errors of various sorts in other, more timely reports.

Footnote vs. RSI Section

38. Although not required by auditing standards, RSI has customarily been located in a separate section of the financial report, to aid in distinguishing it from audited information.⁷ This practice has continued with RSSI, evidently in part because federal preparers thought it was necessary, or at least desirable, to report “stewardship” items together. It is possible that placement of information in different sections of the financial report leads some types of readers to pay more (or less) attention to the information. Although the magnitude of these differences is an open question, research has shown that formatting can matter to individual users.

Audit Aspects of Basic vs. RSI

39. Both footnote disclosures and required supplementary information are viewed as being sufficiently relevant to be required to accompany the basic financial statements in financial reports,⁸ though only the notes are regarded as required for fair presentation in conformity with GAAP. As discussed previously, one major difference between the two types of information is the extent and nature of the auditor’s scrutiny and responsibility for the information; another is the nature of the auditor’s report and the kind of “signal” it sends. Thus, the cost and value

⁷ AU 558.10 states: “Ordinarily, the required supplementary information should be distinct from the audited financial statements and distinguished from other information outside the financial statements that is not required by the FASB, GASB, or FASAB. However, management may choose not to place the required supplementary information outside the basic financial statements. In such circumstances, the information should be clearly marked as unaudited. If the information is not clearly marked as unaudited, the auditor’s report on the audited financial statements should be expanded to include a disclaimer on the supplementary information.”

In practice, notes and RSI generally have not been commingled. Indeed, in discussing the location of RSI it requires, FASB said, “Reporting specialized information on oil and gas producing activities in a single location within a financial report is a desired objective of this Statement so as to make the relationship among the different types of information easier to analyze.” (FAS 69, par. 117)

In theory, RSI might be integrated with related audited information, provided the unaudited information was suitably labeled. Whether this would be feasible and desirable in practice may be debatable. Concern on the part of independent CPAs about litigation risk has been among the factors that encouraged physical separation of audited information from unaudited information.

Another practical consideration may be introduced by recent guidance from AICPA intended to clarify the auditor’s ability to offer some limited assurance “in relation to the financial statements” on certain RSI. This could imply a need to distinguish the RSI for which such assurance is offered from other types of supplementary information, both required and voluntary.

Some comments regarding FASAB’s *Preliminary Views on Eliminating the Category “Required Supplementary Stewardship Information”* suggested that some people believe there are conceptual as well as practical reasons to report different kinds of information separately.

⁸ As noted, certain GASB standards permit reference to another publicly-available report as an option for specified RSI.

added by audit are factors to consider. The main question is: for what types of information, users, and objectives would the benefits of making an item an integral part of the basic financial statements instead of RSI exceed the incremental costs of audit, compared with reviewing pursuant to AU 558's limited procedures?

Factors to Consider

40. In deciding whether a given item should be classified as RSI or as an integral part of the basic financial statements, one might consider a variety of factors, such as those listed in figure 2. They are not listed in any particular order, and some “overlap” or convey similar ideas. Different people assign different weight to each factor. Some people may not consider some of the factors at all, and some people may consider factors that are not listed. Likewise, different people may evaluate each item to be reported differently on each dimension. Therefore, figure 2 is not a decision tree, hierarchy, or precise algorithm for classifying items, but a general framework for each individual's judgment.

Figure 2

-Low (implies RSI) <<<<<<<<<<<<>>>>>>>>>>>>>>>>>>>>>> +High (implies basic)

- <Relevance to fair presentation>
- < Connection with elements of financial reporting >
- < Use of historical financial data or financial transaction data >
- <Preparers' discretion in preparing and presenting the information>
- < Strength of signal Board wishes to be sent in the financial report >
- < Significance, relevance or importance of the item in light of *Objectives* >
- < Strength of the signal the Board wishes to be sent in the auditor's report >
- < Relevance to measuring financial position or changes in financial position >
- <Extent to which the information interests a wide audience (rather than specialists)>
- <Extent to which there are not alternative sources of reliable information>
- < Agreement on criteria that permit comparable and consistent reporting >
- < Experience among users, preparers, and auditors with the information >
- <Extent to which the information is aggregated (lacking in detail)>
- < Benefit/cost ratio of using resources to ensure accuracy >
- < Connection with basic financial statements >
- < Reliability and/or precision possible >
- < Reliability and/or precision needed >

-Low (implies RSI) <<<<<<<<<<<<>>>>>>>>>>>>>>>>>>>>>> +High (implies basic)

41. Different people will assign different importance to each factor. However, a consensus did emerge during the Board's deliberations on the proper

classification of Social Insurance information that three related factors are particularly important for that decision: (1) The Board agreed that the SOSI is “essential to fair presentation.” A set of financial statements could not be said to “present fairly” when the SOSI is missing or materially misstated. For this reason, it is important (2) that this signal clearly be communicated to the reader of the financial report and (3) to the reader of the auditor’s report. Other factors listed also were deemed relevant, and were deemed consistent with “basic” status; for example, a wide audience is interested in this information.

42. The Board ultimately decided to rescind the requirement to present the CSA for reasons discussed on page 8, but not before it considered the proper classification of the CSA. The amount of discretion available to the preparer was deemed especially important to the decision about how to classify the CSA. If there is very little discretion in preparing the information, the value of auditing may be modest. An example is SFFAS 8’s requirement to reprint information as it was presented in the *President’s Budget*, without independent criteria for evaluating it. On the other hand, if there is great discretion, questions may arise about whether the resulting information would be sufficiently reliable, comparable, and consistent without auditing. Another factor, relevant both to the decision initially to classify the information as RSI and to the decision eventually to terminate the requirement, is that there are other, credible sources of similar information. As noted, OMB and CBO routinely publish intermediate and long-term projections that are scrutinized by Congress and by analysts in the private sector.
43. Because SFFAS 5 does not include detailed criteria for defining and measuring Risk Assumed, preparers have considerable discretion in calculating it. This might seem to imply that audit would be desirable. However, auditors may have concerns about expressing positive assurance on information for which specific definitions and measurement criteria have not been defined. In other words, there may not be sufficient agreement on criteria that permit comparable and consistent reporting to permit classifying Risk Assumed as an integral part of the basic financial statements. Another example where this concern has affected classification is information about the condition of stewardship assets and deferred maintenance of property, plant and equipment. Even when auditors do provide assurance, in some cases they may wish to express special qualifications, explanations, or caveats in their report. An example might be an auditor’s report on an examination of prospective financial information where there is great inherent uncertainty, or an examination of other assertions by management about matters where management has great discretion.
44. Concerning the “significance” factor: The basic financial statements (including notes that are regarded as an integral part of the financial statements) and RSI are both important enough to be required items in financial reports. With respect to the audit status of the information, it would seem that, by itself, the importance

of an item need not automatically imply that the information should be audited. Rather, one would also consider the extent of the information-preparer's discretion as well as the cost of auditing the information item. However, it does seem that the more important the item, the more likely it should be audited, if the information preparer had a significant degree of discretion. One would be willing to incur more audit costs to avoid misstatement of very important information items that could affect users' decisions. Furthermore, the more important the item, the more likely it would be deemed essential to fair presentation, thus implying a need to qualify the auditor's opinion if the information were missing or misstated.

45. Concerning the "reliability and/or precision" factors: These factors are intertwined, and all affect the extent to which one would prefer audited information to RSI. "Reliability and/or precision *needed*" asks one to evaluate the users' tolerance for imprecise measures of a relevant item. Since auditing is likely to increase precision (either through inducing more precise measures by the preparer or by reducing the variance in the measures by audit procedures), the less tolerance for imprecision that users have concerning an information item, the more likely that the Board would want to make the item a required note disclosure instead of RSI.
46. "Reliability and/or precision *possible*" deals with the very nature of the information item being reported. Precision about measures of past events seems inherently more possible than precision about estimates of future events. To the extent that there is a fundamental minimum amount of imprecision in certain information items, the cost of increasing audit effort might not be justified. For some Board members, this consideration was among the factors (along with others such as cost/benefit) that imply "Risk Assumed" information should properly be classified as RSI at this time. At the same time, however, uncertainty need not preclude classifying information as an integral part of the basic financial statements when other factors indicate this is appropriate, as is the case with the SOSI. Uncertainty should be disclosed and described to the extent feasible.
47. Some other listed factors also relate to the nature of the information. For example, some people may define the domain of accounting and/or financial reporting (or categories within that domain) in terms of the nature of information involved (e.g., as limited to "historical" financial information or to certain defined "elements" of financial reporting, or to certain concepts such as "financial position"). FASB has emphasized the role of "elements of financial reporting" in defining the financial statements and notes. FASB and GASB also emphasize the concept of net assets or financial position in defining financial statements and notes.

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48. Other people may define financial reporting, and its component categories, in terms of the comparative advantage unique to reporting based on the information system for processing financial transactions. SFAC 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, says that the “financial statements . . . articulate with each other and derive from the same underlying data (par. 5). Some believe this idea is rooted in the basic “bookkeeping” paradigm of accounting (see SFFAC 1, *Objectives of Federal Financial Reporting*, paragraphs 166-168). Such a definition might be expected to lead to accounting standards that would define the basic financial statements in a narrow or traditional way, with other kinds of information (e.g., performance indicators or management’s assertions about internal control) being reported as RSI.
49. Others may define the domain of financial reporting, and categories within that domain, more broadly. A broader definition might, for example, be expressed in terms of the objectives of federal financial reporting, or the comparative advantage of the annual reporting and audit cycle, which assures the production and examination of information that GAAP say is essential to fair presentation, where GAAP reporting is mandated by law, contract, or market forces. This kind of broader definition might be expected to lead to standards that would define more types of information (e.g., performance indicators or management’s assertions about internal controls) as a part of the basic financial statements.
50. More generally, the “benefit/cost ratio of using resources to assure accuracy” asks one to assess the costs of producing auditable information and auditing it versus the benefits that could be achieved by merely preparing the information as RSI and applying the procedures specified at AU 558. Other things being equal, one would avoid auditing where the cost of auditing is quite high. Similarly, to the extent that alternative, credible sources of information exist, the cost of auditing the information may exceed its benefits.

Board Approval and Dissent

51. This Statement was adopted by the affirmative votes of seven members of the Board. Mr. Anania dissented. Mr. Kull abstained.
52. Mr. Anania dissents from this Statement because he believes the Board's decision to have the information required by Par. 27(3) and 32(3) of SFFAS 17 presented as a basic financial statement is premature and is not supported by a change in circumstances or appropriate technical considerations by the Board.
53. The Board issued SFFAS 17 in August 1999 after more than four years of debate and consideration of many major issues including: (1) definition of a federal liability with weight given to the unique circumstances of the Federal Government, including its sovereign powers, (2) nature of Social Insurance laws

and practices, (3) significance of Social Insurance programs to individual taxpayers, and (4) long-term sustainability of the programs as currently constructed.

54. In SFFAS 17, Appendix A - Basis for Conclusions - Section 2, the arguments are presented for (Par. 73-79) and against (Par. 65-72) recognition, disclosure or supplementary reporting of Social Insurance programs. The Board's conclusion (Par. 80-83) acknowledges there were two polarized views. These sentences from SFFAS 17 summarize those views and the Board's decisions related to disclosure and measurement of Social Insurance obligations:

. . . On the one side are those who believe that social insurance programs - especially Social Security and Medicare - constitute a liability of the Federal Government that should be recognized on the consolidated balance sheet and that the closed group is the best measure of it.... At the opposite pole are those who firmly believe that the closed group measure is meaningless or even potentially misleading and should not be disclosed at all in the financial report (Par. 80).

. . . Although both sides make strong arguments, no empirical evidence has been offered that would prove one side right and the other wrong. The Board believes the best approach to resolve this issue is for the closed group data to be reported off the balance sheet as a part of a balanced RSSI package of disclosures about the Social Security and other social insurance programs (Par. 81).

The Board believes that a more complete picture of the financial condition of the government can be provided by a forward-looking assessment of whether it can 'sustain public service and meet obligations as they come due' (Par. 85). . . .

55. Mr. Anania believes the key issues debated by the Board prior to the issuance of SFFAS 17 remain significant and unresolved. He believes the Board should reconsider the technical aspects of the Social Insurance programs from an accounting and reporting perspective before making the change that is called for by this Statement. He cites the following issues as some, but not all, of the issues the Board should deliberate while keeping the original SFFAS 17 requirements in place: (1) whether the distinction between exchange and non-exchange transactions in the Board's concepts is relevant to a liability recognition, (2) whether the closed group (current participants) population is the most meaningful focus for either recording a liability or for disclosure, and (3) whether the notions of a constructive liability or an "in substance" plan concept require consideration.
56. Further, he is concerned that not enough consideration and debate in connection with the issuance of this Statement was focused on the uncertainty inherent in

the open group population (current and future participants) actuarial present values required by Par. 27 (3) (c), (f) and (g). While he acknowledges that the use of assumptions and estimates is accepted in the recording and/or disclosure of financial information, he has serious reservations as to whether the open group actuarial projections that include estimates for future participants in the plans can meet the reliability test. Those projections include receipts and outlays for people expected to be born or immigrate to the U.S. during the projection period (currently 75 years), as well as individuals under 15 years of age at the time of the projection. He believes it is imperative that this issue be fully considered before the Statement of Social Insurance (SOSI) is reclassified as a basic financial statement.

57. Mr. Anania also points out that audit coverage of the SOSI and other information required by SFFAS 17 has been discussed with members of the American Institute of Certified Public Accountants (AICPA) FASAB Liaison Taskforce and Social Insurance Taskforce. To date, there is no clear indication from the AICPA as to the nature of the audit coverage and audit report that would be forthcoming from the independent accountants engaged to audit the Social Security Administration (SSA) financial statements, including the SOSI information. He believes there is a direct correlation and linkage between the reliability of measurement for recognition purposes and the independent auditor's ability to render a meaningful report on those elements in financial statements. The links include the use of relevant empirical data, reasonability of and support for assumptions used, and the extent to which the information used can be objectively verified. The reliability of the projection methodology should be further explored before the results of those calculations are made an integral part of the basic financial statements.
58. The open group projection that is used to estimate the future financing shortfall in Social Insurance programs is inherently more sensitive to assumptions about the distant future than is true for the closed group calculations that are used to account for employee pensions and retiree healthcare costs. This is inevitably true, despite the best efforts of actuaries, economists, and other professionals involved in making these projections. This is mainly caused by the fact that a closed group dwindles over time, so that uncertainty about what will happen in the distant future has less impact than is the case for an open group that grows larger during the projection period. Currently, the SOSI is presented in the SSA financial report and in the Consolidated Financial Report of the United States Government (CFR) based on 75-year projections under the intermediate assumptions (sometimes referred to as the "best estimate") of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (generally referred to as Social Security) and corresponding assumptions of the other Social Insurance programs for which the SOSI is required.

59. Mr. Anania observes that FASB Statement of Financial Accounting Concepts No. 7 provides a distinction between estimated cash flows and expected cash flows. The latter refers to the sum of probability-weighted amounts in a range of possible estimated amounts; the estimated mean or average. It is believed by some, including Mr. Anania, that a probability-based approach is a more effective measurement tool in many situations. SSA is currently experimenting with methods that might better incorporate and communicate probabilities and uncertainties, as has been recommended by its technical review panels.⁹ Mr. Anania believes that FASAB should study this further in consultation with others, including actuaries from SSA and the Centers for Medicare and Medicaid Services, before elevating the SOSI as currently defined to the status of a basic financial statement. Mr. Anania believes that the open-group projections that are the basis of the SOSI are more sensitive to assumptions about uncertain future events than is true for most, if not all, long-term liabilities and basic financial statement disclosures in both private and governmental financial reporting today.
60. Mr. Anania believes there is a further, significant issue that requires consideration before the SOSI is reclassified as a basic statement. The concept is articulation of the elements of the required financial statements. Articulation refers to the linkage of an item in one financial statement to an item reported on a different financial statement. Articulation demonstrates the interrelationships of the various financial statements. That linkage is demonstrated in Appendix 1- A thru 1- F of SFFAC 2, *Entity and Display*. The concept of linkage (described therein as "the order and flow of Data in the financial statements") is also very clearly depicted in a chart on page 43 of the 2001 *Consolidated Financial Report of the United States Government* (CFR). Since the other statements outlined in SFFAC 2 are prepared on an accrual basis, there is no linkage (articulation), as

⁹ For example, the report of the 1999 Technical Panel includes the following observations (available at http://www.ssab.gov/Rpt99_III.html#pgfld-1005309) under the heading, "Illustrating Uncertainty":

"The current system of presenting low- and high-cost alternatives to the intermediate assumptions is inadequate. The alternatives are useful in demonstrating the sensitivity of the forecast to the underlying parameters (section II.G of the Trustees Report). However, without any model of the probabilities of the underlying parameters taking on the alternative values, there is no way to use the alternatives to form a distribution of possible outcomes. It is inadequate to show any forecast without an indication of the uncertainty that surrounds it. We follow previous panels in strongly recommending efforts toward stochastic modeling or similar techniques that are better able to capture the interrelationship among assumptions. We are not dogmatic in the recommendation, as we recognize that even stochastic modeling requires some set of assumptions about the variance in future outcomes--for example in fertility rates--that are hard to estimate. However, the assumptions are in some way embedded in current methods of projection in any case.

"Some modeling techniques allow for graphical presentations that are better at displaying the range of uncertainty. What we seek is a method of displaying to policy makers and the public just how uncertain is some average cost outcome or date of exhaustion of the Trust Funds, and what are the probabilities that events will be close to or far from that result. That the system might have a very high probability of being out of balance by 2 or more percent of taxable payroll, for instance, may be worth knowing regardless of whether it has attained actuarial balance under some set of intermediate assumptions."

traditionally understood, between the basic financial statements described in SFFAC 2 and the SOSI. While that condition may be tolerable in a compromise standard that requires disclosure as Required Supplementary Stewardship Information (RSSI), Mr. Anania does not believe that condition is technically sound or tolerable in basic financial statements.

61. Finally, Mr. Anania does not believe the users of the SSA and CFR financial reports, particularly citizens and citizen intermediaries, will be better served by the change required by this Statement. He is concerned that the lack of linkage to the other basic statements will not be easily understood by users willing to study the information with reasonable diligence. Elevating the SOSI information to become a basic financial statement without accruing a liability or recognizing an expense based on that information might increase confusion of users of Government reports.
62. Mr. Anania does not dissent to Par. 4 of this statement in which the information about Risk Assumed is reclassified from RSSI to required supplementary information (RSI) or to Par. 5, which rescinds the current requirements for the Current Services Assessment.
63. Mr. Kull will abstain from voting on this statement. He will not dissent, as he believes that social insurance information should be included in the basic financial statements and notes and should be subject to audit. However, he shares Mr. Anania's concerns, and further believes these and other concerns need to be resolved before full implementation takes effect, including the development of appropriate audit standards, and the need for items in the financial statements to be grounded in appropriate definitions of the elements of financial reporting. His abstention from voting is intended as an expression of his assessment that the Board has not completed work on this matter.

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