FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Minutes
February 12-13, 2003
Room 7C13
441 G Street NW
Washington, DC 20548

Wednesday, February 12, 2003

Administrative Matters

- **Attendance**

The following members were present: Chairman Mosso, Messrs. Anania, Calder, Farrell, Kull, Patton, Reid, Schumacher, and Ms. Cohen

The following ex-officio members were present: JoAnne Boutelle, the Department of Defense

- **Approval of Minutes**

The minutes of December 11-12, 2002 were approved with no changes.

- **New Memorandum of Understanding**

The Chairman explained that the December 20, 2002 Memorandum of Understanding (MOU) made one operational change. The MOU eliminated the veto authority of the Department of Treasury. The Principals initiated the change to (1) enhance independence by reducing the number of vetoes and (2) balance the vetoes between the executive and legislative branches.

- **Staff Member Retirement**

Chairman Mosso noted that this would be the last meeting for staff member Lucy Lomax. Ms. Lomax has been with the Board since it was formed and has contributed to many projects. Chairman Mosso thanked her for her excellent service to the Board. Her presence and contributions will be missed upon her retirement at the end of the month.

- **Status of Dedicated Collections**

Staff member Andrea Palmer updated the Board on her efforts. She concluded by noting that a draft exposure draft and an illustration of Fish and Wildlife Service's current accounting and accounting under the proposal would be provided. Some members asked to receive the drafts in advance of the usual briefing material distribution. Ms. Palmer indicated that she would send the items electronically.

- **Gallup Survey Status**

Ms. Comes explained that the late 2002 performance survey conducted by the Gallup organization for all federal advisory committees has been completed. Survey results are expected before the next Board meeting.

Agenda Topics

- **Educational Session: Performance Reporting and Accountability Reports**

Ms. Justine Rodriguez of the Office of Management and Budget and Mr. John Hummel of KPMG provided an educational session for the Board.

- **Accounting for Imputed Intra-Departmental Costs**

Staff explained that the *Exposure Draft—Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4* was issued November 26, 2002, with comments due January 8, 2003. Twelve responses were received and most respondents (all but two) supported the interpretation. Staff did note that although the majority of the respondents supported the ED, most did not agree with the proposed effective date in the ED. Staff explained that the Board was provided copies of the twelve comment letters in their binders along with a summary of the responses and an updated interpretation.

Mr. Anania noted that the AICPA's liaison task force believes the interpretation goes beyond the requirements of SFFAS No. 4 and therefore should be considered an amendment. Staff explained that the issue being addressed in the interpretation is really not a new requirement, but rather a clarification of paragraph 110 within SFFAS No. 4. Staff directed the Board members to language within SFFAS No. 4 (par. 123) that further supported the assertion that this interpretation is consistent with the original intent of SFFAS No. 4. Staff explained that the term 'intra-departmental' is a new term but the concept of full cost and the intent of capturing costs such as imputed intra-departmental costs are defined within SFFAS No. 4. The new term is introduced simply to make clear the original intent. The Chairman noted that there really would not be a significant difference in the process if the issue were handled through an interpretation or an amendment. The Board agreed to keep it as an interpretation.

Mr. Kull explained that he was concerned with the Department of Justice (DOJ) comment that implementation of the interpretation would cause them to review how they currently conduct their financial statement audits. Specifically, DOJ stated that it would consider no longer auditing at the component level. Mr. Kull stated that he does believe that full costing is important, especially at the component level and he hopes that the Board's action does not lead to agencies discontinuing practices such as component level reporting. He also strongly encouraged the Board to consider delaying the implementation date to periods beginning after September 30, 2004 (FY 2005) with earlier implementation encouraged. He explained that agencies are facing many issues in the upcoming year with the accelerated deadlines and reorganization for the Department of Homeland Security.

Mr. Reid stated concern over allocation of costs at service providing agencies, such as Treasury. He stated that there would be different results when allocating costs within these types of agencies when compared to other agencies. For example, Treasury may be required to allocate costs such as check writing fees among its components that would not be allocated to other agencies. Mr. Schumacher also stated that this type of inconsistency was a concern of his as it was also noted by two of the respondents. Staff explained that this type of inconsistency is a result of the current limitation on the recognition of imputed inter-departmental costs and that the AAPC Inter-entity Task Force was currently working on identifying these types of costs. The Executive Director explained that the AAPC Inter-entity task force is currently reviewing unreimbursed or under-reimbursed real property costs between agencies and hopes to develop a methodology that could be used to review other types of imputed inter-departmental costs. The Chairman noted that it would be beneficial to have the AAPC provide an update on the Inter-entity Task Force work as they are addressing these types of imputed inter-departmental costs. The Executive Director also commented that agencies were encouraged when the CFO Council Cost Accounting Guide was issued in 1998 to enter into reimbursable agreements for activities between departments. The Board suggested that the Basis for Conclusion be expanded to include language regarding the fact that agencies have been directed (via the CFO Council Cost Accounting Guidance) to enter into reimbursable agreements.

Mr. Anania stated that the discussion should be whether the Board is able to address the fact that two respondents believe the Board is being inconsistent and what the Board can say to support its position and demonstrate that the Board considered the ramifications. Staff explained that the inconsistencies will clear up with the work from the AAPC Inter-entity Task Force and although there may be inconsistencies until that work is complete, that should not be a reason to not move in the right direction and have imputed intra-departmental costs recognized in accordance with the standard. The Board agreed that the desire for full cost at the entity level overrides the consistency issue.

The Chairman also pointed out that perhaps the Board should consider requiring all costs be recognized versus the current incremental implementation approach. Mr. Calder agreed and stated that there should be no exception in par. 110 of SFFAS No. 4. The Executive Director stated that once the AAPC Inter-entity task force provides an update on their project, the Board may want to consider the issue further. The Chairman also stated that the Board should issue the interpretation now and then revisit the inter-departmental issue once the AAPC has provided an update. Mr. Kull pointed out that he believes agencies are entering into more reimbursable agreements because it is necessary for agencies to be reimbursed for all activities to survive.

The Chairman requested the Board's input on deciding the effective date—staff's proposal in the revised ballot interpretation was for periods beginning after September 30, 2003 (FY 2004) but Mr. Kull suggested the Board consider delaying the implementation until FY 2005. The Board agreed to delay it until FY 2005--or periods beginning after September 30, 2004, with earlier implementation encouraged. The Board stated that they would be able to vote on the interpretation at the following day's Board meeting if staff could provide the revised paragraph for the Basis for Conclusion for their review.

In a final note, Mr. Calder requested that staff consider utilizing the term 'imputable cost' versus 'imputed cost' throughout the interpretation because he believed that there may be some misunderstanding because use of the term 'imputed' may imply that the cost has been recognized at that may not fit the context of the term in the interpretation. Staff agreed to research the terminology further and report back to the Board on the issue along with providing an updated ballot interpretation with the other changes agreed to by the Board.

Day 2 Discussion – [Presented here for ease of reference] (Board review of changes to ballot interpretation and vote.)

Staff provided Board members with a revised ballot interpretation for review and ballot vote, that included changes based on yesterday's discussion. Staff also provided Board members with excerpts from Kohler's Dictionary for Accountants and certain accounting textbooks that contained discussion of imputed costs. Staff explained to the Board that the excerpts were provided because Mr. Calder had requested staff to consider using the term 'imputable cost' versus 'imputed cost' throughout the interpretation. Specifically, his concern was that the term imputed might imply that the cost has been recognized. Staff explained that based on the research and excerpts provided, staff concludes that 'imputed' does not necessarily mean recognized.

Additionally, staff explained that the interpretation does explain in the introduction how the term is used. Specifically, paragraph 2 states: "To facilitate discussion of the issue addressed in this interpretation, we will refer to costs that are not fully reimbursed as "imputed costs" whether or not recognized by the recipient." Staff also noted that this sentence of the interpretation is footnoted with the statement "Recognition of imputed costs is determined by accounting standards. General criteria to help in determining imputed costs that should be recognized are detailed in par. 112-113 and 239-243 of SFFAS No.4." Staff explained that the use of the term does appear to be fully explained. A change at this stage of the project would require rewriting paragraphs throughout the document and requested the Board's input.

The Chairman polled the Board members on their position on the use of the term 'imputed'. The Board agreed that the term imputed as explained and used in the interpretation was acceptable. Staff pointed out the other changes within the interpretation, which included changing the effective date to periods beginning after September 30, 2004. The Chairman explained that he hoped to ballot the interpretation and the Board agreed. The Board unanimously approved the interpretation for issuance.

- **Concepts Project**

Mr. Mosso noted that Ms. Comes has worked out a plan to address concepts in the context of standard-setting projects. For example, considering a definition of assets in the context of a project dealing with standards for assets.

Ms. Comes said that staff is looking for a more robust understanding of the Board's concerns and objectives.

Mr. Kull said that he appreciated having this informative summary, and asked whether staff envisioned taking the concepts one-by-one? He wasn't sure whether one would take concept 1 and run through all 4 stages, then move to concept 2. There could be a cascading effect. In some cases the concepts could help determine the actions we take in specific standards-setting project.

Ms. Comes explained that the plan is drafted so that there is an output at the end of each phase. Not everything would necessarily have to follow in sequence, however. There are some standards projects that have a heavy conceptual component. She envisions the concepts project as a sort of "backbone" project, with each standards project building a base of conclusions that we would have to incorporate in the concepts. For example, deliberations in the natural resources project could lead to deliberations regarding asset definition.

Mr. Reid said he could see some advantages in the proposed approach. "You are going to complete the concepts that relate to that particular standard in conjunction with it. This would marry the concepts with the standards."

Mr. Kull said that the outcome of the deliberations on concepts could affect the first 17 standards; we should not take this as a ratification of what the Board did in the first 17 standards.

Mr. Mosso said that it probably would be useful to take a look at our existing standards and see where they fit in the context of our existing concepts, but we are not going to stop work on new standards projects.

Ms. Comes said that one of the key things we need to do is number 6 on page 3 of the plan, this is something AICPA raised: "How does the current reporting model contribute to meeting each reporting objective?" She said it would be a multiyear project.

Mr. Farrell asked whether Mr. Kull was saying that we should temporarily suspend effort on new standards and devote all effort to concepts.

Mr. Kull said that would be a mistake, but he thinks concepts is a high priority.

Mr. Patton said that he thinks phase I, "evaluating objectives," is a necessary first step before phase II, "defining elements and statements." The first liability-related project we take up would build on our reevaluation of objectives, and induce us to refine liability in that context. Similarly we could do the same with an asset-related project. That implies that the timeline on some of the projects may need to be slowed so we can at least get through objectives.

Mr. Anania said he was having some trouble digesting this plan, but emphasized that he was not being critical. The phases are logical and self-contained, but when he tries to interlace the concepts project plan with the other projects, he is not sure how that is going to work. One approach would be to take each of our projects, and ask which concepts and objectives come into play, and look at that, and say "here is an inventory of things we will be looking into," and ask "how does that inform what we want to do with various projects." He sees some conflicting things in the plan. It could take years to complete the concepts project.

Ms. Comes said that she recognizes the dilemma. At any given meeting the Board may be faced with something that relates to phase II or III, but at some point in time it will all be woven together.

Mr. Mosso, noting that the plan seems to suggest sequence, asked whether she was instead envisioning that we look for targets of opportunity, such that at the end we would have finished all four phases?

Mr. Anania asked whether phase I could be done without regard to a specific standard?

Mr. Patton said that he believes phase I must precede the others.

Mr. Mosso asked whether some things are universal? For example, the definition of asset isn't likely to change given what one does on objectives.

Mr. Patton said that, given what he had done so far, he thinks it could change. The kinds of things you are willing to include as an asset on the balance sheet may depend on the kinds of objectives you are trying to serve. For example, the degree to which you are willing to tolerate unreliable measures, and how expansive a definition you would prefer, could depend on whether you are trying to help predict or control, etc.

Mr. Kull asked what might be done at the next meeting.

Ms. Comes said that, in the context of the project on natural resources, we could have some discussion of how the asset definition aligns with the natural resource definition and project. There is no discomfort with not selecting an asset definition at the next meeting, but they can consider how different definitions might affect the scope of natural resources we deal with at FASAB, and how different definitions might better fit with different objectives.

Mr. Kull asked whether part of the objective is to take a look at why we are doing this, and what purpose we are really serving by the preparation of this kind of information? The Board had been discussing an Interpretation on allocation, attribution, or assignment of cost at the intra-departmental level. In the private sector the accounting standard-setter would never think of dictating to such a third-level entity. It is up to General Motors to decide how they want to allocate cost internally. This is a different Board than the one that adopted these objectives, and we need to take a fresh look. He would not stop everything else, but he would hate for us to do all this, and ten years from now still not be relevant, after all the work we have done, and all the work we have asked agencies to do. We run that risk. It is a great discipline, and we are trying to get people to use this, but at the same time we need to look at how we can get information to people they can actually use.

Mr. Mosso said that the first step would be to look at what is in place, and that would include the question of which users we are trying to serve.

Mr. Anania said that answering question 6 (How does the current reporting model contribute to meeting each reporting objective?) in the plan would give us a kind of inventory of what we have done. For example, we might find one objective to which we have not given attention; this might imply it is not really an objective. Some parts of such an analysis would be subjective. Someone would have to take the lead in preparing such an analysis.

Mr. Reid asked whether staff would describe concepts from other standard setters as having a long shelf life, i.e., more than a decade?

Mr. Bramlett said yes, but he noted that statements of concepts are not immutable, they do evolve. Accounting is a social process, unlike physics; we are to some extent creating a reality as well as trying to describe it.

Mr. Anania agreed that FASB's statements of concepts have had a long life. Concepts are a set of ideas that become a "toolbox," and a way for the Board to keep grounded. A conceptual framework is a set of understandings that help Board members talk to each other.

Mr. Patton asked if some synergy with GASB's conceptual work is possible.

Mr. Mosso observed that we are feeling our way. It is too early to say exactly how we will precede. He asked Ms. Comes whether it would be fair to say we will start by reviewing objectives?

Ms. Comes agreed.

Mr. Patton said that we need to develop alternative visions for people to react to.

Mr. Anania asked whether a roundtable with outsiders would be worthwhile.

Mr. Patton said he would accept that, when we have developed a coherent range of alternatives.

Mr. Farrell said he would not expect a lot of participation from others.

Mr. Kull said the concepts would be primarily a toolbox for the Board, but the federal community would be interested to the extent the resulting standards might affect them. If it takes resources that don't contribute to running the government, people won't do it.

Mr. Farrell asked whether the Board should discuss the question regarding principle-based standards?

Ms. Comes said that the material provided to the Board regarding principle-based standards was not to support substantive discussion, but simply to tee up the question of whether the Board wanted to consider this.

Mr. Anania said that it is hard to say we are not interested. He would be interested in the comment letters FASB has received on this. We could learn something from those responses. This is not a new idea. Prior attempts by the FASB at general guidance in draft standards, resulted in constituents requesting detailed guidance. There is a difference in how the international standards approach it, but there seems to be a lot of wiggle room in international standards. He is not sure the idea will solve our problems.

Mr. Mosso suggested that our standards don't have the same problems FASB does because we don't have the same range of industries.

Mr. Bramlett observed that there also are different incentives that influence federal preparers and auditors.

Mr. Calder said he agreed to some extent, but observed that we do have examples, e.g., paragraph 110 in SFFAS 4 limiting application of the cost accounting standard, creative lease accounting, the desire to work around the debt cap, etc.

- **Fiduciary Activities**

The staff explained that a draft exposure draft (ED) had been e-mailed to members in January for review, and the staff was presenting certain issues for discussion based on the comments received. The first issue was whether the phrase "in the name of" the Federal entity or the non-Federal party provided sufficient clarity and operational guidance. The staff explained that, in the alternative, "control over" and "management of" fiduciary assets and obligations could be emphasized. Mr. Schumacher said the explanation of the phrase in the ED was clear and a change would be confusing at this point. Mr. Reid said that paragraph 18 explained the phrase adequately. The Board decided to keep the phrase "in the name of".

The second issue was whether a definition for "fiduciary assets" should be included. Several members had requested a definition and the staff had drafted one based on SFFAS 1, Accounting for Selected Assets and Liabilities, paragraphs 18 and 21, for the Board's consideration. Mr. Patton said that, since the Board was planning an asset definition project in the near future, the issue of a definition for fiduciary assets could be finessed by saying that fiduciary assets were assets in which non-Federal individuals or entities have an ownership interest that the Federal Government must uphold, thus referencing paragraph 9 of the ED. The Board discussed alternatives. Mr. Jacobson suggested the phrase "assets subject to fiduciary activity". The Board decided to use that phrase in place of the first two sentences in paragraph 13 of the ED, including the sentence defining "control", and also to make the changes to the glossary definition.

The third issue was whether the standard should specify that only significant activity need be reported in notes, in order to avoid "over kill". Paragraph 33 of the ED states that all fiduciary activity should be reported in notes to the financial statements; the ED also includes the general caveat about materiality. The Board discussed the value of the footnote information required with respect to fiduciary assets. Mr. Anania said that perhaps the beginning and ending balances is all that is necessary. The Board decided not to change paragraph 33 but to ask respondents to consider the value of the required information and the burden for small funds.

The fourth issue was whether the terms "public-purpose activity" and "private-purpose activity" in the ED are useful and clearly defined. Mr. Mosso said that "public" and "private" often are confused and he didn't think fiduciary funds would have a purpose other than the fiduciary activity. Mr. Calder said that the critical issue is the ownership of the assets: if the Federal Government owns the assets, and the assets are being held for the benefit of a non-Federal party, then the assets are fiduciary assets. Mr. Anania said that eliminating these terms might solve another problem in that SFFAS 1, paragraph 21, uses the word “public” in the opposite way from the ED. Staff explained that such usage is the exception and could be eliminated. Mr. Farrell said this terminology in the ED (e.g., paragraph 16) did a good job distinguishing between fiduciary activity and activity that is being dealt with in the earmarked funds portion of the project. He allowed that changing the words might be desirable but the distinction would still be needed. He said the distinction was very helpful. It was noted that “public” in the non-Federal sense was applied with respect to Treasury debt, where the phrase “debt held by the public” is used. The Board directed the staff to replace “public-purpose” and “private-purpose” with “fiduciary activity”.

The fifth issue was whether the Board wanted to reconsider the exclusion of Federal employee pensions’ trust funds and social insurance funds from the scope of the standard. The draft standard says that assets in the form of Treasury securities held by such funds are not fiduciary assets because Federal employees and private citizens do not have an ownership interest in them, as defined by the standard. The Board discussed the rationale for excluding such programs from the scope of the standard. Mr. Calder said that employee contributions would be fiduciary assets until vesting takes place. Mr. Mosso agreed but indicated that a liability is booked so there is a reason for excluding the Treasury securities from the fiduciary asset category. [On Thursday, February 13th Mr. Jacobson confirmed that the participants’ assets would be refunded to them should employment terminate before vesting.] The Board reaffirmed its intent to exclude these programs, and directed the staff to expand the discussion in the basis for conclusions regarding why such funds are not within the scope of the draft standard.

The sixth issue was whether the discussion of entities was sufficient. The ED discusses the Governmentwide entity, the Federal component entities, and fiduciary funds. The glossary includes an explanation for such terms. Mr. Patton indicated several places whether he would change the usage with respect to component entities versus the Government as a whole, and he agreed to review the ED with the staff in that regard. The Board decided that the discussion in the ED was otherwise sufficient.

The members also agreed to certain modifications to several paragraphs (6, 9,13, 23, 39, and 77). The staff explained that the illustrations of transactions and financial statement reporting in Appendix D would be polished further for the next draft. The staff indicated that the members would see another clean version – with the changes made pursuant to the February meeting illustrated – before the ballot draft.

Adjournment

The meeting adjourned at 3:30 PM.

Steering Committee Meeting

The Steering Committee members were provided with a new budget projection for FY2003. Since the projection preceded the passage of FY2003 appropriations, alternative funding levels were provided. Funding required for existing staffing and meeting levels is $522,096 per principal in FY 2003 and $561,173 in FY 2004. [Subsequent to the meeting, funding was established at $515,000 per principal for FY2003.]

Thursday, February 13, 2003

Agenda Topics

- **Reclassification of Stewardship Responsibilities and Eliminating Current Service Assessments**

The Board discussed three questions related to the preballot draft of a Statement of Standards titled *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*.

Staff Question:

> *Should we add language to the standard to specify whether the SOSI should be presented as a basic statement or as a footnote? As currently drafted, the standard uses the phrase "as an integral part of the basic financial statements," which has the effect of letting the preparer decide how to present it. Mr. Anania drafted his dissent predicated on the assumption that the Board expects the SOSI to be presented as one of the basic financial statements. This assumption seems consistent with comments from most Board members, but the Board has not required this. Mr. Anania notes that he would need to revise his dissent, if the Board decides to retain the option for the preparer to present the information either way.*

Mr. Mosso noted that the present standard, SFFAS 17 refers to a "Statement of Social Insurance" but it is classified as RSSI. The decision is whether to say it is a primary statement or remain silent.

Mr. Calder said he would want to argue that point. The draft we have been considering says "an integral part of the basic financial statements," which really just means "basic information." From his standpoint, there was a specific reason for that language, which was not to prescribe whether it would be presented as a statement or a footnote.

Mr. Anania said his preference would be for the Board members to decide what the Board members want it to be: a basic statement or a footnote. Then if he needed to adjust the language in his dissent he would do so. His understanding was that the prominence of the statement was something some Board members were seeking. Noting that he was dissenting, he did not express a preference as to which approach the Board selected. Regardless of what the Board decides on this point, it will not change the thrust of his main concerns.

Mr. Mosso said that as he recalls SFFAS 17, it clearly implies a statement.

Mr. Reid said his interpretation of SFFAS 17 was that it was requiring a primary statement, albeit as RSSI. From a fair presentation standpoint he wouldn't want to see the largest numbers we have back in the notes. The obligations are twice the size of the liabilities recognized on the balance sheet. A primary statement would be preferable.

Mr. Farrell agreed, suggesting that the reclassification is an interim step toward recognizing a liability.

Mr. Schumacher agreed with Mr. Farrell.

Mr. Calder said that if one assumes that it should be a statement, then there is a further question with regard to articulation. FASB's statements of concepts discuss articulation. He had not noticed such a discussion in GASB's concepts.

Mr. Bramlett said that GASB has not published a comparable statement of concepts. He suggested that articulation is such a pervasive idea that it would be reasonable to argue that people would expect it, unless FASAB explicitly expressed something to the contrary. He suggested that some Board members might have thought they were doing just that when they created the RSSI category.

Mr. Calder suggested that, in light of FASAB's interest in reporting on matters such as internal controls, compliance with laws and regulations, and performance, it could be that we create the need for a statement that does not articulate in the traditional fashion.

Mr. Mosso agreed. Even the FASB is being pushed in the direction of considering nonfinancial information. The concept of articulation is fine, but he is not sure that it should dictate whether something is primary.

Mr. Calder observed that the Board would face the same question later that day, when it discussed heritage assets and stewardship land, and anytime when we discuss information that does not articulate in traditional fashion.

Mr. Kull said that he shares Mr. Anania's concern about articulation. We seem to be moving toward a "family of reports," as Mr. Chapin used to say. If we believe this is a primary statement, and if we believe that heritage assets and stewardship land belong somewhere in the primary statements, then we need to be thinking what is being presented, and what this Board is supposed to do, in terms of communicating with people. Maybe we need to look at concepts comprehensively.

Mr. Patton said that, whatever we decide regarding the status of the SOSI, we should not leave it ambiguous. If we want it to be statement, we should say so. He thought it should be a primary statement and the standard should say so.

Mr. Calder asked, "What is the alternative to a primary statement?" The Board agreed that the alternative would be footnote presentation. Mr. Calder expressed a preference for leaving the option, by saying “an integral part of the basic financial statements,” but he would find acceptable a standard that called for a primary statement.

Mr. Kull also expressed support for retaining the option. The other members, except for Mr. Anania, who did not express a preference because he is dissenting, supported making the SOSI a primary statement. Mr. Anania suggested that the Board might want to consider whether to amend SFFAC 2, to add the SOSI to the financial statements listed there.

Mr. Mosso agreed that the Board should eventually do so, but expressed the view that it could not be accomplished in this project without reexposure. After discussion, the Board decided not to amend SFFAC 2 in the context of this project.

Staff Question:
Should we add language to restrict flexibility of the format used for the SOSI, if it is to be presented as a basic financial statement? SSA includes trust fund assets in computing the bottom line presented in its SOSI (actually in a separate section at the bottom of the SOSI). (CMS and HHS also consider trust fund assets.) This is logical from SSA’s perspective, but differs from the illustration in SFFAS 17, which includes a narrative footnote explaining how the calculation of the ‘close actuarial balance’ used for analysis by the Social Security Trustees differs from the calculation of the amount presented on the bottom line of the SOSI. ["Actuarial balance" is defined by SSA as the difference between the summarized income rate and the summarized cost rate over a given valuation period.] The SOSI presented in the CFR also differs from the format illustrated in SFFAS 17. The Board may wish to consider whether to address the acceptability of such variations if the SOSI is presented as a basic financial statement.

Mr. Bramlett explained that SFFAS 17 illustrates the SOSI, but also says that the illustration is nonauthoritative, being only one approach among others, and that OMB provides specific guidance regarding form and content.[1] During deliberations leading to SFFAS 17, the Board did, however, specifically consider whether the open group financing deficit (i.e., the bottom line in the illustrated SOSI) should be reduced by trust fund assets. The Board decided that the answer was no. Accordingly, the illustration in SFFAS 17 includes a footnote that explains the difference between the open group financing deficit that is the bottom line of the SOSI and the method SSA uses to assess “close actuarial balance.” In practice, somewhat different formats are used in reports from SSA and HHS compared with the CFR, and those formats all differ from the one illustrated in SFFAS 17. [Examples from reports of SSA, the CFR, and SFFAS 17 were provided to the Board.] When the information was presented as RSSI, and audited as RSI, Mr. Bramlett did not regard that difference in format as a problem. The question arises whether such diversity of practice could be problematic in the context of a basic financial statement.

[1] [Before Federal accounting principles were recognized as GAAP they were regarded as an “Other Comprehensive Basis of Accounting” and OMB’s Bulletin on Form and Content was listed higher in the hierarchy of federal accounting principles than has subsequently been the case.]

Mr. Calder asked whether we anywhere say what should be shown in the statement?

Ms. Comes explained that paragraph 6 of the proposed standard, as amended by the preceding discussion, would say:

> 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.
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> [Paragraph 27(3) of SFFAS 17 says what should be shown in the statement for a reporting entity that is a segment of the Federal government, such as SSA, HHS, and DOL. Paragraph 32(3) says what should be shown in the statement that is presented in the governmentwide report, known as the CFS or CFR.]

Mr. Anania said that he had asked some time ago whether SFFAS 17 was being followed, and did not get a definitive response.

Mr. Reid said that the trust fund assets are eliminated in consolidation, so it would be misleading to show them at the consolidated level; at the agency level it is an interesting piece of information. He said that he recalled from the Board's discussion at the time that some members had a preference for not striking totals.

Mr. Bramlett said that according to his recollection of deliberations leading to SFFAS 17, the display came to a bottom line that was the open group financing deficit, without the trust fund assets.

Mr. Reid asked whether SFFAS 17 requires a projection period of 75 years? He asked "Suppose we decided to look at the problem in perpetuity?"

Ms. Comes explained that SFFAS 17 calls for "a projection period sufficient to illustrate long-term sustainability" and gives 75 years as an example.[2]

Mr. Reid said that answered his question. He inferred that presumably it would be acceptable to go longer. There is apparently a substantial difference between 75 years and perpetuity.

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[2] [paragraph 72 (1) states, in part: "(1) *Cashflow Projections* - Projections of cashflow for those persons who are participating or eventually will participate in the program as contributors or beneficiaries during a projection period sufficient to illustrate long-term sustainability (e.g., traditionally the "Social Security," or OASDI, program has used a projection period of 10 years for relatively short-term and 75 years for long-term projections, and the UI program has used a projection period of 10 years for its projections). The projection should include current workers, retirees, survivors, disabled persons, and new participants entering the workforce or becoming beneficiaries, including those who will be born or immigrate to the United States during the projection period…."]

Mr. Calder said that he didn't think any standard setter traditionally has been terribly specific about the format of a statement. He thinks it would be a bad precedent to do so.

Mr. Mosso said the current project was envisioned simply to decide whether to classify as "RSI" or as "basic" the information about stewardship responsibilities required by existing standards.

Staff Question:

> *Should we add language to the Basis for Conclusions to further address issues raised in the draft dissent? As part of such an addition, should we illustrate how the preparer might explain the implications of the SOSI?*

Mr. Calder said he would make no change to the basis for conclusions in response to the dissents. No changes were suggested.

- **Natural Resources**

Ms. Valentine presented a revised project plan to the Board that included the integration of possible revisions to the current FASAB reporting objectives. Also included in the staff package to the Board were answers to specific project questions raised at the December meeting and an outline of the Outer Continental Shelf (OCS) oil and gas development stages. Mr. Mosso stated that Staff's objectives were to review the project plan and to answer any additional questions that the Members may have and not necessarily to address specific issues.

Ms. Valentine began the discussion with the project plan timetable acknowledging an email comment from Mr. Patton that the timetable seemed to be overly optimistic. She stated that the timetable would depend on the number of the issues to be addressed and the extent of the Board deliberations. Mr. Mosso also commented on the "tightness" of the schedule but encouraged staff to strive towards the plan and to make adjustments as needed as the project progresses. Mr. Patton also noted that natural resources is one of those "assets" that could lead to some fundamental considerations of the nature of the balance sheet.

Ms. Valentine noted the inclusion in the staff document of the reporting objectives on [natural resource] past performance that was developed in the *Natural Resources Discussion Paper* (dated June 2000). She stated that the *Discussion Paper* also included reporting objectives to support future management and the national wealth in our natural resources. Mr. Patton asked that staff review all of the objectives outlined in the *Discussion Paper* and provide an analysis of those that will be carried forward in the current project and those that will not and why. Mr. Mosso further explained that that analysis should be done along with staff's examination of the project in relation to the current reporting objectives.

Mr. Anania asked that Staff review the current reporting practices of entities as it relates to the revenue recognition of the oil & gas leasing activities. He also asked if Staff had plans to review the disclosure requirements found in FASB 69 to determine if any of those requirements could be used in the Federal model. Mr. Anania went on to say that based on his review of the Board material as well as other private company's oil & gas disclosures, he did not see any disclosures relating to oil & gas leasing activities that would be comparable to that of the Federal government's leasing activities. Ms. Valentine noted that based on her discussion with an official at the Shell Exploration and Production Co., the leasing activities at most of the larger oil producing companies was not a material activity. Mr. Anania noted that based on the lack of disclosures relating to oil & gas lease activities in the private sector, the Board will need to come up with its own models for disclosing the Federal government's oil & gas leasing activities. Mr. Mosso commented that there would probably be significant amounts of information available about the leasing activities that could be reported. Mr. Anania questioned whether or not any information would be available about the future revenue streams from the leasing activities.

Mr. Patton commented that, based on the various stages outlined in the oil & gas development stages chart, the Federal government's intent of the resource would be very important in determining how it would be reported. Ms. Valentine informed the Board of the Five-Year Plan that is prepared by the Department of Interior that outlines the Government's usage intent for the OCS regions. Mr. Jacobson asked the Board how would one account for changes in that intent; what type of action would be necessary to justify a change in reporting? Mr. Anania noted that any change in intent would have to be supported by some type of formal action. Mr. Schumacher asked Staff if the reports listed in the chart were currently being prepared. Ms. Valentine stated that many of the reports are prepared by various bureaus within the Department of Interior, primarily by MMS.

Mr. Calder asked Staff if it would be possible for them to outline an exposure draft (ED) for the next Board meeting so that the Board could begin to deliberate the various elements of the draft that need to be worked out. Ms. Comes commented that it is the normal practice of Staff to provide a shell ED to the Board as early in the deliberations as possible. She also noted that Staff would have to make some assumptions about Board member's preferences with respect to objectives and elements. Mr. Calder said that an outline ED would be very helpful to him to help focus the direction of the project.

Mr. Anania stated that it appears to be two groups of oil and gas resources that the project would be considering. One group would be those resources that the Government is preserving or is under some type of restriction. The other group would be those that are or will be available for leasing. Mr. Anania also noted that the Board would have to consider what type of disclosures would be appropriate for those preserved or restricted resources. Mr. Reid said that there could be several classes of disclosures, depending on the type of restrictions placed on the sites.

Mr. Mosso asked if the Board members had any questions on the answers provided by Staff in the paper. Mr. Calder asked if Staff could provide the Board with some type of consumption figures that would put the table on page 8 in an understandable context. Mr. Wascak agreed to provide the necessary data. Ms. Valentine asked the Board if Staff should also review the current standards in SFFAS 7 on OCS royalties' recognition as they begin to draft the ED. The Board agreed that those current standards should also be reviewed. Mr. Anania suggested that Staff write the Basis for Conclusions as the ED is developed.

- **Stewardship Land and Heritage Assets**

Staff explained that the Heritage Assets and Stewardship Land project evolved as part of the Board's overall project of reviewing and re-categorizing the stewardship elements to fit the categories identified in the traditional auditing model. The heritage assets and stewardship land project began in 2000 and there has been previous staff research and Board discussion on the issue. Staff explained that much information had been provided in the Board binders, mainly to ensure the new Board members had an understanding of previous work done in the area. Specifically, the binders included the following:

Tab 1: Proposed Project Plan for the Heritage Assets and Stewardship Land Project;

Tab 2: Background Paper on Heritage Assets and Stewardship Land;

Tab 3: Preliminary Views Comment Letters (Received in response to the *Preliminary Views on Eliminating the Category "Required Supplementary Stewardship Information"* in December 2000;

Tab 4: Issues Surrounding Reporting and Auditing Treatments for Stewardship Land and Heritage Assets (Paper Prepared June 2000);

Tab 5: Draft *Reporting and Assurance Guide for Stewardship Land and Heritage Assets*, prepared by the AAPC Stewardship Guidance Work Group;

Tab 6: Heritage Assets Categorization Project Proposal; and

Tab 7: Sample Stewardship Reports excerpts and excerpts from OMB's *Analytical Perspective.*

The Chairman explained that although much background was provided, he hoped the Board would focus on completing the Board's previous decision of reclassifying the RSSI information. He explained that much work had been done, especially in gaining an understanding of some of the audit concerns regarding non-financial data. At this point, he believed the Board should focus on the reclassification issue and other issues perhaps could be addressed in a separate project in the future. The Chairman also pointed out that the AICPA no longer has audit standard setting authority, as it is now part of the Public Company Accounting Oversight Board (PCAOB). The Chairman did not believe addressing the issue of auditing non-financial information would rate high on the PCAOB's priorities or agenda items. Therefore, the Chairman believed the Board should decide on the reclassification based on what is best for fair presentation.

The Board discussed some of the actions relating to RSSI and the Board's decision in April 2000 to eliminate the category by re-categorizing each element within RSSI. The Board also briefly discussed the current standard requirements for heritage assets and stewardship land as well as the issues identified with the standards in the past. The Chairman discussed that there had been concern over how to audit physical units, condition reporting, and the fact that the standard allows much flexibility in reporting and allows the preparer to decide pertinent information.

Mr. Anania stated that he was a bit confused relating to the timing of some of the Board's actions. Specifically, he wanted a better understanding of the Board's previous proposal on the information. Staff explained that the Board had previously voted to make the heritage asset and stewardship land information basic, with the exception of condition reporting, which was to be considered required supplementary information. Staff explained that the project had more or less halted after the public hearing on the Preliminary Views Document "*Preliminary Views on Eliminating the Category "Required Supplementary Stewardship Information."*" Staff explained that responses to the Preliminary Views Document and presenters at the public hearing had favored maintaining the RSSI category.

The Board also discussed the question of what type of information the American public wants. Specifically, does it make sense to report items on the Balance Sheet that may not be able to be liquidated or that may not have a fair value. Meaning, if you tell the public that you have 650 million acres of land, without telling them what it is worth—what have you told them? The Chairman explained that this is valuable information because you have told the public that you have an asset, that perhaps is yielding revenue and that may have alternate uses and the public should have this information.

Mr. Anania stated the Board needs to discuss whether it wants to make a change now regarding the classification of the RSSI or does it want to debate some of the issues, including what the current standards require. Mr. Patton stated that he preferred to consider some of the conceptual issues with the project. Mr. Calder stated that he preferred to resolve the RSSI issue versus debating some of the issues. Mr. Patton asked the Board what other projects could be used to look at the elements side of the conceptual project specific to assets. Mr. Calder suggested that perhaps the conceptual issues could be considered in conjunction with the Natural Resources project.

Mr. Kull asked whether it was possible to place something on the balance sheet with a footnote reference and the information included in the footnotes be considered required supplementary information. Mr. Patton stated that the audit panel that had previously presented at a Board meeting had stated that it would be possible as long as it was clearly labeled.

The Board also discussed that heritage assets and stewardship land information is important for understanding the government's financial condition versus financial position. Mr. Kull also suggested that perhaps the Board should consider whether the costs for heritage assets should be capitalized because these physical assets also represent potential costs of the future when we must defend and refurbish them.

[Lunch Break]

The Chairman noted that the Board has run into an issue that most standard setting bodies often encounter when you get into a project and you find certain decisions as well as aspects of the old standards and concepts that you don't necessarily agree with and there is a strong urge to reconsider issues. He added that when the Board decided to reclassify the RSSI items, it also informally decided not to reconsider the standards, but instead focus on reclassification.

The Chairman explained that he believed the Board had three options before them with this agenda item—1.) The Board could go forward with a project to simply reclassify the elements of Heritage assets and stewardship land without reopening issues related to the current standard; 2.) The Board could address the reclassification issue and also address other issues within the standard plus include conceptual work (the Chairman suggested that this would have to be included along with other agenda topics as a new project for ranking because of the expansion of scope); or 3.) The Board could shelve the project, which would in essence mean the Board may not go forward with eliminating the RSSI category at this time.

The new Board members inquired about what other type of information (other than heritage assets and stewardship land) remained in RSSI. The Chairman explained that the other information relates to Stewardship Investments which includes nonfederal physical property (grants provided for physical property financed by the government, but owned by state or local government); costs incurred for education and training programs that are designated to increase or maintain national economic productive capacity and research efforts to provide future benefits or returns; human capital—education and training programs financed by the government for the benefit of the public; and research and development costs.

Mr. Patton asked if there is an idea of how urgent the guidance is needed on the RSSI items. The Chairman explained that the urgency relates to the Board's desire to reclassify the items to fit the standard GAAP and GAAS reporting models. The Chairman elaborated that the preliminary views document explains further the position to re-categorize the RSSI items.

Mr. Kull indicated that he was more concerned with fundamental management issues such as Federally Funded Research and Development Centers (FFRDCs) because they involve big dollars where guidance is needed. He suggested that issues such as FFRDCs are more important and require the Board's attention prior to reclassification of RSSI items and determining what heritage assets and stewardship land information should be basic. The Chairman explained that it might not be good comparing those two projects because the heritage assets and stewardship land standard is already in existence, the project relates solely to reclassifying the information.

The Board requested that staff provide a summary of all remaining RSSI items along with current disclosure requirements for the next Board meeting.

- **Agenda Setting**

Ms. Comes explained that briefing materials included a preliminary ranking of possible projects based on the December 2002 meeting. The project objectives were provided but project plans had not been developed since a new technical project would not be undertaken before late summer. The discussion should focus on whether the project ranking is consistent with members' preferences in light of the concepts project discussion.

The Chairman noted that social insurance is at the top of everyone's list.

Mr. Anania indicated that he did not believe the Board's efforts should be focused on performance reporting or cost accounting in the short-term. He believes that social insurance should remain at the top of the list and that actuarial changes could be addressed with social insurance. He would prefer to address federally funded research and development centers after social insurance.

Mr. Kull indicated that we should not spend a lot of time sorting out project rankings beyond numbers 2 or 3 since we would not take the projects up for some time. Members generally concurred. Mr. Anania noted that a semi-annual review of the list would be useful so that we could revisit in light of events.

Mr. Mosso summarized that the concepts project would be our next active project and when staff is available to begin another new project, at the earliest in late summer, that social insurance would become an active project.

Mr. Kull indicated that he understood the concepts project would include an effort to inform decisions on currently active projects (such as heritage assets) as well as future projects. He understood that the concepts project would not be halted to address specific issues that come up along the way. However, he believes that improving the concepts would support faster resolution of issues because the Board would better understand what it was trying to accomplish and why things are the way they are.

Mr. Farrell indicated that – as he sees it - we would have at least two major standards projects running concurrently with the concepts project. They would be natural resources on assets and social insurance on liabilities. He indicated that you wouldn't be able to do natural resources until you had a concept of what an asset is and you wouldn't be able to do social insurance until you had a concept of liability. In the project to look at natural resources we are looking at a possible asset. You must understand what an asset is and our current asset definition is weak. We must consider the concept of an asset before we decide on natural resource accounting.

Mr. Anania suggest that staff would set up the natural resources project based on the asset definition that we have and decide whether that definition is sufficient. On the liability side, you could look at the exchange and non-exchange concept and revisit it as part of the social insurance project. He believes you could do it concurrently. Ultimately he prefers to have a greater weight given to concepts. Once we have definitions of elements decided upon, we would proceed to recognition and measurement concepts.

Mr. Mosso indicated that we would come back in April with objectives and start on the asset definition. He confirmed that all still support social insurance as the next project. He asked that we have more detail on the projects – especially FFRDCs – when we next consider rankings.

Mr. Anania asked that we have a review of the current standards and how they relate to objectives for the next meeting. This analysis would give him an idea of what we have done to date. It might also give us an idea of which objectives are most heavily weighted in developing standards.

Ms. Comes noted that the objectives are generally referenced in the individual standards to assist readers in understanding why certain decisions are made. However, she noted that some of the decisions are not as clearly linked to objectives as others are. She recalled that an earlier Board considered a request to limit reporting to ending balances because the preparer could easily provide ending balances but could not explain the changes in balances. At that time, the Board decided to require separate reporting of additions and deletions during the year because it might lead to improved systems and controls. Because these are generally lower level decisions, they are not highlighted in the literature.

The meeting concluded with a summary of expected project activity for the next meeting:

1. On the items remaining in the required supplementary stewardship category, Ms. Loughan will provide a listing of what is in each category, the consequences of each option for reclassifying the items, and (based on a request from Mr. Farrell) an example of how the Department of Transportation reports on its investment in the “Big Dig” project in Boston.

2. For the objectives project, Mr. Bramlett (pending completion of Stewardship Responsibilities) will try to relate current objectives to (a) existing standards and (b) objectives issued by other standard setters.

3. There is no expected activity related to the new social insurance project. Mr. Anania requested that information on the closed group number and how it relates to the FASB pension accounting be provided at some point.

4. For fiduciary activity, Mr. Fontenrose will be making changes to the draft ED based on the discussion and send a track changes for comment (this will be a second pre-ballot rather than a ballot version).

5. For earmarked revenue (or dedicated collections), based on a member's request, Ms. Palmer will share a draft exposure draft and case study before the binders for April are delivered.

6. For natural resources, Ms. Valentine and Mr. Wascak expect to have a skeleton exposure draft for discussion.

Noting that the Board members have been incredibly responsive to drafts provided between meetings, Ms. Comes thanked the members.

Adjournment

The meeting adjourned at 2:30 PM