



Federal Accounting Standards Advisory Board

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DEFERRAL OF THE TRANSITION TO  
BASIC INFORMATION FOR LONG-  
TERM PROJECTIONS

Amending SFFAS 36

**Statement of Federal Financial Accounting Standards**

**Exposure Draft**

Written comments are requested by January 31, 2013

November 20, 2012

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## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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

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

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

- [“Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.”](#)
- [“Mission Statement: Federal Accounting Standards Advisory Board”](#), [exposure drafts](#), [Statements of Federal Financial Accounting Standards and Concepts](#), [FASAB newsletters](#), and other items of interest are posted on FASAB’s website at: [www.fasab.gov](http://www.fasab.gov).

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## Federal Accounting Standards Advisory Board

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November 20, 2012

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

Your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards entitled, *Deferral of the Statement of Long-Term Projections*, are requested. Specific questions for your consideration appear on page 3 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by January 31, 2013.

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

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by e-mail to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to e-mail your responses, we encourage you to fax the comments to 202.512.7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director  
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Mailstop 6H19  
441 G Street, NW, Suite 6814  
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We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at 202.512.7350 to determine if your comments were received.

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. Notice of the date and location of any public hearing on this document will be published in the Federal Register and in the FASAB's newsletter.

Sincerely,

Tom L. Allen  
Chairman



## EXECUTIVE SUMMARY

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### WHAT IS THE BOARD PROPOSING?

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The Board is proposing a one-year deferral of the transition of the statement presenting long-term fiscal projections for the U.S. government and related disclosures from required supplementary information (RSI) to basic information. Basic information is the information that is deemed essential for the financial statements and notes to be presented in conformity with generally accepted accounting principles (GAAP). RSI is information that a body that establishes GAAP requires to accompany basic information.

While both categories of information are required, the auditor subjects the two categories of information to different procedures and complies with different reporting requirements under generally accepted government auditing standards (GAGAS). When an auditor is engaged to audit an entity's financial statements, basic information as a whole is subject to testing for conformity with GAAP. RSI is unaudited, but is subject to certain procedures specified by GAGAS. These procedures include (a) inquiring of management regarding the methods used to prepare the information, (b) comparing the information for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements, and (c) obtaining relevant management representations.<sup>1</sup> Deficiencies in basic information affect the auditor's opinion on the financial statements taken as a whole while deficiencies in RSI do not, but are noted in the auditor's report on the financial statements. For example, the auditor could issue an unqualified, or "clean," opinion if the preparer omits RSI but would mention the omission in the auditor's report on the financial statements. (See Appendix B for more information about these categories.)

### HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

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This proposal would permit:

- the audit community to complete its consideration of the need for revised guidance, and
- the preparer time to plan for the audit under any revised guidance.

During the deferral period, the consolidated financial report of the U. S. government would continue to report the information, which is necessary for the reader to assess whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, as RSI. Deferral of the transition to basic information will provide one additional year for the task force established by the American Institute of CPAs to determine how the characteristics of the long-term projections would be covered by existing audit standards, consider necessary audit procedures, and develop reporting language that effectively communicates the inherent uncertainties in long-term fiscal projections.

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<sup>1</sup> American Institute of CPAs, Auditing Standards – Clarified (AU-C), Section 730.05.

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## QUESTION FOR RESPONDENTS

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Respondents may offer a response to the specific question posed below, raise new issues, or respond generally. It is most helpful if your response includes an explanation for your position and any alternatives you propose. All responses received will be publicly available on the FASAB website and at the FASAB offices.

Your responses should be sent by e-mail to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to respond by e-mail, please fax your responses to 202.512.7366. Alternatively, you may mail your responses to:

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
Mailstop 6H19  
441 G Street, NW, Suite 6814  
Washington, DC 20548

All responses are requested by January 31, 2013.

Q1. Do you agree or disagree with the proposed one-year deferral of the effective date for the transition of the statement presenting long-term fiscal projections for the U.S. government and related disclosures from required supplementary information (RSI) to basic information required in SFFAS 36, *Comprehensive Long-Term Projections for the U.S. Government*? The new effective date would provide for full implementation of SFFAS 36 for reporting periods beginning after September 30, 2013. Please explain the reasons for your position in as much detail as possible (see discussion in pars. A1 through A4).

# INTRODUCTION

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## PURPOSE

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1. This Statement amends the effective date of the phased implementation established in Statement of Federal Financial Accounting Standards (SFFAS) 36, *Comprehensive Long-Term Projections for the U.S. Government*. When fully implemented, SFFAS 36 requires a basic financial statement in the consolidated financial report of the U.S. Government (CFR), disclosures and related required supplementary information (RSI). To allow a phased implementation, a three-year transition period was provided during which all information was RSI. The transition period has ended and beginning in fiscal year (FY) 2013, SFFAS 36 requires information to be presented as follows:
  - a. The basic financial statement would present for all activities:
    - i. the present value of projected receipts and non-interest spending under current policy without change,
    - ii. the relationship of these amounts to projected Gross Domestic Product (GDP), and
    - iii. changes in the present value of projected receipts and non-interest spending from the prior year.
  - b. Disclosures would explain and illustrate:
    - i. the assumptions underlying the projections,
    - ii. factors influencing trends, and
    - iii. significant changes in the projections from period to period.
  - c. RSI would explain and illustrate the projected trends in:
    - i. the relationship between receipts and spending,
    - ii. deficits or surpluses,
    - iii. Treasury debt held by the public as a share of GDP,
    - iv. possible results using alternative scenarios, and
    - v. the likely impact of delaying corrective action when a fiscal gap exists.
2. This Statement amends the transition period provided in SFFAS 36 to allow one additional year – FY 2013 – during which all of the above information would be reported as RSI.

## MATERIALITY

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3. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.



## PROPOSED STANDARDS

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### SCOPE

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4. This Statement applies to the consolidated financial report of the U.S. Government (CFR).
5. This Statement amends SFFAS 36, *Comprehensive Long-Term Projections for the U.S. Government*, to defer full implementation of its requirements by one year.

### AMENDMENTS

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6. Par. 45 of SFFAS 36 is replaced by the following:
  45. The following phase-in of reporting requirements as basic information provides for full implementation for reporting periods beginning after September 30, 2013.
    - a. These standards are effective for periods beginning after September 30, 2009.
    - b. Information should be reported as RSI for the first four years of implementation (fiscal years 2010, 2011, 2012, and 2013).
    - c. Beginning in fiscal year 2014, the required information should be presented as specified in paragraphs 12 - 42.
    - d. Earlier implementation is encouraged.

### EFFECTIVE DATE

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7. The requirements of this Statement are effective upon issuance.

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

## APPENDIX A: BASIS FOR CONCLUSIONS

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This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

### PROJECT HISTORY

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- A1. Inclusion of audited long-term fiscal projections in U. S. federal government financial reports began in fiscal year 2006 with the statement of social insurance. A number of individual programs provide a statement of social insurance including Social Security and Medicare. In 2009, the Board issued SFFAS 36 and broadened requirements for long-term fiscal projections beyond these discrete social insurance programs. SFFAS 36 requires comprehensive projections for all government receipts and expenditures.
- A2. The Board recognized the uncertainty inherent in making the policy, economic, and demographic assumptions necessary for comprehensive projections. The standards, therefore, provide for the exercise of judgment in selecting assumptions and require information to aid the reader in understanding and considering uncertainty and alternative outcomes. The audit community is considering the need to revise the audit guidance, including initial guidance developed for the statement of social insurance, to address such comprehensive projections.
- A3. The American Institute of CPAs (AICPA) Auditing Standards Board (ASB) organized the Prospective Information Task Force to consider the auditor's responsibility for prospective financial information. The task force charge is to consider audit guidance for both the prospective information proposed by the Governmental Accounting Standards Board (GASB) in its November 2011 preliminary views document, *Economic Condition Reporting: Financial Projections*, and the statement of long-term fiscal projections. Because the GASB's preliminary view is that projections would be presented as RSI, the task force does not anticipate a need for additional guidance regarding such projections. The task force is presently considering guidance for auditors and appropriate audit report language regarding the statement of long-term fiscal projections. The task force also may consider revisions to the audit report language regarding the statement of social insurance and the statement of changes in social insurance amounts.
- A4. Due to the uncertainty associated with the development of such guidance and the corresponding issuance date of such guidance, it is difficult to begin preparations to present and audit the sustainability information presented as a basic financial statement and related disclosures for FY 2013. Therefore, the Board believes a one-year deferral of the transition of long-term fiscal projections from RSI to basic information is warranted.

## APPENDIX B: AUDIT CONSIDERATIONS REGARDING BASIC INFORMATION AND RSI

This summary table serves as an aid to the reader in understanding the implications of the proposed deferral. It is not complete as it does not present in detail the auditing standards established by the American Institute of CPAs.

	<b>Basic Information</b>	<b>RSI</b>
<p>Is the information required to be in the federal financial report?</p> <p>Source: FASAB, Statement of Federal Financial Accounting Concepts (SFFAC) 2, Entity and Display, par. 73C and AICPA Auditing Standards as Clarified (AU-C) 730.04</p>	Yes	Yes
<p>Is the information deemed essential if the financial statements are to “present fairly” in conformity with GAAP?</p> <p>Source: FASAB SFFAC 2, par. 73B and 73C, and AICPA AU-C 730.04</p>	Yes	No
<p>What are the objectives of the auditor regarding basic information and RSI?</p>	<p>The purpose of an audit is to provide financial statement users with an opinion by the auditor on whether the financial statements are presented fairly, in all material respects, in accordance with an applicable financial reporting framework, which enhances the degree of confidence that intended users can place in the financial statements. ...As the basis for the auditor's opinion, GAAS require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high, but not absolute, level of assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an</p>	<p>The objectives of the auditor when a designated accounting standard setter requires information to accompany an entity's basic financial statements are to perform specified procedures in order to</p> <ol style="list-style-type: none"> <li>a. describe, in the auditor's report, whether required supplementary information is presented and</li> <li>b. communicate therein when some or all of the required supplementary information has not been presented in accordance with guidelines established by a designated accounting standard setter or when the auditor has identified material modifications that should be made to the required supplementary information for it to be in accordance with guidelines established by the designated</li> </ol>

	<b>Basic Information</b>	<b>RSI</b>
	<p>acceptably low level. Reasonable assurance is not an absolute level of assurance because there are inherent limitations of an audit that result in most of the audit evidence, on which the auditor draws conclusions and bases the auditor's opinion, being persuasive rather than conclusive.</p> <p>(AICPA, AU-C 200 .04 and 200.06)</p>	<p>accounting standard setter.</p> <p>(AICPA, AU-C 730.03)</p>
What audit fieldwork is required?	Audit procedures in accordance with applicable auditing standards and requirements. <sup>2</sup>	Limited procedures pursuant to AU-C 730.05-.06.
What is to be provided in the auditor's report?	<p>When expressing an unmodified opinion on financial statements, the auditor's opinion should state that the financial statements present fairly, in all material respects, the financial position of the entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended, in accordance with the applicable financial reporting framework. Also, the auditor's opinion should identify the applicable financial reporting framework and its origin.</p> <p>(AICPA AU-C Section 700.35 and .36)</p>	<p>Statement that the auditor has applied certain limited procedures and a statement that the auditor does not express an opinion or provide assurance on the information.</p> <p>(AICPA, AU-C 730-.08-.09)</p>
What audit report mention is required if the information is missing or not prepared in conformity with guidelines?	<p>Include a Basis for Modification Paragraph in the Report:</p> <p>If there is a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosures), the auditor should include in the basis for modification paragraph a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor should so state in the basis for modification</p>	<p>Include a statement that management has omitted the information and the information is required and is an essential part of financial reporting. Also, the auditor would state that the opinion on the basic financial statements is not affected by the missing information.</p> <p>(AICPA AU-C 730.08e)</p> <p>In addition, if the measurement or presentation of the information departs materially from the prescribed guidelines, the auditor</p>

<sup>2</sup> The phrase "applicable auditing standards and requirements" is used to refer to auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

Basic Information	RSI
<p>paragraph.</p> <p>(AICPA AU-C 705.18)</p> <p>If there is a material misstatement of the financial statements that relates to narrative disclosures, the auditor should include in the basis for modification paragraph an explanation of how the disclosures are misstated.</p>	<p>would state that although the opinion on the basic financial statements is not affected, material departures from the prescribed guidelines exist and the auditor would describe the departures.</p>
<p>(AICPA AU-C 705.19)</p> <p>If there is a material misstatement of the financial statements that relates to the omission of information required to be presented or disclosed, the auditor should describe in the basis for modification paragraph the nature of the omitted information; and include the omitted information, provided that it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information).</p>	<p>(AICPA AU-C 730.08f)</p>
<p>(AICPA AU-C 705.20)</p> <p><b>Modify the Auditor’s Opinion:</b></p> <p>A qualified opinion states that except for the effects of the matter(s) described in the basis for qualified opinion paragraph, the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.)</p>	
<p>(AICPA AU-C 705.24)</p> <p>An adverse opinion states that the financial statements are not presented fairly in accordance with the applicable financial reporting framework.</p>	
<p>(AICPA AU-C 705.25)</p>	

Source: The Federal Accounting Standards Advisory Board developed this summary but does not establish audit standards. For guidance regarding auditing standards, please refer to the source documents identified in the summary.

## APPENDIX C: ABBREVIATIONS

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AICPA	American Institute of Certified Public Accountants
ASB	Auditing Standards Board
AU-C	Auditing Standards - Clarified
CFR	Consolidated financial report of the U.S. government
ED	Exposure draft
FASAB	Federal Accounting Standards Advisory Board
FY	Fiscal year
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
GDP	Gross Domestic Product
OMB	Office of Management and Budget
RSI	Required supplementary information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
U.S.	United States

## APPENDIX D: GLOSSARY

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Basic Financial Statements	As used in SFFAS 7, <i>Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting</i> , the basic financial statements are those on which an auditor would normally be engaged to express an opinion. The term “basic” does not necessarily mean that other financial information not covered by the auditor’s opinion is less important to users than that contained in the basic statements; it merely connotes the expected nature of the auditor’s review of, and association with, the information. The basic financial statements in financial reports prepared pursuant to the Chief Financial Officers Act, as amended, are called the “principal financial statements.” The Form and Content of these statements are determined by OMB. (see also Principal Financial Statements)
Basic Information	Information that is essential for financial statements and notes to be presented in conformity with generally accepted accounting principles (GAAP).
Required Supplementary Information	Information that a body that establishes GAAP requires to accompany basic information. When an auditor is engaged to audit an entity’s financial statements, basic information is subject to testing for fair presentation in conformity with GAAP. However, RSI for federal entities is unaudited but subject to certain procedures specified by Generally Accepted Government Auditing Standards for RSI.

### **FASAB Board Members**

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