FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
April 28-29, 2010
Room 7C13
441 G Street NW
Washington, DC 20548

Wednesday, April 28, 2010

Administrative Matters

• Attendance

The following members were present throughout the meeting: Chairman Allen, Messrs. Dacey, Granof, Jackson, Showalter, Schumacher, and Steinberg. Ms. Bond and Ms. Fleetwood attended the meeting intermittently. Ms. Regina Kearney represented Ms. Bond during her absence and Mr. David Strobel represented Ms. Fleetwood. The executive director, Ms. Payne, and general counsel, Mr. Dymond, were also present throughout the meeting.

- **Approval of Minutes**

The minutes were approved electronically in advance of the meeting.

- **Recognition**

Mr. Allen acknowledged with regret the recent passing of Treasury's fiscal assistant secretary Ken Carfine. He noted that the federal financial management community had lost a champion as well as an exceptional individual.

Mr. Allen also noted that this would be Ms. Fleetwood's final meeting before her retirement. During her short tenure on the Board, she contributed greatly and will be missed.

Agenda Topics

- **Measurement Attributes**

Ms. Wardlow presented a revised draft concepts statement on measurement attributes and summarized the principal changes from the February draft. The principal changes were the addition of a discussion of constant dollar accounting and an example of the effects of changes in specific prices and purchasing power, the movement of the discussion of qualitative characteristics to the last section of the draft, and the merging of the sections on initial amounts and remeasured amounts into one section. These and other changes contributed to a reorganization and simplification of the draft. Ms. Reese, GASB project manager, reported that at its May meeting the GASB will consider a draft section on measurement attributes, based on that section of the FASAB draft. Mr. Allen called for questions and comments from the members.

Mr. Schumacher said the draft reads well. He questioned whether the counter argument, on page 13, to reporting remeasured amounts could be interpreted as a biased comment, given that there is no equivalent counter argument to reporting initial amounts. Ms. Wardlow said she would review the language to ensure balance.

Mr. Showalter said the new draft reads better than previous drafts. He likes the example of constant dollar accounting and thinks it explains a lot, but he asked whether examples are commonly included in concepts statements. He does not have strong views about it, but he would like to raise the question. Ms. Wardlow said she began by introducing the topic in the text and putting the example in an appendix. However, it is difficult to explain constant dollar amounts or the difference between purchasing power changes and specific price changes without an example. It seemed easier for the reader to place the example with an explanation of the meaning in the text.

Mr. Jackson agreed. He said he likes the draft and its understandability and brevity. The example on constant dollars is helpful. He questioned the comments about the sources of expenses and revenues on page 2 (beginning line 6)—for example, how would a decrease in a liability result in a revenue? Ms. Wardlow said a deferred revenue can be replaced by a revenue. However, the examples were intended to address the sources of expenses and revenues collectively, rather than aligning each point separately with expenses and/or revenues. She suggested two remedies to make it clearer: combine category (b) with (a) and designate "other events" as category (b), or take out the designations (a), (b), and (c) to clarify that expenses and revenues are being addressed collectively and not in detail. Mr. Jackson said he does not think detail is necessary and he would agree with a solution that would avoid potential confusion. As another point, Mr. Jackson questioned the use of "cash payments for services" as an example of current transactions in which initial and remeasured amounts are the same, because expenses generally result from the provision of services rather than the cash payment for them. He would prefer an accrual-basis accounting example. Also, he would like to add a revenue example.

Mr. Steinberg said, in response to Mr. Jackson's comment about sources of expenses and revenues, that when he read the example he thought of deferred revenues as examples of liabilities than can result in revenues. He asked whether Ms. Wardlow was suggesting removal of point (b). She said she would remove the designation (b) but keep the words. Mr. Allen said Mr. Jackson's point was that readers would be looking for a one-to-one match. Mr. Jackson agreed. Mr. Dacey said the problem could be avoided by addressing revenues and expenses separately, so that readers would not try to attribute all the traits to both revenues and expenses.

Mr. Allen said the same paragraph (page 2, line 3) states that assessments of the usefulness of remeasurement after initial recording are "directly relevant only for assets and liabilities." He believes that is too strong. He agrees more with the last sentence of the paragraph, that "Although the focus is on assets and liabilities, the recognition of changes in their valuation clearly affects when and how resulting revenues and expenses are measured and recognized." He suggested placing that sentence at the beginning of the paragraph.

Mr. Dacey pointed out that the FASAB has a particular definition of "relevance." In the same paragraph and elsewhere in the draft the word "relevant" is used with what appears to be a different meaning. That should be avoided.

Mr. Jackson said, as a general point, that the first two sentences in the paragraph relate to previous conversations of the Board concerning balance sheets and the possibility of moving away from them and dealing only with operating statements. This paragraph indicates that you cannot have an operating statement without an accurate balance sheet. You must be able to audit the balance sheet numbers to ensure the reliability of the operating statement. Mr. Allen said he believes much of the issue has been about the relative emphasis on one statement or the other. He does not think there was a suggestion to discard the balance sheet. Mr. Jackson agreed and added that, if we are going to change the reporting model, it is important to remember that one statement feeds the other. Mr. Showalter added that if you deemphasize the balance sheet to the extent that it is not subject to audit, you will not get auditable revenue and expense numbers.

Mr. Schumacher said that the last paragraph on page 15 talks about initial amounts, remeasured amounts, and capital assets, whereas the previous paragraph summarizes the discussion in the preceding section. He would make that paragraph the concluding paragraph.

Mr. Showalter said that on page 4 there are references to "issues." To him, the word "issues" means problems, whereas the discussion deals more with questions or options. Ms. Wardlow said the Board had discussed at previous meetings the wording of the objective of the concepts statement (p. 1) and had concluded that the phrase "conceptual issues relevant to establishing measurement standards" was appropriate. The wording on page 4 extends from that use of the term "issues." Mr. Granof said that the problem is the word "issues" has come to be used incorrectly today, as a synonym for problems. Ms. Wardlow asked whether the members generally preferred "questions" to "issues." Mr. Showalter said he did not have a strong preference. Mr. Jackson said "questions" might be more neutral. The Board generally agreed to refer to "questions" rather than "issues," except in the statement of objectives on page 1.

Mr. Allen asked for additional comments. He suggested that, if members have comments in the same areas, they be addressed at the same time.

Mr. Dacey asked whether it would be helpful to readers to try to articulate the current consolidated balance sheet in an appendix, showing the measurement methods currently in use. It might not be included in the final document, but it might be useful and would provide a context for respondents if the exposure draft showed how the elements are currently measured. A generalization might be needed where there is no current rule. The appendix would not say that these measurement attributes would be used in the future, but it would show those that are currently used. Ms. Payne suggested focusing on initial vs. remeasured amounts in general, because even at the staff level it is difficult to align current measurement requirements with particular attributes.

Mr. Dacey wondered whether there are other attributes currently in use that are not mentioned in the concepts statement. Mr. Allen said there are other titles for the same attributes. He asked Mr. Dacey what advantage he sees in lining up current practice in a concepts statement. He thinks it would be good if the draft stated what Mr. Dacey is saying—for example, "in the current financial statements, both initial amounts and remeasured amounts are used for different reasons"—but he is not sure the Board should go beyond that.

Mr. Dacey said it would be informative to show readers the extent to which the balance sheet already contains remeasured amounts and how concepts with which they may not be familiar relate to where we are today. They could see examples of the different measures. It would also help the Board to identify situations in which the Board cannot determine where a particular measurement fits.

Mr. Granof asked Mr. Dacey how he would show what we do today. The balance sheet is all aggregated; there are some items at historical cost and some that are probably remeasured amounts within the same category. Mr. Dacey agreed that might happen with inventories. Mr. Granof said some investments are at fair value and some at historical cost. He asked what sort of display Mr. Dacey was contemplating. Mr. Dacey said one could take the current balance sheet format and account structure. One could break down categories in which significant components are measured differently and show them as subcategories, but he believes that most categories would contain either initial amounts or remeasured amounts. An exception would be inventory held for sale vs. inventory held for use.

Ms. Wardlow asked whether it would be more feasible and helpful to do this either by major transactions that people are familiar with or by major classes of assets, because as Mr. Granof and Mr. Allen have said, it would be difficult to do it with a balance sheet that is highly summarized and aggregated, without having a lot of sidebars possibly extending to several pages. It might be easier to do it in other than a balance sheet format, with some examples of major transactions or major classes of assets.

Mr. Steinberg said he really liked Mr. Dacey's idea. He thinks the concepts statement will be difficult for people to understand. Mr. Dacey's idea would relate the concepts to things they are familiar with. He does not think it is difficult. He envisions a two-column table. The left-hand column would be every asset and liability on the balance sheet (per OMB Circular A-136), and the right-hand column would be our present standards. For combined categories the right-hand column would have two entries. The process of doing it would be very educational for the Board. There may be things that the Board believes are measured one way when in fact they are measured another way. He believes Mr. Dacey is talking about the government-wide level, but most of the statements produced are at the agency level. For example, agency investments are carried at cost. If the Board decides to do this, he would do it for both government-wide and the agencies so that people can relate to it. Most readers see mainly the agency statements. He thinks it is a great idea and should increase the responses. Mr. Dacey said that intergovernmental reporting broadly is another issue.

Mr. Allen asked Mr. Steinberg whether his left column would be the categories of assets, such as "cash" and "receivables," or would it contain numbers from the financial statements? Mr. Steinberg said it would contain the categories. Mr. Allen responded that he would be more comfortable with that than with numbers. He thinks it would be educational. One of the early challenges in the project was to look at current standards, and staff found twenty-two titles for measures. Most of them were really historical cost or some version of remeasured amounts. The suggested table would put the Board back into that discussion, but would talk about broad categories and not all of the variations addressed in FASAB standards. Ms. Wardlow said the staff also found that in most of the standards examined there is no definition of the term being used, so the staff had to guess whether one term meant the same as another. The staff did not go as far as determining whether people were interpreting the terms differently, but there seemed to be a lot of duplication as well as some things that were not attributes at all. Mr. Allen said that the table would clearly demonstrate that we have a mixed-attribute model. He is still uncertain whether there is value in doing something beyond simply stating that both initial and remeasured amounts are used in current financial statements, but if there is a value, the Board should do it.

Ms. Bond seconded Mr. Dacey's and Mr. Steinberg's ideas. She thinks it would be informative for the Board and it would give readers a useful perspective when they read the concepts statement. She liked the simplicity of the draft.

Mr. Allen said there is enough support to develop a chart. He asked Mr. Dacey to go to his next comment.

Mr. Dacey referred to the statement at the top of page 4 to the effect that measurement standards would consider cost-benefit. He acknowledged that the Board agreed to remove the discussion of cost-benefit in relation to the reporting approaches and measurement attributes, but he wondered whether more should be said, such as how cost-benefit is a factor in the Board's decisions on specific standards.

Mr. Dacey then expressed a concern with setting up four reporting approaches when most of the document focuses on initial and remeasured amounts. He wondered whether it would be better to place the discussion of constant-dollar accounting at the end and get directly into the two principal concepts. Then the example would not be so dominant at the front end of the document. The example could be moved to the end, but it might be better to move the whole concept to the end. Mr. Jackson asked whether he was saying the discussion should address initial and remeasured amounts in nominal dollars first and then go to constant dollar accounting. Mr. Allen said an alternative might be to have a much briefer discussion in front and refer to the example placed at the end. Mr. Showalter asked Mr. Dacey whether he is saying that we give an example of constant dollar accounting, but we do not really talk about it. Mr. Dacey said we initiate a discussion, but then we do not deal with it very much in the substance of the document. There are a couple of references to price changes, but generally the discussion is about initial vs. remeasured amounts. He thinks that nominal vs. constant dollar accounting is a separate thought process. However, if other members are comfortable with the draft the way it is, he would not raise a major objection.

Mr. Jackson said he is comfortable with what he has read and he asked Mr. Dacey what, specifically, he would do. Mr. Dacey said that one way to deal with it would be to say there are two issues: initial vs. remeasured and nominal vs. constant dollar. Address initial vs. remeasured first and then address nominal vs. constant dollar at the end. Mr. Showalter asked if Mr. Dacey is saying we should talk about them first and then use the example at the end to bring it all together. Mr. Dacey agreed. He added that the staff did a great job and he appreciates the effort.

Ms. Wardlow said she wonders how the information could be restructured to get the main points across without addressing constant dollars, because remeasured amounts include both specific price changes and purchasing power changes, and the staff has tried to make that point and then separate the two kinds of changes in the example. The Board might almost be saying that there are really two approaches, if the constant dollar question is not addressed until the end, where it might appear to be an after-thought. Mr. Dacey said he would set it up at the beginning by saying that there are two issues to think about in this area. We might briefly explain the concept and then deal with it in more detail as we discuss initial and remeasured amounts. Ms. Wardlow asked if he would still talk at the beginning about specific vs. purchasing power changes, but he just would not explain how that works. Mr. Dacey said he would explain it but move the bulk of the discussion to a different place. He added it is just a suggestion.

Mr. Allen said to Mr. Dacey that the members are all open to whichever way would be best and most readable. His only concern is that the draft is much more readable now than in the past, and everyone has commented on that, so he is reluctant to start taking it apart. Mr. Showalter asked whether Mr. Dacey was suggesting taking the example on pages 8 and 9 and placing it after page 15. Mr. Dacey agreed but said he also would separate the two issues of initial vs. remeasured and nominal vs. constant dollars. He thinks readers who are not familiar with constant dollar accounting might get lost on page 7. Mr. Jackson said he "found" himself with the example on page 9. Mr. Dacey said he thinks his suggestion would improve the flow, but other members might think differently. Mr. Allen said the matter could be left to the staff to review.

Mr. Dacey then referred to the statement on p. 15 that "It may not be conceptually appropriate or useful for decision makers to require the same reporting approach for all assets and liabilities and related costs." He said that perhaps the Board does not have to reach a conclusion in a concepts statement, but he wonders whether members believe we have anything other than a mixed attributes model or whether we can make a more assertive statement. Mr. Granof agreed. He noted that we frequently say one method is "more useful," but we never say to whom it is more useful. What is more useful to one party is not necessarily useful to another. He wonders whether a sentence or two should be added at the start to make that point. Mr. Dacey added that there may be different reasons. He does not know whether the Board is prepared to say that a mixed model is likely to continue. If we are not ready to go there, that is fine, but he thinks that we are likely to end up in a similar place to the GASB and it is hard to say that it is likely to be one way or the other. Mr. Granof said that we know we will have a mixed model. Mr. Dacey agreed but said he is not sure it is appropriate to say that in a concepts statement. Mr. Granof said he thinks we have to comment on it. We should say somewhere that we have to weigh the needs of different user groups.

Ms. Wardlow said there was a much stronger statement in previous drafts, which said that we have a mixed model and the Board foresees that is likely to continue. That comment could be reinstated. Moving the paragraph to the end, as Mr. Schumacher suggested, would make it easier to expand on that point. Mr. Jackson questioned whether talking about the foresight of the Board is appropriate in a concepts statement. Ms. Wardlow said different words might be appropriate, but something could be said to indicate that the Board is not anticipating a move away from a mixed model, as we have currently, to a single-attribute model.

Mr. Jackson said he thinks the document focuses on the relevance of different attributes and addresses the terminology the Board would use. The Board just has not picked the attribute the Board would use for a particular account. He does not think the Board needs to focus on any particular direction or to say anything beyond saying that this document will help guide the Board as to which attribute to use for a particular asset or liability. Mr. Dacey said that is part of the point. If we are considering all of these factors for each asset and liability, that is a different position than if we want to decide on one approach or attribute for everything. By considering all the factors, you acknowledge that in effect there could very well be different measures for different assets and liabilities. Responding to a question from Mr. Jackson, staff confirmed that the GASB's draft allows for a mixed model.

Mr. Allen said this discussion ties in to Mr. Dacey's earlier suggestion of providing a schedule or chart to illustrate the attributes currently used, because that would clearly show a mixed-attribute model. Mr. Dacey agreed but said it is also a matter of clarifying for the reader that we would apply these factors when considering the measurement of assets and liabilities, but we are not making a decision now. We are likely to apply different measurement attributes for different assets and liabilities and we should acknowledge that up front. Mr. Jackson agreed. Mr. Dacey added that GASB is clearly going with a mixed-attribute model. However, the FASB was considering a single-attribute model at one time, although they seem to be moving away from it.

Mr. Dacey then asked a general question concerning the extent to which decisions about measurement attributes may be affected by considerations of intergenerational equity or interperiod equity. Would that be a factor in choosing either initial or remeasured amounts? Ms. Wardlow said she was a little nervous about including that notion because the FASAB has not defined intergenerational equity or interperiod equity. Without an agreed definition, it would difficult to explain what effect such a concept might have. Mr. Allen added that those concepts are not emphasized in FASAB concepts statements the way interperiod equity is in GASB statements. Mr. Dacey said that, if you are measuring costs and revenues, part of that process—much of which includes cost allocations—relates to what you are trying to measure. Are you trying to measure whether current taxpayers shouldered the right burden or not? He is raising the point because the question is out there and is potentially relevant to deciding how you want to measure costs vs. revenues and the burden on current taxpayers vs. future taxpayers.

Ms. Wardlow said she is uncertain about it because the FASAB is talking entirely about accrual-basis accounting. The GASB also has the modified accrual view, and their concept of interperiod equity is based on budgeting, not accounting. It has been brought into accounting, but it is basically a budgetary notion in their concepts statement. When you look at the concept one way versus another you come to a different conclusion about what is equitable. We could try to put something in the FASAB document, but without going as far as saying that our interpretation of intergenerational equity or interperiod equity might be different from the GASB's. That could move us further away from the GASB and might not be something the Board wants to do in this document, without thoroughly considering the issues. Mr. Dacey said he wonders whether intergenerational or interperiod equity considerations could be a factor in deciding between different attributes. If we conclude it is not a factor, that is fine. We can exclude it or tell people that we decided it is not a factor. Mr. Allen said the FASAB probably should have a project on it.

Mr. Granof said he had sent a number of comments to Ms. Wardlow. On page 11, the document states that initial amounts "in periods following their acquisition" generally are "reliable and objective based on documentary evidence." In his view, in periods following their acquisition initial amounts are no longer very objective because we have now amortized them or depreciated them. Mr. Allen said we are trying to present a balanced argument and some people believe very clearly, particularly in the GASB, that this statement is a true statement. Mr. Granof responded that no one can argue that, after the initial amount, the value assigned to a fixed asset is objective because we have now had to prophesize as to useful life and salvage value. Mr. Allen said he has a document and he has assigned a life that meets his satisfaction and his auditor's satisfaction. He is not arguing against Mr. Granof's position, but he does not want to talk about either approach in such a way that it looks like we are not balanced. Mr. Granof responded that it is often said that initial cost is objective. Maybe we can say that for most assets the initial amount is objective, but we cannot say the amount is objective after that because we have to decide on an allocation method, salvage value, and useful life and those are not objective. So, we need some qualification in what we say here.

Mr. Steinberg suggested inserting after "are generally reliable and objective" the qualification "with the exception of depreciation, allocation," etc. Without these procedures the amounts are generally reliable and objective. Mr. Granof agreed that the initial amount is usually objective but not thereafter. Mr. Dacey agreed that the initial amount is objective and said that the allocation to periods is a separate discussion. Mr. Granof agreed and said that it simply should be made clearer. Mr. Dacey suggested just referring to the initial amount and Mr. Granof agreed and said one only would need to change the phrase "in periods following their acquisition."

Mr. Granof then referred to page 12 and the sentence "These proponents suggest that reporting program and activity costs based on the initial amounts facilitates users' ability to assess how the use of budgetary resources relates to the costs of operations (budgetary integrity objective), whereas reporting costs each period at remeasured amounts does not." He finds this confusing because from a budgetary standpoint the assets typically have a zero value because they are expensed, so it does not fit the rest of the discussion. Ms. Wardlow said she would work on this excerpt with Ms. Payne because she has some difficulty working with the budgetary integrity objective in the context of accrual-basis financial statements. Ms. Payne said the point is probably simpler than it appears in this sentence. We have a statement of financing. If you are using initial amounts, then items to reconcile costs back to budgetary amounts are primarily depreciation expense. Once you introduce remeasurements, you have a lot more reconciling items to get back to budgetary amounts. So it complicates that explanation of costs vs. budgetary resources. That is the intended point and we can probably say it more simply, because it is clearly not this year's resources against this year's costs; it is more a long-term explanation.

Mr. Granof next referred to page 13, line 6, where it talks about "price level changes." He would say "price changes" because "level" implies purchasing power changes. Ms. Wardlow agreed and noted that the same change should be made elsewhere in the same paragraph. Mr. Showalter suggested moving the first clause on line 6—"Because of price changes"—to the end of the sentence.

Mr. Granof then referred to page 18, line 11, where it states that settlement amounts may be reported as initial amounts. He questioned this because a settlement amount is a future amount, an amount for which we expect to settle a liability. Ms. Wardlow said the liability might be valued at the present value of the amount that is expected in settlement and that would be the amount initially recorded. It would be adjusted in future periods. Mr. Allen said the settlement amount referred to in lines 10 and 11 is the net realizable value. Mr. Granof said that would not necessarily be the initial amount. Mr. Dacey said that on the liability side it very well could be; he is not sure about the asset side. Mr. Jackson asked whether the settlement amount for a receivable would not be the initial amount? Mr. Dacey agreed that it could be the same for short-term amounts. Mr. Jackson pointed to qualifying words in the excerpt, such as "may be" and "could be," and he thinks they could be the same. Mr. Allen asked Mr. Granof whether he would leave it to the staff to revise the language and he agreed.

Mr. Granof said, as a general comment, that the document is written primarily from the perspective of assets, not liabilities. He wonders whether all the comments made are really relevant to liabilities as well as assets. There may be some where it is questionable. Mr. Allen asked Mr. Granof whether he has suggestions to enhance the discussion of liabilities. He would not wish to have separate discussions of assets and liabilities or have a separate concepts statement on liability measurement. Mr. Granof said that people are much more willing to accept the notion of remeasuring assets than the notion of remeasuring liabilities, as has been seen with the FASB's work. We really do not get into liabilities in this document and he is not sure what to do about it. We do not want to issue two documents and he is not sure we want to address all the issues with liabilities. Mr. Allen said that the way the document is laid out, it does not prejudge either assets or liabilities. Basically, as a practical matter, the document will be used for the asset side, but it does not preclude the Board from moving more into the liability side in the future. Mr. Allen said he was not sure how to address Mr. Granof's concern, and Mr. Granof agreed he also is uncertain about how to deal with it.

Mr. Dacey said most of the examples we give are assets, and two of the attributes, such as value in use, are strictly for assets. Fair value and settlement amount could be, and are, discussed in terms of liabilities. It is a conceptual document and he thinks it could be applied to both assets and liabilities, although he is not sure of the applicability to liabilities for federal accounting standards. Mr. Granof said the document is heavily weighted towards assets and, if we were thinking about liabilities, we should probably raise some additional issues. Mr. Allen said that if Mr. Granof has the wording, he believes the Board and staff would be open to it.

Ms. Reese commented that the GASB spent a whole meeting talking about issues related to remeasuring liabilities and she would agree that they are not exactly parallel, not only in whether there is a market for settling liabilities as there is for selling assets, but also because governments are in a different circumstance if they want to think about selling capital assets vs. "selling" their debt. There is not a big market for their debt. It is tempting to think about assets and liabilities as having the same issues, but they function differently. The GASB document talks a bit about the ability to achieve the remeasured value related principally to liabilities issues. You could theoretically come up with a remeasured amount, but you could not actually realize it. Ms. Reese and Messrs. Granof, Dacey, and Showalter briefly discussed the possibilities for governments to buy their debt.

Mr. Dacey said that Mr. Granof has raised a good point. There is a challenge if you apply our definitions of initial vs. remeasured to liabilities. He thinks that pension liabilities are remeasured annually. Maybe it would be good to see which category they fit into. It would be interesting to see if some of those issues could be addressed, at least with respect to where current practice is, but maybe not the more esoteric issues, such as whether we can settle liabilities for less than we owe, which are probably less relevant.

Mr. Allen said there seems to be agreement that generically we are dealing with both assets and liabilities, although we acknowledge that there are additional challenges in dealing with liabilities. We will see the draft again and, when we see the schedule and discuss how we categorize the classifications of assets and liabilities on the schedule, maybe that would be the time to think about whether we need some additional wording for liabilities.

Mr. Allen then asked Ms. Payne to comment on the plans for the June meeting with the GASB in Norwalk, CT. Ms. Payne said that the Board will meet with the GASB on Thursday morning, June 24, to synchronize any terminology that can be synchronized. For example, we expect to talk about "initial" and "remeasured." If GASB is interested in presenting measurement attributes, we will try to synchronize the definitions of the measurement attributes. There is some concern about whether it is possible to align federal and state/local concepts—some concerns about whether our objectives are close enough. In the afternoon, the GASB will provide space for the FASAB to continue discussion of, and hopefully finalize as much as possible, our exposure draft so that, after the June meeting, members will have perhaps one more look at the draft in preballot, and then a ballot draft before the August meeting. There is no crisis in terms of getting this out, or time pressure from the community. The time pressure is more operational because of funding and the period of service under Ms. Wardlow's contract. We hope to finish this project by August of 2011. There may be ways to extend it but the safest is to try to finish by that date.

Mr. Allen asked whether there are other issues, besides measurement, to talk about with the GASB. Ms. Payne said there are other areas that the Boards could leverage on. GASB is working on fiscal sustainability, which FASAB has completed. FASAB is working on deferred maintenance and impairment, which GASB has already done, so if there is something we can put on the agenda about that, we will do so. Mr. Allen said the last joint meeting, where the Boards explained conclusions they had reached on different projects, was a good educational experience.

CONCLUSIONS: The staff will prepare additional materials for the Board's consideration and revise the draft as follows:

1. The staff will prepare a schedule to illustrate which categories of items reported on the consolidated balance sheet and/or agency balance sheets are reported at initial amounts and which are reported at remeasured amounts under current FASAB standards. Categories may be subdivided if significant items within them are measured differently from other items in the same category. The Board will consider whether such a chart should be added as an appendix to the exposure draft of the concepts statement.

2. The staff will consider the pros and cons of moving the discussion and example of constant dollar accounting to the end of the document. The discussion at the beginning of the document would continue to introduce the topic by explaining the difference between specific price changes and purchasing power changes. Board members were undecided as to whether such a change would be beneficial.

3. Revisions requested by the Board:

    - Page 2:
        - Clarify the discussion of the sources of revenues and expenses and their relation to balance sheet amounts.
        - Change the example of "cash payments for services" to an accrual-basis transaction and add a revenue example.
        - Move the last sentence of the paragraph ("Although the focus is on assets and liabilities, the recognition of changes in their valuation clearly affects when and how resulting revenues and expenses are measured and recognized.") to the beginning of the paragraph.
        - Replace the word "relevant" (here and elsewhere in the draft) with another term if the meaning does not coincide with the FASAB's definition of the qualitative characteristic of relevance.

    - Page 4 (and elsewhere):
        - When stating that something or a method is "more useful," clarify to whom or for what purpose.
        - Replace "issues" with "questions" or "options," when those terms may be more appropriate. Retain "issues" in the statement of objectives on page 1.

    - Page 11: Qualify the statement that initial amounts are generally reliable and objective in periods following their acquisition to clarify that may not be the case once such amounts are amortized or depreciated.

- Page 12: Clarify the discussion of initial amounts in relation to the budget integrity objective.

- Page 13:
  - Replace "price level changes" with "price changes," when the intended meaning is specific price changes, and move the first clause on line 6 ("Because of price changes") to the end of the sentence.
  - Consider balancing the counter argument to remeasured amounts with a counter argument elsewhere to initial amounts.

- Page 15:
  - Reverse the order of the second and third paragraphs, the second being more in the nature of a concluding paragraph.
  - Include a clearer statement concerning the current and potential continued use of a mixed-attribute model.

- Page 18: Revise the discussion and examples of settlement amounts to clarify whether such amounts can be initial amounts.

- **Technical Agenda**

Ms Payne noted that given the staff resources and existing projects it is likely that the members would not deliberate on any new projects until the end of this calendar year. The projects being considered were:

1) Evaluating SFFAS 10, Accounting for Internal Use Software

2) Evaluating the cleanup costs provisions of SFFAS 6, Accounting for Property, Plant, and Equipment

3) Evaluating existing disclosure requirements

4) Investments in non-federal securities

5) Electronic reporting including the potential for educational materials

6) Risk assumed (e.g., explicit assumption of risk through insurance programs but also implied assumption such as the GSEs and systemic risks)

Ms. Payne explained that the first three projects listed are lighter projects than the second three. Today, she would like to know the members priorities among these six projects or alternatives that they would like to offer.

Mr. Allen noted that clearly the first three are easier but he preferred to focus on significant projects even if they are multiple year projects. He prefers to identify the most important projects.

Mr. Jackson wondered why electronic reporting was important to the Board. He recognizes that it is important and sees the audit concerns. It appeared that those issues were issues for audit groups like the Yellow Book advisory committee. Mr. Allen asked that members also provide their ranking of the projects.

Mr. Jackson ranked electronic reporting last, investments in non-federal securities next to last because it is a temporary situation. Otherwise, the ranking he prefers is the sequence listed. He commented that the discussion of internal use software was good and his problem is that you have several different types of software – some is developed for special application and is constantly evolving, some is off the shelf for things like financial systems but even these are constantly upgraded. How should such upgrades be handled; he believed there are disparate practices in government. He would ask if this activity should be expensed as it occurs. Specialized applications are also constantly refined. He asked whether we should be capitalizing and amortizing these things when the useful life is so imprecise. He believed we need to debate this.

Mr. Jackson thought about each of the cleanup cost issues listed on page 8 (see insert) – he agrees that the liability is understated (item 1a). He is concerned about item 1b – immense debates occurred regarding cleanup costs and restricting them to hazardous waste. He recalled many discussions on this topic when he was deputy controller. His concern was that there is a cleanup or closure cost associated with many items of PP&E but he would hate to engage in an effort to evaluate the entire asset pool and figure out what the disposal costs is absent hazardous waste. He would not want to create another behemoth – an effort to inventory disposal needs and estimate the cost of "taking the paint off the humvees" as part of cleanup. He would not want the financial and property managers to get wrapped up in that exercise. He acknowledged the cost exists but feels the cost of measuring it outweighs the benefit of such an exercise. Also, evaluating the existing disclosure requirements is needed. He thought that might be an effort that was coordinated with OMB since some of the requirements arise in A-136. He thought the user needs study showed that the reports need to be friendlier to managers—they should not be overwhelming. You should not have to read an encyclopedia—it should be kept simple.

Excerpt from page 8 – Technical Agenda

1) Whether the existing liability recognition provisions are consistent with newly issued element definitions.
    a) The liability may be understated because the obligation is to cleanup the entire hazardous waste but SFFAS 6 provides for a gradual build up of the liability balance as the related PP&E is consumed in service (the full cleanup cost is disclosed in a note).
    b) The cost of PP&E may be understated because the SFFAS 6 requirement is to capitalize its acquisition cost; the later cost to retire the asset is excluded.
    c) The scope of liability recognition is limited to costs to cleanup hazardous substances rather than the full asset retirement obligation.

Mr. Steinberg believed the emphasis should be on liabilities rather than assets. In the long run, we can't do much with assets—it is the liabilities that will sink us. He believed the cleanup costs are important. While DoD and Energy have the largest liabilities, there are other agencies that also have cleanup costs. He noted that the disclosures do not tell you a lot about why the numbers change from year to year. He would like to see better disclosure in that area. His number two priority would be risk assumed. He noted that he does not see risk assumed information in the reports. It is important and we should revisit it and find out why. He would also put electronic reporting next and then evaluating disclosure requirements. He noted that he often heard Mr. Werfel refer to the number of hits on websites such as recovery.gov. Yes, you can say there are audit concerns but he can see that if there is to be more internet reporting by government, he would like to see requirements about what is put on the internet. Requirements around completeness, timing, accessibility, how much drill down can be done all fall within the rubric of accounting. Evaluating existing disclosure requirements is important—he gets a lot out of the notes but the budget notes are hard to understand. He noted that the disclosures about differences between the President's Budget and the Statement of Budgetary Resources are not useful. He put internal use software fifth—the biggest problem identified by a student was that the systems are worked on as modules—the modules are at different phases and they do not know where they are overall relative to the phases. He asked if GASB and FASB have standards on internal-use software. Ms. Payne noted that there was an AICPA Statement of Position on the topic and that it may have been included in the accounting standards consolidation FASB now provides. Mr. Steinberg rated the investment in non-federal securities next because the GAAP hierarchy seems to have covered any issues. In addition, the federal government may have disposed of these investments before standards could be developed.

David Strobel indicated that Ms. Fleetwood would like to look at electronic reporting—this may result in a decision that no standards are needed but that should be explored. He relayed that her second priority would be the FASB reporters—having statements based on FASB standards causes problems in consolidation. Particularly, the way the balance sheets are presented and the different fiscal year ends causes problems. Ms. Payne noted that we have a current project on the topic but it is a lower priority. He continued that Ms. Fleetwood's third priority is disclosure requirements—there are 83 pages in the consolidated report now. The fourth priority is risked assumed. The original standards seem open ended and are only directed to six programs. Further, three of them are FASB reporters which do not apply SFFAS 5. The fifth priority is investments in non-federal securities since these seem to have been addressed through the GAAP hierarchy.

Mr. Allen indicated his highest priority is risk assumed. He believes it would be challenging but is timely and important. He particularly noted that implied guarantees were an issue—what is the cost of these implied guarantees. His second highest priority had been investments in non-federal securities. He agreed with the point made by others that the GAAP hierarchy covers them. Also, by the time standards are developed the investments may be gone. But he believes it is a stretch. For example, he wasn't sure the 'investment' in the multi-lateral investment banks is really an investment; he wonders if it might be an expense. Normally you realize some value from investments; in some cases, there may be no expectation of ability to recovery any cash. So, he was viewing this project more broadly. He wonders if these types of 'investments' are intended to return some value and whether we should deal with that issue.

Mr. Allen's next priority was evaluating the disclosures but he believes this goes hand in hand with the reporting model project. With respect to internal use software, he suggested putting it on the agenda long enough to decide to expense it. However, if we are going to parse issues, he doesn't believe it was worth the effort. For cleanup costs, he did not see the issue—the agencies with the two biggest liabilities have recognized them. For electronic reporting, he viewed this as the biggest dilemma—he thinks it might be the most useful thing we could do but it does not seem like a FASAB project. He would love OMB to pick it up and give guidance through A-136; or to ask FASAB to assist in recommending guidance. However, if FASAB is the driver, he believes people would question our responsibility and authority. For that reason, he put electronic reporting at the bottom of his list.

Ms. Bond indicated that the first project on her list is evaluating disclosure requirements. She hopes that it would be a quick turn around project with substantial benefits. She noted that the budget disclosures are used. During the recent effort to streamline form and content guidance, budget users were asked whether these budget disclosures should be reduced and the response was "no." Internal use software was second on her list and cleanup costs was third. She views the costs and benefits of these projects as critical. She questions item 1b relative to cleanup costs. Fourth was investments, fifth was risk assumed; and last was electronic reporting.

Mr. Dacey supported them in the order presented with the exception of risk assumed—which he would move to the top. The current risk assumed standards are not understood. Clarifying whether the current standards are appropriate would be a good start. He would focus on risk rather than risk assumed. He is uncertain about implied guarantees—where we have not made an explicit guarantee would be difficult. He wasn't sure how you would identify implied assumption of risk. There may be inter-governmental risks to consider as well. A general project on the disclosure of risk would be important and fill a void. Mr. Dacey noted that for internal use software there are shared service centers where the cost is to be included in rates. Therefore, it is more important in some cases to track the cost of internal use software than in others. He noted that electronic reporting has been updated and discussed by other standards setters but no standards have been set. He wondered whether our systems and controls objective would lead us to develop standards or other requirements on appropriate controls. This is increasingly important in light of the expenditure data now provided on the internet. This information is outside the normal audit scope and the only way to improve the quality is through controls. He wasn't sure of FASAB's role relative to how information was distributed electronically but believes there is a role relative to controls if electronic distribution is used. He wondered if a joint project with GASB might be helpful in this area.

Mr. Schumacher ranked his top three based on a desire to focus on improving standards on the liability side—the cleanup costs, investments in non-federal securities, and risk assumed could do this. His number one would be risk assumed because of the current level of interest and exposure. Investments in non-federal securities are difficult because of the timing but one never knows if we may have this type of stabilization activity again in the future. The fourth would be evaluating existing disclosures—he believes they are too lengthy and we could do something fairly quickly in this area. His number five is internal use software. He agrees with Tom that this is a grey area and we might just expense this. While he agrees electronic reporting is important, he's not sure what we could do in this area given our roles and responsibilities.

Mr. Showalter indicated that he considered what would help our preparers and users most. This drove him to put evaluating disclosures first. He wonders whether readers understand the disclosures and he thinks an evaluation would help both preparers and users. He then rated risk assumed next for similar reasons as others. Internal use software was third and he would simply expense it. Fourth was cleanup cost liabilities; since it's just two agencies he would like to just figure it out and move on. For reasons similar to others, he put investments in non-federal securities next. He believes electronic reporting should be user driven—for example, if an auditor will be requested to attest to electronic reporting then they will need criteria on which to base their opinion. Absent such a need, he would not address it.

Mr. Granof would put risk assumed number one. People outside the beltway are most concerned about and interested in it. Number two would be investments in non-federal securities. He does not agree that the problem will be solved by the time we have set standards. He wonders what types of investments we might have in the future—perhaps municipal debt. For disclosures and electronic reporting—he believes these can be folded in to the reporting model project. For example, we might address how people can issue a report that is clicked on and then people can drill down to other reports. This relates to disclosures as well—you can not simply add pages. Internal use software could be dealt with relatively quickly—we might more or less simply expense it. He would put risk assumed and investments at the top and would not have a special project on disclosures or electronic reporting. He would deal with them through the reporting model project.

Mr. Allen asked if there were follow up comments. Mr. Steinberg asked if most members would deal with internal use software by expensing it. Mr. Allen suggested that we allow staff flexibility around the top three or four priorities given the tight ranking and the shortage of resources to address the number one priority—risk assumed.

Ms. Payne noted that with respect to internal use software she wonders if it is as cut and dry as expense or capitalize. She asked if the Board concluded that software should be expensed would they be troubled by – for example – the loss of information about the cumulative cost of software in instances where software failed or a project was cancelled. She explained that she wanted to test whether a simple proposal to rescind SFFAS 10 might merely be the beginning of a larger effort in which some alternatives would be developed to replace lost information. Mr. Steinberg noted that having software and systems was merely a cost of providing services—trying to discern what is expense and what is an asset is impossible.

Mr. Jackson noted that our standards do not capitalize the full cost since we don't capture development costs. Ms. Payne agreed and indicated that she would prefer project based accounting for that reason. Mr. Jackson noted that if we were to amend the standards, the issue of user charges is interesting. If there are billings for use of the software (whether intra-governmental or with the public), in those cases would it warrant capitalization to ensure cost recovery over time? Also, in those cases, would we need to differentiate between phases since the cost would need to be recovered anyway– whether it was cost in a research or an implementation phase? These issues might warrant consideration. Where you are required to recover cost, the fees in years when new software was acquired – your fees would go up dramatically. However, in some cases, the fees are not based on GAAP basis accounting. Some states indicated that they recover debt service costs.

Mr. Dacey indicated that these aspects need to be considered. He does not believe the software accounting issues are so easily resolved with an up or down vote. He also thought we should consider the concepts—including the definition of "asset" and the recognition criteria. He doubted that it was as simple as it first seems.

Mr. Showalter indicated that he wasn't sure whether a service center's software would qualify as "internal use." Ms. Payne asked if the members wanted to see project plans for the top three projects at the next meeting. Mr. Allen suggested simply giving staff the flexibility to manage with these three priorities based on the available staff resources during the rest of the year.

Mr. Allen asked Ross Simms to lay out expectations for the discussion on reporting model the following day. The expectations center on the task force and Board members' input to the task force. Mr. Simms noted that the user needs work was completed. The next step is to have a task force begin looking at what the model should be based on the user needs study. We'll start by looking at the formats of financial statements at the government-wide level. A question for members to consider is what issues the task force should address. He noted that he hoped to get that feedback from members at the meeting tomorrow. He would then share that feedback with the task force. He asked that tomorrow, members provide their reactions to the user needs work and what they would like the task force to consider.

> **CONCLUSION:** Staff will begin planning and research as feasible on risk assumed, internal use software and evaluating disclosure requirements.

- **Federal Entity**

Staff member Ms. Loughan led the discussion of the Federal Entity project. She explained the primary objective for the April Board meeting would be to discuss issue areas related to the federal entity project and staff recommendations that will enable staff to work towards finalizing a Draft ED. She noted the Draft ED was attached for reference and to allow issues to be considered in the context of the entire Draft ED.

Staff explained it would be a good idea to recap the February 2010 meeting-- the Board had discussed issues related to the conclusive principle-- Issue 1: Conclusive really just means in the Budget, Issue 2: Exceptions when applying the conclusive principle, and Issue 3: Entities partially on budget. The minutes provide detail of the discussion, but staff believes the Board agreed on matters related to Issue 1. So, there were no actions for staff relating to Issue 1.

As for Issue 2, staff explained the Board came to a consensus the best way to address exceptions that may occur at the component entity level would be for the proposed Statement to take a two tier approach. The two tier approach includes defining the government-wide entity as the first tier using both the conclusive and indicative principles. The second tier includes defining component reporting entities using only indicative principles (inclusion in the budget would be an indicative criterion at the component reporting entity level).

Staff explained the Board deliberations for Issue 3 did not result in a consensus on how to resolve the issue regarding entities that are partially in the budget. Instead, the Board directed staff to consider the comments and discussion, and determine options for further consideration.

Ms. Loughan explained staff would be directing the Board to final resolution of these issues as well as the presentation of additional issues in the staff paper.

Staff directed the Board to the Issue: *Clarification of language for entities receiving subsidies* that are listed in the budget that was on page 16 of the staff paper. Staff explained certain members suggested the term subsidy may need to be defined. Staff explained the Board typically tries to avoid defining terms that have a dictionary meaning or that can be used generically such as this. Staff explained the language is proposed in the Draft ED to ensure entities that receive large grants that are specifically listed under an appropriation in the *Federal Programs by Agency and Account* schedule aren't automatically included in the U.S. government reporting entity.

As suggested at the last meeting, staff explained one approach to clarify the term subsidy is to state it includes federal financial assistance as defined by the Single Audit Act Amendments of 1996. Staff explained as noted in the staff paper, the Single Audit Act Amendments of 1996 defines *'Federal financial assistance'* as assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance.

Staff directed the Board to the language proposed in the Draft ED:

> However, entities listed in the Federal Programs by Agency and Account that only receive a subsidy or federal financial assistance[FN 1] would not be considered within the boundaries of the U.S. government reporting entity based on the conclusive principle. [FN 2]
>
> [FN 1] As defined by the Single Audit Act Amendments of 1996 which is assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance.

[FN 2] Instead, the entity, like other entities the federal government has a relationship with, would be assessed against the indicative principles to determine if it is within the boundaries of the U.S. government reporting entity.

Mr. Jackson asked if FFRDCs fell under the definition of federal financial assistance as defined above. Mr. Dymond explained that FFRDCs receive both contracts and grants, and technically grants would be a form of federal financial assistance. Mr. Jackson stated the term “direct appropriation” was the term that struck him and he was not certain if they receive direct appropriations. Mr. Dymond explained that FFRDCs didn’t receive direct appropriations and all their appropriations come through an agency.

Mr. Jackson explained he may have a problem with the footnote 2 as proposed because it appears that the 20,000+ entities that receive federal funding would be subject to scrutiny under the indicative principle. Staff explained it would be applicable to those entities that are listed in the Federal *Programs by Agency and Account* because this is providing an exception to the conclusive principle, so it would only apply to those listed in the budget.

Staff explained that often grants are received through programs and not necessarily listed in the budget, but there are certain situations where an organization may be listed, so it should be addressed. In these instances, the indicative principles would be used to determine if the organization is part of the federal entity and it shouldn’t be pulled in based on the conclusive principle. The footnote is provided to direct them to assess the entity against the indicative principles in this case. Staff explained that it is difficult to determine for these types of entities and that’s why it would be more appropriate to assess then against the indicative principles.

Staff asked Mr. Jackson if it would be clearer to move the footnote to the body of the Statement. Mr. Allen explained that he preferred it be in the standards considering it is an exception; it should direct them explicitly on what to do. Mr. Jackson agreed. Mr. Allen asked the Board if there were any objections with the staff proposed language with the footnote moved to the body of the paragraph.

The Board agreed with the clarifying language (with the footnote moved to the body of the same paragraph in the Statement) for entities receiving subsidies that are listed in the budget presented by staff.

Staff directed the Board to page 11 of the staff paper to the Issue: *Clarification that all accounts for any entity should be considered in the conclusive principle*. Staff explained at the February meeting, a member expressed concern the Federal Programs by Agency and Account may not include financing accounts, such as federal credit reform financing accounts and the Draft ED should provide that those should be included.

Staff explained SFFAC 2, *Entity and Display*, discusses budget accounts and that often there are multiple budget accounts that relate to organizations. Staff proposed the following language for the Draft ED:

> An entity (including any revenues attributable to or costs incurred on behalf of the programs administered by the entity[FN 1]) listed in the *Budget of the United States Government: Analytical Perspectives- Supplemental Materials* schedule entitled *Federal Programs by Agency and Account* is within the boundaries of the U.S. government reporting entity.
>
> [FN 1] As elaborated in SSFAC 2, *Entity and Display*, par. 11-28, the federal government can be viewed from an organization, budget and program perspective. Organizations (i.e., entities) administer programs that are financed by budget accounts. Par. 33 of SFFAC 2 explains any revenues attributable to or costs incurred on behalf of the programs administered by an organization should be associated with that reporting entity. For example, an entity should include all programs and budget accounts associated with and under the control of the entity (including off-budget accounts and financing accounts that may not be specifically included in the schedule.)

Staff explained the footnote references language that is already included in SFFAC 2, so it is not introducing new requirements. Mr. Steinberg requested confirmation that there wouldn't be any double counting with Treasury capturing the financing accounts. Staff member Ms. Parlow explained the financing accounts are non-budgetary accounts (as opposed to off budget accounts such as the postal service) and have no budget scoring, they only handle the cash flows but it is in the financing accounts you have the big assets such as loan receivables or big liabilities for loan guarantees, which are both picked up by the administering agency and the CFR. She explained the only thing Treasury would report would be the other side to any borrowing, so there wouldn't be any double counting as they would be eliminated for consolidation. The unique aspect of the financing accounts is that there is no net cost of operations.

Mr. Dacey explained he had a comment on the parenthetical part and if it was applicable to the government-wide or the component entity. He also noted that we may need to be careful when considering SFFAS 4 and full costing; certain broad and general costs are not allocated although they could be conceived on behalf of another agency. Mr. Dacey thought this language may create a conflict with our established language under SFFAS 4.

Staff explained for ease of discussion, it may be easier to focus on the government-wide at this point. That being said, Mr. Dacey's point is applicable to the component reporting entity. The issue remains, however it would be addressed in the component reporting entity section.

Ms. Bond explained that she would recommend striking the language in parenthesis. She believes it may be overly broad and requested staff work on additional language and stated OMB could offer assistance. Staff agreed to work with OMB staff on clarifying language to address this at the component level. Mr. Allen asked if the Board had any other comments on this issue.

The Board agreed the issue (*Clarification that all accounts for any entity should be considered in the conclusive principle*) would be addressed further in relation to the component reporting entity. Staff will determine if language is still necessary for the government-wide reporting entity.

Staff directed the Board to page 12 of the staff paper to discuss the *Issue: Entities partially in the budget*. Staff explained at the February Board meeting, the Board discussed entities that are partially in the budget--meaning a substantial portion of their funding is from federal appropriations included in the budget and the entity receives private support (such as donations) not included in the budget. (The Smithsonian example was discussed.) This issue relates to whether portions of entities--only the budgeted portion of these types of entities--should be included in the US government-wide financial statements?

Staff explained there were 3 options presented for the Board's consideration. Staff recommended Option 3 because it allows for consolidation at times if the federal government provides significant (at least 80%) of the funding for the organizations, while providing informative disclosures describing the nature of the relationship with those entities where the federal government provides less than 80% funding. Staff believes providing the informative disclosure in these cases promotes accountability and transparency regarding the relationship with the institutions. Staff explained this would also address members concerns regarding "splitting the baby."

In regards to option 3, Mr. Showalter asked how 80% was selected as most other standard setters utilize 50% for consolidation and that skeptical minds may believe it was selected to arrive at a predetermined answer. Staff assured members that was not the case as the calculations for the Smithsonian and Holocaust were added to the paper after the recommendations. One reason staff selected 80% was that 20% might be considered substantial enough by donors as a reason for the federal government not to consolidate. Staff also explained it was due to the nature of the relationship and that the majority of the assets can't be used in general government operations. However, staff explained the option provides if the federal government provides over 80% funding it would be consolidated.

Mr. Granof asked if the word "consolidated" means "included" because he didn't believe that decision had been made. Mr. Steinberg explained that he had expressed the same concern. Mr. Allen stated "included" could be used until it is determined, whether that is in this project or in the reporting model project. Mr. Allen asked if the Board could give feedback on the alternatives.

Mr. Granof explained if the word consolidated is replaced with the word included, and 80% is replaced with 50% he agrees with option 3.

Mr. Showalter agreed with option 3 if the word consolidated is replaced with the word included, and 80% is replaced with 50%.

Mr. Schumacher agreed with option 3 if the word consolidated is replaced with the word included, and 80% is replaced with 50%; otherwise he would select option 2.

Mr. Dacey explained he would go with option 2 because it is the most principles based approach and the indicative principles were developed to screen through things. He added staff should clarify what is meant by “partially in the budget” because there may be others that need to be considered such as transactions with the public that provide revenue. Staff should ensure it is not written too broadly that it is including unintended entities.

Ms. Bond selected option 2. She believes this is also somewhat consistent with the direction of where FASB is going on certain issues. She added that she believes it is okay to split the baby.

Mr. Allen explained he prefers option 2, because he believes the relationship that exists should be the determining factoring in these situations.

Mr. Strobel explained Treasury prefers option 1.

Mr. Allen explained that at the last meeting it was clear among Board members, no one wanted part of an entity, it was agreed it should all be in or all be out.

Mr. Steinberg explained that he is taking the approach of going from what he wants and coming back to an option. He believes the concern is that donors probably don’t want to see the museums consolidated in the government-wide. He explained that he didn’t mind option 3 with the 80% and we could come up with justification for the 80% but if the Board doesn’t want to agree on that, then he will agree on option 2 with the caveat these are added to the indicative criteria.

Mr. Jackson agreed with option 3 but was uncertain as to the percentage.

Ms. Bond asked for clarification on option 2. She explained that it was her understanding that from the last meeting that some members actually preferred to “split the baby.” However, the staff paper notes the Board agreed to not split the baby. Staff explained the staff paper option 2 results in a portion of the entity being consolidated while the other portion of the entity may result in consolidation or some other presentation such as disclosure based on the indicative principles.

Mr. Allen explained that based on Ms. Bond’s comment perhaps there wasn’t Board agreement as noted on page 12 of the staff memo which states “As the minutes detail, it appeared there were a few points that most members agreed on: An entity should not be divided; therefore, the status quo should change as presently only the federal portion is consolidated and there are no disclosures in the government-wide report regarding the entity’s consolidated operations (i.e., non-federal funds are omitted entirely).”   Staff notes the paper also explained “There appeared to be support for looking to the indicative principles for clarification on how the entities should be presented, yet it was uncertain if the Board would want to present a portion of an entity consolidated if the assessment of the indicative principles led to something other than consolidation.”

Mr. Dacey added there was a lot of discussion on the issue in February and it may be helpful to see where the Board members stand.

Mr. Allen explained he believes the organization should be assessed against the indicative principles; it would be very difficult to break up funds and assess them against the principles. He added that one looks at who controls the organization, who appoints the board, who is responsible for the debt, who maintains the buildings, etc. even though some other funding may be received, the federal government is ultimately responsible, otherwise the federal government is subsidizing an entity.

Mr. Steinberg explained that although the answer to those questions may be yes, it may still be more appropriate to disclose condensed financial statements for them. Mr. Allen agreed but that is more of a presentation or reporting model question, the answer of how you do it is more of an open question. Right now, the Board should decide if the whole entity is in or out of the federal government reporting entity. He agreed that later we can decide how they will be presented. Based on this, Mr. Steinberg stated he could amend his answer and say yes, include in the federal reporting entity.

Mr. Jackson explained he liked the option that was presented at the previous meeting that allowed for specific disclosures for these types of entities. Staff explained this was option 3 in the staff paper. Staff directed the Board to page 14 *Option 3—Include Separate Section in Draft ED-- Eleemosynary Entities or Jointly Funded Museums and Performing Arts Organizations*. Staff explained the Draft ED would have two sections as the conclusive principle would direct you to separate section that addresses these types of entities and provides for following specific disclosures:

- name, purpose, and description of the entity;
- nature of the federal government's relationship with the entity and the amount of funding or subsidy provided to the entity, and if applicable, the percentage of ownership interest and voting;
- condensed financial information for the entity, e.g. assets, liabilities, fund balances, total expenditures and sources of revenues; and
- other information that would provide an understanding of the possibility of potential financial reporting impact, including financial-related exposures to potential gain and risk of loss to the U.S. government reporting entity.

However, staff explained the disclosures were for those entities the federal government provided less than 80% funding. If the federal government provided over 80% then the entity should be consolidated. The Board members noted concern with jumping straight to consolidation. Ms. Payne explained staff noted entities would be consolidated in this case because these are entities that appear in the federal budget, so it appeared consolidation would be appropriate in those cases. Ms. Payne explained staff did not consider or have a lot of discussion in the staff paper along the lines of included versus excluded with this issue because these types of entities are listed in the budget. Ms. Payne explained with entities appearing in the federal budget there is no question if they are federal, and that is why staff presented option 3 as it is, consolidation for those 80% and over and disclosure for those less than 80%.

Ms. Bond explained after hearing the discussion, she would like to change her vote to option 3 with the 80% as recommended by staff as it appears more in the disclosure realm and it is consistent with what Mr. Steinberg had presented.

Mr. Dacey explained utilizing 80% supports that a substantial portion of the funding had come from the federal government and must be more than a majority to be consolidated.

Mr. Allen explained a challenge with this project is what it means to be a part of a reporting entity. He noted there must be some other way to present other than consolidation and disclosure, and that's what makes the columns as used in GASB a good tool.

Mr. Jackson noted that many of these entities may not even constitute a rounding error and are not material. He added that although they are important, the Board has spent an inordinate amount of time on this. Mr. Allen noted that the materiality box always applies. However, Mr. Allen explained the same issue may apply to material organizations.

Mr. Showalter asked if there were any other entities that were partially in the budget that weren't addressed in option 3, meaning is there anything other than museums and performing art organizations. Mr. Dymond explained there are other funding mechanisms that agencies have other than donations that are not included in the budget-credit reform financing accounts that would apply to this.

Mr. Showalter questioned specifically naming the organizations "Eleemosynary Entities or Jointly Funded Museums and Performing Arts Organizations" when we are addressing the issue of entities partially in the budget. Staff explained when you think of partially in the budget it becomes very difficult to define, because one can not be certain if today or in the future Congress will authorize other organizations. Usually if an organization collects outside money, it still requires an appropriation to use the money. Ms. Payne explained it is very difficult from a staff's perspective to anticipate how the budget might be structured. By slicing out the known organizations such as the eleemosynary entities, one avoids creating a big whole of unknowns.

Mr. Jackson noted these types of entities are a Treasury consolidation issue and really don't involve component entity issues. He added that it may be possible to write the standard in such a way that if Treasury determines the entity is not material to the government-wide, then it wouldn't have to be included, especially since these entities are still producing their stand alone financial statements. Mr. Jackson added it was the materiality filter for the preparer. Mr. Allen agreed and said that is the way it ought to be, but that isn't the way the preparer necessarily does it, often preparers will still do it even if it isn't material since the standard requires something.

Mr. Dacey commented that there potentially could be issues at the component level. He explained he wasn't sure how FFRDCs flow through and are picked up and if they are ever listed partially in the budget.

Mr. Dacey's noted concern with Mr. Jackson's point regarding materiality. He stated it is fine for a preparer to use materiality in preparing financial statements, but materiality should not be used in defining the federal entity itself. Mr. Jackson agreed with Mr. Dacey's point.

Ms. Bond noted the Smithsonian is material to the government-wide financial statements. Mr. Strobel explained they have approximately $1 billion worth of assets. Staff noted that the Smithsonian is included as one of the significant entities in the CFR and was included in the Accountability for Tax Dollars Act.

Mr. Showalter said in the interest in moving forward it appears what got the Board in a tailspin is that much time has been spent talking about the how (consolidation or disclosure) instead of whether they should in include. He suggested the Board vote if there is agreement entities partially in the budget are included in the reporting entity and how it should be presented would be determined later.

Mr. Steinberg suggested the Board agree that jointly funded museums and performing arts organizations that are in the budget and receive funding from an outside source are part of the federal entity; the Board can later determine how they can be displayed and whether the 80% should apply.

Mr. Dacey asked if it was possible to run into this same problem with the entities that meet the indicative principles. He explained it may be possible to have partially federally funded entities where a majority of the funding may be coming from other non-federal sources that meet the indicative principles. Mr. Dacey explained this similar issue will need to explored as it relates to the indicative principles—the entity meets the criteria but a significant portion of funding is not federal. Ms. Payne added that funding is a factor, but if it is just meeting indicative criteria and it has funding from another source and then management is accountable to that other source to how it used the money. That is the main issue with charitable organizations and what makes them unique, there is accountability for how the money is spent to the donors. Staff noted this would be considered in the indicative criteria.

Mr. Allen recognizes this postpones resolving the question. Mr. Showalter suggested it may be premature to answer the consolidation question. Ms. Payne asked how premature is the question, does the Board envision it in this project or is it in the Reporting Model Project. Mr. Showalter suggested the Board should address all of the unusual type questions at the end of the federal entity project at one time.

Ms. Bond asked for clarification if Mr. Allen's question of whether the entity is included means included in total and whether the idea of splitting the entity is still up for discussion.

Mr. Allen noted this would be the appropriate time for reconsideration of what staff noted was the conclusion reached at the last meeting because Board members have the right to do that. Mr. Allen explained that staff thought the majority of the Board agreed the whole entity should be in or out. Ms. Bond agreed she wanted to confirm the Board's position on that matter.

Ms. Bond also wanted to reiterate and ensure the Board doesn't lose sight of the fact the federal government can't use the Smithsonian funds. Mr. Steinberg noted he believed this should be a factor considered in determining the proper presentation.

Mr. Allen confirmed the Board would vote if there was consensus regarding whether the whole entity should either be included in some fashion or excluded.

Mr. Dymond explained this is similar to fiduciary activities, such as the Indian Trust Funds. Indian Trust Funds are included in the note disclosures of the CFR. Mr. Jackson explained the donated funds of the museums could be viewed as similar as they are held in trust and can't be used by the federal government.

Mr. Allen explained conceptually one does not care about an organization that is partially funded because of access to its resources or whether they can be used, the question is whether there is a stated or unstated obligation the federal government is responsible for. If so, it may be very important to include the complete financial statements so users have an understanding of the financial position of that organization and know the potential obligation that controlling organization may be incurring.

Mr. Allen explained the most difficult part is how to present these types of entities. One approach to consider is a note disclosure about the relationship with key financial information and a reference to where the full financial statement information can be found. He recognizes there are creative ways to do this but it appears the majority of the Board just wants to agree on whether it is in or out at this point and determine the how at a later point.

The Board agreed this would make progress, but it would need to be revisited. It would need to be revisited before the reporting model project. Mr. Jackson suggested it would be a good idea to allow interested parties to comment on how to report when the proposal is sent for comment. Mr. Allen suggested it would be during the exposure draft process.

Mr. Allen requested the Board members vote on the reconsideration and what should be included--federal funds or both the federal and non-federal funds.

Ms. Bond explained she agreed to include the federal portion only.

Mr. Dacey explained his response continues to be inline with option 2, which would be to include the entity with presentation based on the indicative principles.

Mr. Schumacher explained the whole entity should be included.

Mr. Showalter also agreed the entire entity should be included.

Mr. Granof agreed, the whole entity should be included, and not split.

Mr. Jackson agreed to include the entity, its all or none, the only question that remains is how it is presented because we are dealing with the entity now, not the type of money of funding. If a portion is deemed to be similar to the Indian trust funds, they are still included, just through a note disclosure.

Mr. Steinberg agreed the entity should be included and presentation would be decided later.

Mr. Strobel also agreed the whole entity should be included.

Mr. Allen stated he also believed the entity as a whole should be included.

The majority of the Board agreed for entities partially in the budget, the entity as a whole should be included in the federal reporting entity. The issue of how they would be presented or displayed would be addressed at the end of the federal entity project along with other unique relationships.

Staff directed the Board to page 3 of the staff paper that related to the *Issue: Terminology*. Staff explained the terms U.S. government reporting entity and component reporting entity were the key terms used in the Statement, and staff wanted to obtain comments on the terms and definitions presented. The definitions included:

> **U. S. Government Reporting Entity** The U. S. government reporting entity is the largest federal reporting entity and encompasses all entities existing within the federal government, which include all component reporting entities within the executive, legislative, and judicial branches as well as other entities assessed to be included based on the principles and criteria established in this Statement.
>
> **Component Reporting Entity** Component reporting entity is used broadly to refer to a federal reporting entity within a larger federal reporting entity that issues GPFFR. Examples of component reporting entities include entities that are part of the federal government, such as executive departments, independent agencies, and government corporations. Component reporting entities would also include sub-components (entities that are part of a larger component reporting entity) that prepare GPFFR. One example is a bureau of a larger department that prepares stand alone financial reports. Other examples include commercial functions, revolving funds, and/or other accounts for which GPFFR are prepared.

Mr. Jackson suggested the definition of the U.S. government reporting entity say that it includes all entities of the federal government versus referring to its size, it's more a matter of what it includes.

Mr. Strobel noted concern with the definition of the U.S. government reporting entity having the legislative and judicial branches included. He explained there is no law that requires them to report so this could lead to a perpetual audit finding of the CFR. He explained that Treasury currently brings in some information, but it is not meeting requirements. The representative added that putting something like this in a formal definition would seal this type of finding for future audits.

Mr. Allen noted that citizens believe all branches are part of the federal reporting entity and they would expect that information. Conceptually there would be no basis for FASAB to exclude them from the definition. Mr. Allen explained the Board members understood the concern, but there is very little the Board can do about a constitutional or statutory issue if the branches don't want to participate in the process. Mr. Dymond commented that Congress can enact a law to require the legislative and judicial branches to report to Treasury. He also added that an easier approach might be for Treasury to perform an assessment to conclude that the information they are not receiving is not material. It appears the biggest obstacle relates to the judicial real property, courthouse information, and data. Mr. Dacey suggested that GAO and Treasury work together on the issue.

Mr. Allen asked if the component financial statements normally state which unit it was a component of. Mr. Steinberg explained they are required to do so by OMB A-136. It is often included in Note 1 as well in the limitations of the financial statements.

Mr. Steinberg noted in the definitions we use the term "General Purpose Federal Financial Report" and he asked for the history of it. Ms. Payne explained it originated in the development of SFFAC 3, *Management Discussion and Analysis*.

Mr. Dacey suggested the term government-wide reporting entity may be preferred over U.S. government reporting entity because we seem to use that more consistently in our FASAB standards. Staff explained that U.S. government reporting entity was selected as it appeared best to define the overall entity and is consistent with the title of the report, Financial Report of the U.S. Government. However, the term government-wide reporting entity was included in the list of alternatives as it was considered by staff and if the Board prefers this term, it can be used.

Mr. Allen asked if Board members objected to using the term government-wide reporting entity. Mr. Allen asked the Board if there were objections to the other terms or definitions and none were noted.

The Board agreed to use the terms and definitions government-wide reporting entity and component reporting entity.

Staff directed the Board to page 7 of the staff paper to the *Issue: Identifying Reporting Entities and Federal Entities subject to FASAB*. Staff explained consistent with the Board's decision to keep SFFAC 2 in place with the exception of areas that must be amended; staff notes the guidance on Identifying Reporting Entities in SFFAC 2 would remain and has been incorporated in the Draft ED through the footnote reference. Staff explained the Draft ED does not define which entities are reporting entities or states which are required to report. This is consistent with SFFAC 2, par. 4 that states "This Statement does not try to define which reporting entities must prepare and issue financial statements. That authority and responsibility resides with the Congress, OMB, and other oversight organizations and resource providers."

SFFAC 2 provides a lengthy discussion on identifying reporting entities, which staff referenced in the definition of federal reporting entity and included in the staff paper for the Board's reference. Staff asked the Board if this is sufficient or did the Board envision the Statement addressing the issue of identifying reporting entities more explicitly. Staff also suggested the material that is included in SFFAC 2, which one may consider more educational, could be included in the basis for conclusions for reference.

Mr. Jackson asked if the discussion in SFFAC 2 regarding identifying reporting entities relates more to component entity level reporting. Staff confirmed that was true.

Mr. Allen agreed it would be helpful to incorporate the language in some manner, probably in the basis for conclusion because it doesn't seem appropriate to place the conceptual language in the standard. The Board agreed the language was very informative in providing detail about how to define a reporting entity at a conceptual level.

Mr. Dacey suggested the language from SFFAC 2 could be incorporated as an Appendix to the ED and/or final Statement for the reader to reference in one document. He also suggested that paragraph 33 of SFFAC 2 may have to be revisited in the process.

Mr. Allen requested if there were any objections to the language being incorporated.

The Board members agreed it was helpful to incorporate language from SFFAC 2 that related to *Identifying Reporting Entities* into the Draft ED and didn't anticipate staff revisiting these areas.

Staff directed the Board to page 5 of the staff paper to discuss the issue of whether principles for both the government-wide reporting entity and component reporting entities should be addressed within one proposed Statement or if it should be addressed in separate standards. Staff explained this question was not posed before, because originally it was intended that the same principles would be used for the government-wide reporting entity and component reporting entities.
Although staff explained there would be advantages with both approaches (including both in same Statement or issuing separate Statements), staff explained it may be

appropriate to issue separate Statements for the government-wide reporting entity and component reporting entities. Staff explained separate Statements would provide the greatest clarity because differences in defining the boundaries (such as no conclusive principle at the component reporting entity level) and potential differences in criteria for consolidation between the government-wide reporting entity and component reporting entities would be less confusing when contained in separate Statements. In addition, the ED of the government-wide reporting entity would allow input on potential issue areas for the component reporting entity proposal. Staff explained this would also allow the opportunity to pose certain questions regarding the component entities in the government-wide reporting entity ED.

Mr. Jackson asked if it was possible to issue a standard on the component reporting entity that subsequently amended the government-wide reporting entity, so in the end there would be one final standard on the reporting entity. It was explained that amendments have separate standard numbers, so it would still remain as two documents.

Mr. Allen explained his inclination is to deal with the topic in its entirety. For example, if the Board were to have a public hearing on the ED, it would seem very odd to have individuals come back a year or so later to discuss a very similar document. However, he does understand the challenges but those need to be weighed against the options available.

Mr. Dacey explained he didn’t believe the readership on the government-wide document would be as large as the component level document, so it may limit input the Board received. He added he thought it was important to package them together since most interest is actually in the component reporting entity.

Mr. Steinberg explained he would prefer to keep it within one document and he doesn’t believe it would be too lengthy. He believes once you define the government-wide, then you determine if there are additional or different criteria for the component level.

Mr. Showalter believes users would want to look to one document for guidance, so he prefers to issue one standard to allow everyone to see the package in full. Additionally, the Board runs the risk of reversing or contradicting a conclusion reached during the government-wide deliberation when the Board deliberates the component reporting entity document.

Mr. Granof suggested issuing two documents simultaneously, which would result in issuing two, manageable and focused documents. Mr. Allen agreed this was a possibility and recognizes there may be two different audiences.

Mr. Jackson explained he would prefer issuing one standard.

Mr. Schumacher explained he would prefer issuing one standard. He added issuing a second document may result in the need to make changes to the earlier document so it is best to issue them together.

Ms. Kearney explained she would prefer issuing one document, but she could see the advantages of issuing two separate documents simultaneously and being exposed at the same time.

Ms. Fleetwood explained she would prefer issuing one standard.

The Board agreed to issue one Statement covering principles for both the government-wide reporting entity and component reporting entities.

CONCLUSION / NEXT STEPS:

The Board agreed to the following at the April 2010 Board Meeting:

- The clarifying language (with the footnote moved to the body of the same paragraph in the Statement) for entities receiving subsidies that are listed in the budget presented by staff.
- The issue *Clarification that all accounts for any entity should be considered in the conclusive principle* would be addressed further in relation to the component reporting entity and staff will determine if language is still necessary for the government-wide reporting entity.
- For entities partially in the budget, the entity as a whole should be included in the federal reporting entity. The issue of how they would be presented or displayed would be addressed at the end of the federal entity project along with other unique relationships.
- The use of terms and definitions for government-wide reporting entity and component reporting entity.
- Incorporate language from SFFAC 2 that related to *Identifying Reporting Entities* into the Draft ED and didn't anticipate staff revisiting these areas.
- Issue one Statement covering principles for both the government-wide reporting entity and component reporting entities.

Staff will continue working towards a final Draft ED by presenting additional issue areas for the Board's consideration.

- **Deferred Maintenance and Asset Impairment**

Mr. Savini began the presentation with an overview of the TAB D materials which were supplemented by revised pages 9, 11, 19 and 20 pursuant to two Board member edits (Messrs Granof and Shumacher). Staff explained that of the two edits in question, the first edit was cosmetic in nature only affecting pages 9 and 11 whereas the second edit (Paragraph A-14) as reflected on pages 19 and 20 was more substantial inasmuch as it clarified the Board's comments concerning retention versus restoration of asset functionality. Staff then asked for the

Board's approval to issue the Exposure Draft and also invited any remaining questions from the Board.

Mr. Allen noted that the Board wished to remind everyone that for reasons previously discussed and noted, it decided to split this project into two distinct phases. The Board saw merit in splitting this project into the smaller maintenance phase and noted that it is taking an incremental approach to deferred maintenance and repair reporting by now moving to the measurement and reporting phase. Mr. Allen then called for final comments and acknowledged Mr. Showalter.

Mr. Showalter highlighted his suggested edit on page 14 (conforming changes to SFFAS 6, paragraph 83) that dependent upon subsequent work, there may in fact be changes related to both measurement and reporting. Since Staff footnoted the clarification, Mr. Showalter wanted to ensure that all other Board members were aware of his suggested change. There were no exceptions or comments noted to this change.

Noting that there were no further Board member comments, both Ms. Payne and the Chairman congratulated Staff and concluded this portion of the meeting asking members to follow appropriate ballot submission instructions previously provided to the Board.

- **Subsequent Events**

Mr. Simms began the meeting by noting the changes made to the draft Statement of Federal Financial Accounting Standards 39, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statement on Auditing Standards* since the February 2010 meeting. Mr. Simms noted that the term "financial statements" was replaced with the terms basic information and required supplementary information (RSI), except in instances where the term financial statements referred to the document being issued, i.e. the financial report. In such instances, staff replaced the term "financial statements" with "financial report."

Mr. Steinberg noted that the financial statements are within a larger document and additional language is needed to remove uncertainty about the application of the accounting principles to other accompanying information (OAI). He suggested adding the following language to paragraph 7 of the Statement.

> The Statement does not apply to the other portions of a document (e.g., Performance and Accountability Report, Agency Financial Report) in which basic information and required supplementary information are included.

Also, Mr. Steinberg noted that people do read the Summary section of the standard and if the Board would like to make a point, it should be made in the summary. Hence, he suggested adding an additional paragraph to the Summary that states,

> This Statement applies to the basic information and required supplementary information (RSI) of all federal reporting entities that are presented in conformity with GAAP.

This statement would replace footnote 2 of the Statement.

Ms. Fleetwood was concerned whether the additional language was necessary. She noted that it may confuse readers because it does not appear in other standards and readers may believe the standard applies to OAI in other situations. Also, Mr. Jackson noted that he would not want the preparer to misunderstand their responsibility to ensure that there were no inconsistencies between the audited financial statements and OAI. Members agreed that the additional language to clarify whether the Statement applies to OAI should be presented in the Basis for Conclusions section and staff will work with Mr. Steinberg and Mr. Dacey to make that change.

Mr. Dacey added that the Statement should consistently refer to a single financial report. At times, the Statement refers to multiple financial reports. Staff agreed to ensure that the Statement consistently refers to a single financial report.

> **CONCLUSIONS**: The Board approved Statement of Federal Financial Accounting Standards 39, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statement on Auditing Standards.*

- **Changes to Policies and Procedures**

Ms. Payne explained that the revisions to the Rules of Procedure and the Statement of Members Responsibilities arose because of the AICPA's Rule 203 review. The changes are intended to make the Board's governance more transparent without creating a new body to serve a liaison role. In addition, the recent changes to the Memorandum of Understanding (MOU) resulted in changes to the rules. She requested member comments on the draft changes.

Mr. Schumacher noted that the rules still refer to the Congressional Budget Office in places.

Ms. Kearney asked about the section addressing the Steering Committee—she thought the listing of reportable conditions did not belong in this section. Ms. Payne explained that she had attempted to keep the AICPA related items together if possible. Ms. Kearney thought that could work if the relationship between the Steering Committee and the reportable events was explained. Ms. Fleetwood asked if simply listing the role of the Steering Committee relative to the reportable events would solve the problem. Mr. Allen thought the role was that the Chairman – after consultation with the Steering Committee- will communicate with the AICPA. Ms. Kearney indicated that the text simply did not tie back to the Steering Committee. Mr. Allen suggested that perhaps the reportable events should be moved to the section addressing the Chairman's responsibility. Ms. Kearney though that – to keep the items together – you could simply add that the Steering Committee should be knowledgeable of the reportable events.

Ms. Kearney also asked about the third reportable event—she hoped that we could clarify that the event was a veto rather than a simple disagreement with the standards. Mr. Jackson indicated that it could simply say “prevents its release.” Ms. Payne agreed.

Mr. Showalter asked about page 17—the annual report—he wondered if it was necessary to state the beginning in fiscal year 2010. He did not want to date the document. He asked about attachment 2, addendum 3, regarding undue influence. Item 3 states that the staff director will annually seek from each Board member the confirmation of freedom from undue influence. The chairman is also responsible for obtaining the same confirmation according to the rules of procedures (Page 12). Ms. Payne noted that she would correct that.

Mr. Allen indicated that the discussion of undue influence is important. He noted that how we conduct ourselves is important—it indicates that two or more members may not deliberate in private but that federal members may do so. The issue is that we need to do everything in the public—the issue really is if you have a majority of the Board discussing an issue in private. He notes that we may have dinner conversations regarding member views. He would like to change the text. Mr. Dacey asked if there weren’t two subjects—undue influence and meeting requirements. Mr. Dymond agreed and suggested that this document focus on undue influence. He suggested focusing on communications that are threatening. The issue of open meetings can be addressed separately. He believes the undue influence section should focus on the substance of the communication. He would revise the entire sub-section 1a to focus on a threat of adverse action—whether explicit or implicit.

Mr. Allen agreed but he wanted to briefly discuss both undue influence and open meetings with the members to get their views. He indicated his view that as long as you don’t have a majority of members and don’t reach an agreement then there should not be an issue. Mr. Dymond indicated that the law and the court cases are not clear on this topic. He advises that clearly a quorum—separately or serially—of members addressing an issue was not appropriate. He suggested that he continue his research on the issue and provide advice at a later time .

Mr. Steinberg indicated that he could imagine several situations where he’s unsure of the rules. For example, if we’re ready to take a tentative vote and he would like to get a better understanding of another member’s views then he might call him to discuss his views. Another example is that the members go out for dinner and discuss the meeting. Another example is if he sends an e-mail with draft wording to another member to get his comments. Mr. Dymond said he would consider those cases. He also pointed the members to the earlier addendum regarding e-mail exchanges.

Mr. Dacey noted that when views are expressed by a group of members they often collaborate on the document. Ms. Payne indicated that these are preparatory activities. She indicated that the objective is for the public to have access to the members’ reasoning—she would hope that anything discussed in private would subsequently be raised at a public meeting. Mr. Dymond noted that the Board must comply with the law but may also establish more stringent standards .

Ms. Fleetwood noted that the open meeting issue seemed unrelated to the undue influence issue. She would like to know what members believe qualifies as undue influence. Mr. Allen noted that threatening is one description—he can't imagine a situation where non-federal members can exert undue influence. He believes the people who can exert undue influence are the chairman and the federal members. These individuals serve on the appointments panel and can make people feel threatened with respect to their re-appointment prospects. Ms. Fleetwood responded that the federal members could be subject to undue influence—for example, the Treasury representative could be instructed how to vote, also the federal members work on other issues together and could use those activities for undue influence. Mr. Allen agreed but believed that the Sponsor representatives were inherently subject to the influence of their employers since they represent the organization. Mr. Dymond noted that the Board would need to decide what qualifies—for example; one member may threaten another by damaging another's reputation or have a personal relationship with a Sponsor that could be used against a member. Mr. Granof believed you know undue influence when you see it. Having too many rules may be damaging—he prefers a minimalist position.

Mr. Dacey asked whether there is a difference between a reportable event and an event described in the addendum. Mr. Allen expressed the hope that people would not become paranoid and would continue to exchange thoughts and ideas. But he would like to know when he is approaching a "line." Mr. Showalter indicated that it was really up to the person receiving the influence to flag whether it is "undue" or not.

Mr. Allen noted that clearly a past member has felt undue influence—we have some obligation to get to a basic understanding of what that may be. Ms. Fleetwood indicated that the open meeting aspect muddies the water. She asked once an event is reported, what does the chairman do? Suppose she reported influence from a member—was the chairman supposed to assess the incident and persuade the member that it was not undue? Mr. Allen said he prefers not to judge the events—he prefers to be able to point to the rules and say clearly that is or is not undue. He would then simply report an event as required. Ms. Fleetwood said it would be very hard to come up with criteria. Mr. Steinberg noted the danger of the chairman having discretion—if he agrees with the member exerting pressure, he may not report the event.

Ms. Fleetwood agreed and Mr. Showalter noted that with businesses, hotline calls are all reported up. Mr. Schumacher agreed and indicated that it was then up to the appropriate authority to act.

Mr. Allen expressed concern—he wants to make sure that the events reported are significant. Mr. Steinberg said you might simply ask the member "do you really want to report that" and if the member says "yes" then you report it. Mr. Showalter said it is incumbent on all of us to realize the consequences and carefully consider what we report and what we do not. Mr. Jackson noted that the mere fact that an individual attempted to exert undue influence puts the chairman on notice that we have a character problem with an individual member. He also asked what responsibilities the Sponsors may have—for example, might the Sponsors seek to remove a member attempting to exert undue influence? Mr. Allen noted that the expectation is that if a member feels that something is an undue influence then it gets reported.

Ms. Payne asked if the Steering Committee was comfortable with the section on missions and responsibilities. No concerns were raised.

Mr. Allen asked what the next steps are for the AICPA. Ms. Payne indicated that she provided the draft to the AICPA but has not received detailed comments. She expected that the committee would be recommending to the AICPA Board and subsequently the Council that Rule 203 status be extended. In addition, a transition team may be in place to monitor implementation of the revised rules and, if effectively implemented, they may later recommend that no additional sunset reviews be required.

CONCLUSIONS: The revised rules and responsibilities will be finalized at the June meeting.

- **Steering Committee Meeting**

No separate discussion occurred.

Adjournment

The Board meeting adjourned for the day at 4:30 PM.

Thursday, April 29, 2010

Agenda Topics

- **Federal Reporting Model**

Members discussed the user needs study materials, the FASAB reporting model task force scope and structure, and their views or issues that they would like the task force to consider during the project. Details of the discussions are as follows.

User Needs Study

Mr. Granof noted that citizens have a difficult time comprehending the difference between a million, a billion, or a trillion dollars. Whether individuals are informed that the deficit is $11 trillion or $52 trillion it may not make much of a difference. Also, it may be a mistake to focus on citizens in developing the reporting model. Citizens do not read the financial report. However, the media and other citizen intermediaries do use the report and their needs should be the focus.

Mr. Showalter asked whether there was any indication of the citizen's priorities, i.e. what information they sought most. Mr. Simms noted that survey respondents frequently noted that they wanted information about federal spending and performance – what was accomplished. Also, the perceived importance of providing information about liabilities appeared higher than that of cost and assets.

Mr. Schumacher noted that citizens did not know that the financial information was available. The Board should first consider ways to better communicate the information.

Mr. Jackson noted that he was struck by the congressional users who sought specialized information on particular issues rather than on the big picture. Also, there appeared to be a need for cash flow information showing major revenue and expenditures and how much had to be obtained from borrowings. In addition, there was a need to juxtapose the cash flow statement with an accrual statement. It appeared that federal agency managers and citizens did not seem to understand the purpose of financial statements and the assertions associated with them, such as the existence of inventory.

Mr. Steinberg noted that citizens do not read the annual financial report, but the user needs study indicated that their needs track with the existing financial reporting objectives. The financial reports are providing the information being sought; however, the biggest issue is making individuals aware of the information in the reports. Financial reports serve a tremendous purpose in that they force agencies to gather reliable information and preparing financial statements help agencies become aware of issues. Mr. Steinberg also noted that input from preparers is needed because they are the group this is most likely to use the information.

Ms. Fleetwood believed that citizens should be the intended audience for the report, and they should be able to at least understand the Citizens' Guide. Every citizen should be able to read the Citizens' Guide but there is no announcement of its issuance. Also, citizens are interested in debt and how much is held by foreign countries. In addition, it will be difficult to design a document to satisfy the specialized needs of the Congress. Perhaps a focus group should be conducted to identify and learn more about the information that could be provided to Congress.

Mr. Allen noted that he was somewhat surprised that citizens want financial information, but at a different level than what the Board can provide. Also, they want to be able to understand the information for themselves. In addition, a number of managers and executives had not seen their agency's financial statements. They seemed to want timely information on the cost of service and the status of their budget. They are not users of audited financial statements, but they are users of the data that builds up to them.

Mr. Dacey noted that it seemed like the type of information being provided was desired by each of the groups in some form. Managers seemed to want reliable information, but they did not appear to be sure about the reliability of information flowing through the financial systems used to produce audited financial statements. They used separate systems to obtain information that should have been available from the financial systems used to prepare audited financial statements. This may occur because some agencies do not develop their numbers until year end, such as Internal Revenue Service receivables. Also, the process of cleaning up obligations takes place at year end.   In addition, Mr. Dacey noted that there may be better ways to get some feedback from Congressional staff. There are some Congressional staff members interested in the government-wide financial report.

Mr. Dacey noted that they focused on 10th grade reading level when developing the Citizens' Guide and he asked whether difficulty understanding the document was a serious issue or was it simply a matter involving one or two individuals. Mr. Simms noted that both focus groups had trouble understanding the document. He noted that while most focus group participants had some college experience, one focus group included an individual with a doctoral degree. This individual understood more than the others, but still had difficulty with terms such as debt held by the public.

Members discussed the complexity of financial systems, noting the numerous types of accounts that are used to record transactions and the need to track budgetary and proprietary information. Ms. Franzel, Managing Director of GAO's Financial Management and Assurance Team, noted that some of the problems regarding systems should not be considered a reflection of the financial reporting model. Some managers design cuff systems because they are not getting the information they need from the financial systems. However, this does not mean that the financial statements are not useful.

Mr. Allen noted that, based on his experience, accounting systems were developed around the budget and periodic adjustments were made. He asked whether there are issues with FASAB standards that may interfere with the federal government's efforts to focus on a system to help them obtain the information they need to manage.

Mr. Jackson noted that there are only a few systems that meet the Federal Financial Management Improvement Act (FFMIA) of 1996 requirements. Also, systems must be able to track accruals, budget formulation, and budget execution using FASAB standards and Office of Management and Budget (OMB) budget concepts. Events are recorded when they occur but multiple accounts are used to record the budgetary and proprietary amounts.

Mr. Showalter noted that Board discussions regarding electronic reporting concerned getting information to the citizens. The Citizens' Guide is one method of getting information to citizens, but how would citizens like to receive information? The Reporting Model Task Force could consider this issue.

Mr. Steinberg believed that more budgetary information needs to be included in the reporting model because: (1) that is the information that is of interest to financial managers; and (2) it is consistent with the information used by the Congress.

Mr. Dacey noted that if managers are managing assets, like receivables and inventory, they will need more information than that directly provided in financial statements. For example, with inventory, one may want to know the number of days of supply on hand. This information should come out of a system that is used for preparing the audited financial statements. However, agencies do not have integrated systems. Perhaps the Board should say that, in addition to financial reporting information, here are the other kinds of information that systems should provide because this information may be relevant for management purposes.

As to Mr. Allen's entire question about whether the FASAB standards are requiring additional work by the preparers, Mr. Showalter noted that agencies operate on the budget basis and to the extent that FASAB standards deviate from the budget, it causes additional work. For example, standards that require making an accounting estimate that is not cash based causes additional work.

Ms. Franzel noted that, in its efforts to become auditable, the Department of Defense has decided to adjust its approach to start with an emphasis on budgetary accounting because that is the information people use and need. Also, regarding assets, they are focusing on completeness and existence. These efforts may provide some input on what information individuals consider important.

Mr. Allen noted that to get users to focus more on accrual-based financial information the Board would need to do a better job of linking that information to budget information.

Reporting Model Task Force

Staff is in the process of organizing a task force that consists of two groups – a technical group and a user group. Staff has selected individuals for the technical group and will next identify user group members. Regarding the role of the technical group, it was noted that they would be developing financial statements to inform the Board of the types of information that should be reported. Ms. Kearney noted that Office of Management and Budget (OMB) Circular A-136 would provide guidance on how the information will be reported.

Ms. Kearney expressed concern regarding the composition of the technical group of the task force. It appeared that the group consisted of individuals whose firms could gain financially as a result of developing the model. Ms. Payne and Mr. Simms noted that the group members were selected based on their background and expertise in federal financial management. Also, the product that the technical group develops will be presented to the user group. The user group will consist of potential users and preparers, and ultimately the technical group's suggestions would be considered by the Board. The OMB will provide suggestions for additional technical group members, considering the need to maintain the size of the group to a manageable level. Mr. Allen noted that he did not envision the groups developing the end product. They will likely make key points and suggestions that will be valuable to the Board.

Ms. Payne also noted that the task force will begin by considering government-wide reporting. The original reporting model work first focused on agency reports, and later the government-wide. The CFO Act required agencies to prepare financial statements and, later, the GMRA added government-wide financial statements. The thinking for the task force is that a potential user would first consider a high-level, government-wide entry point. Currently, this is USASpending.gov and potential users start with that site and drill-down for information. A good entry point would inform citizens, the media, and Congress about what they could find if they drill down. Also, the task force could think about what users should see and, through FASAB's process, inform OMB, but not necessarily develop a requirement.

Ms. Kearney provided an update on the Chief Financial Officers Council's (CFOC) reporting model task force. The CFOC provided the community with recommendations for important additions or focuses for the reporting model and organized subgroups. One area of focus is on spending and cost data and a subgroup was formed to look at a prototype for a Statement of Spending. Another area of focus is on the Statement of Net Cost and an OMB Circular A-136 subgroup is looking at how the statement could be enhanced to distinguish between program and administrative cost. This is in line with the CFOC's recommendation that the statement should present the cost of doing business. The CFOC also suggested strengthening internal control, such as considering whether there needs to be audits of internal control over programmatic areas or financial reporting. Also, the CFOC wanted to focus asset and liability reporting at the government-wide level. The thought would be that agencies would continue to produce the financial statements that they do currently, but the audit focus would be determined by what is important to the government-wide level. Ms. Fleetwood expressed concern that this would be a fundamental change from the present approach and expressed concern about how the government-wide level will be able to produce the consolidated financial statements. The government-wide report preparation process relies on the underlying agency audits.

Ms. Kearney noted that the CFOC subgroups plan to complete their work by the end of May and that FASAB staff are serving as observers of the subgroups.

Views for Task Force Consideration

Each Board member discussed their views or issues that they would like the reporting model task force to consider. The following presents those views.

> Mr. Showalter noted that he would like to see more prioritization to help guide the Board in focusing on the more important information. Also, he would like to explore other ways of presenting information other than the standard financial statements such as different levels of reporting for different users (pyramid approach).
>
> Mr. Schumacher expressed a focus on citizens and citizen intermediaries. He noted that he was not sure the Board would be able to give other users, such as managers, the information they need, but they could possibly use the same systems. Mr. Schumacher also noted the following:

- Would like to see simpler information on a timelier basis, such as quarterly.
- While a balance sheet is needed to put a “stake in the ground” for measurement purposes, the group should consider whether other existing financial statements are needed. Some statements may not be used because they are difficult to understand, such as the Statement of Budgetary Resources.
- Consider some way to communicate what is important on major spending programs.

Mr. Dacey suggested the following for the task force’s consideration:

- Whether there is any additional information that could help individuals understand the financial statements. The GAO prepared a guide for helping individuals understand the government-wide financial statements (see GAO-09-946SP).
- Ways to bring about greater clarity about the relationship between financial information used in financial statements and the information useful for management.
- How to display information on spending, given that currently, different bases are used - cash, budget, and accrual. The first consolidated report presented spending by function. However, some of the numbers did not track easily with the way the budget information was recorded, particularly offsetting receipts.
- Be careful not to confuse accountability assurance and the reporting model. These are separate concepts.

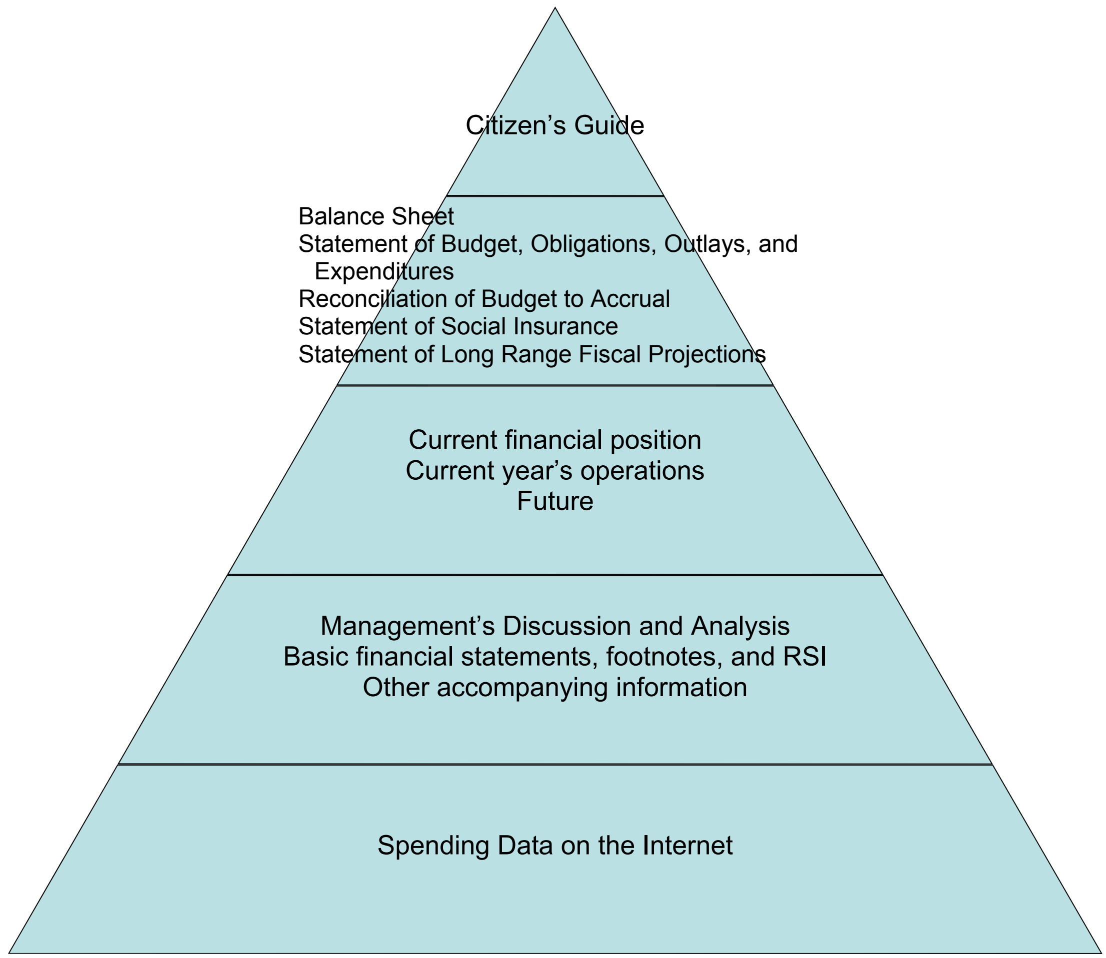
Ms. Kearney noted that the task force should be aware that agency reports and government-wide reports are two separate reports which should have different focuses.

Mr. Allen suggested providing task force members with copies of the standard or concepts that state the primary users and the information they need. Mr. Allen also noted the following for the task force:

- Do not limit consideration to traditional presentations.
- A statement of position and an operating statement are needed. Individuals ask where are we and how did financial position change. Citizens may be confused about where the federal government stands, given the many numbers that are expressed in the media. The statement of financial position anchors everything, such as long-term projections and cost of service.
- Consider a presentation of interperiod equity.

- There should be some key financial information which would be fed by other statements. If we report information the way it is being used, users would not have to pull information from different places in the financial report.

Mr. Steinberg noted that he liked Mr. Showalter's suggestion regarding the different reporting levels and he believed that a concepts statement could discuss the different levels. Mr. Steinberg described the different levels of reporting as follows:



Ms. Fleetwood believed that a different medium other than the Citizens Guide may be necessary. The information should be gathered and provided in a way that the citizen can easily obtain it and use it. It also may be good to discuss the needs of the media.

Mr. Jackson noted that he would like to glean something about the relevance of FASAB standards and whether there are other areas that need to be covered by the standards. This information would help ensure that the Board is reporting information that people need to know at a macro level or possibly a management level. Mr. Jackson also noted that he would like to know:

- How should information be conveyed?
- Whether there should be an effort to describe what the information means? Do individuals understand the meaning of the information being conveyed to them?
- Whether we need some type of practice aid, such as how to use financial information? We may need to introduce an educational tool so that people understand what is being conveyed in financial reports and how the information should be used.

Mr. Granof noted that the Board has an opportunity to do something innovative and the pyramid approach could do that. However, it would be difficult to have a pyramid approach without electronic reporting; therefore, electronic reporting is the direction in which the Board should go. Mr. Granof also noted the following points for task force consideration:

- Agency reports should be treated differently from the government-wide report. There is a conflict between preparers and external users and the two groups have to be treated differently. The main users of the agency reports are likely the preparers because external users do not understand them.
- Annual reports have extensive disclosures including the number of material weaknesses by agencies. This type of information imposes discipline on the agencies, but from a user perspective, it does not provide useful information.
- The Citizens' Guide is a sophisticated document and most citizens would not understand it.
- Our ultimate aim should be what information people want to know. Today, people want to know information like the cost of the war in Afghanistan.

CONCLUSIONS: Staff will provide the task force with the Board's views and items of concern for consideration during the project.

- **Evaluating Existing Standards – Earmarked Funds**

Staff member Eileen Parlow opened the discussion with a recap of the Board's tentative decisions at the February Board meeting that although over 500 earmarked funds are currently being reported,

- reporting on earmarked funds should not be completely eliminated,
- reporting on earmarked funds should not be restricted only to social insurance funds, and that

- staff should develop potential filters to reduce the number of various types of earmarked funds that are currently being reported.

Ms. Parlow said that staff developed two types of potential filters – principle-based and materiality-type filters. Ms. Parlow asked the members to comment on the pros and cons (listed on page 8 of the briefing materials) for a principle-based filter that would exclude deferred compensation for federal civilian and military employees.

Mr. Jackson asked if recognizing a long-term liability would negate the "con" (which said that "exempting these funds may imply to some that there is a lesser responsibility for the government to use such funds in accordance with legislated purposes).

Ms. Parlow agreed that it might, but that this issue was complicated. For example, the Board previously rejected a potential "negative net position" exclusion. Also, it was unclear whether funds recognizing deferred revenue would be in this category (of funds recognizing long-term liabilities) or not.

Mr. Schumacher asked how many funds might this filter eliminate. Ms. Parlow said that the number of funds would likely be few, but that it would eliminate the massive negative net positions that largely offset the positive net position of Social Security. For example, Table 1 on page 16 of the briefing materials shows that negative net positions of about $1.3 trillion for military retirement and almost $1 trillion for civilian retirement would be eliminated. Those funds largely offset the $2.5 trillion positive net position for Social Security that SFFAS 27 was supposed to highlight on the face of the balance sheet.

Mr. Schumacher asked if these funds were envisioned when SFFAS 27 was issued. Ms. Parlow replied that she believes that the Board was envisioning a large positive net position and that she does not believe that the inclusion of the large negative net positions of the deferred compensation funds was anticipated. She mentioned that since military retirement is funded entirely by appropriations funded by general tax revenue, it appears that military retirement may not even meet the SFFAS 27 definition of an earmarked fund.

Mr. Schumacher asked if these funds might ever have a positive net position. Mr. Jackson and others indicated that this did not seem likely.

Mr. Steinberg asked if, before considering options, the Board could just re-articulate the original purpose of SFFAS 27.

Ms. Parlow said that a major purpose was to split out the large positive net position of earmarked funds – really thinking about Social Security and to a much lesser extent Medicare – from the overall negative net position of the rest of government. This is because those programs are actually lending money to the rest of the government.

Mr. Steinberg asked if this meant that the federal government is using funds that were intended for other purposes to fund general government.

Ms. Parlow agreed, but said that “borrowing” might be a more precise term than “using.” She agreed that this was a major purpose of SFFAS 27 but that there was an additional purpose, which was to provide for special accountability for “dedicated collections” (as defined in now-rescinded paragraphs 83-87 of SFFAS 7).

Mr. Jackson asked if this referred to a separate stream of money that can only be spent for certain purposes. Ms. Parlow agreed. He said that in his opinion, booking a liability takes care of the provision about spending in accordance with designated purpose because it shows that there is an obligation to meet the responsibilities of those funds. Ms. Parlow agreed, and said that it would make little sense to split out net position on the balance sheet if net position were zero. She said that the existing category of earmarked funds is a mixed bag – it includes some funds that book a long-term liability and some that don’t.

Mr. Dacey agreed with staff’s analysis, and that military retirement appears to be [funded by] all federal [general fund] money. He said that the original purpose was two-fold – it was not just the balance sheet but also the statement of changes showing that there is significant money coming in that can’t be used to fund general government. He said that the challenge is that he was struggling with some of the “principle-based” filters and trying to find the principle of why we would exclude them. He said that he wonders at times whether we’re really talking about certain assets that are restricted, rather than net position being restricted. He said that he doesn’t know where to go with that, because the assets, to the extent we’ve collected from outside parties, he has some sympathy with trying to keep that in, but at the same time, the long-term actuarial liabilities are kind of a separate issue. He said that if you look at the statements, they generally have investments in Treasury securities, they generally have a few short-term assets and liabilities, and some of them have a long-term liability. He says that he doesn’t know any other way to cut it, except to say that these funds are in or out. He asked if maybe what we measure should be different.

Ms. Parlow said that at the pre-brief meeting on Tuesday, staff had thought about rather than having all these filters and other rules, to look at it totally differently and look at intragovernmental investments in Treasury securities, and maybe taking it from that direction. She asked if this approach might be worth developing. She said that if the Board approves an agency task force, that is an option that could be explored.

Mr. Dacey said that he would prefer to continue to have the disclosure separating the revenues and net position, but maybe along the lines of having restricted assets rather than restricted net assets. He said that he is wondering if we should continue down this path (of excluding certain funds with large long-term liabilities) but instead of picking funds to exclude, of simply excluding those reporting large long-term liabilities. He said that he doesn’t know if there are any, besides the deferred compensation funds. He asked if there’s a principle that we could look at for excluding [funds with] certain liabilities. He said that since the focus should be on restricted assets, that we can’t just go out and spend on general government, if the recognition of a long-term liability might accomplish that and eliminate the need for reporting a restricted asset.

Ms. Parlow said that there might be situations where appropriated funds are given to agencies to buy Treasury securities, and so this approach might “sweep in” funds that did not originate from dedicated collections.

Mr. Dacey agreed and said that there are numerous “mixed models” where there is a combination of appropriated money and dedicated collections. Ms. Parlow noted that the civil service retirement fund has both employee contributions and some supplemental appropriations.

Ms. Fleetwood mentioned that the investments are IOUs that are eliminated on the government-wide level. Ms. Payne agreed and noted that on the consolidated government-wide statement, all that’s left is the liability. She said that it is difficult to imagine how such funds [as deferred compensation funds] could be viewed as funding the rest of the government. She said that we are reporting the liability to the employees and that is reflected in the government’s financial position.

Mr. Allen said that although he was not on the Board at the time that SFFAS 27 was developed, his impression of SFFAS 27 was that this was that the primary objective -- to split out Social Security’s positive net position from the rest of government. He said that this objective is currently not being met due to the inclusion of the deferred compensation funds in the earmarked funds category.

Mr. Jackson said that the same argument could be applied to deferred revenue, such as the Nuclear Waste Disposal Fund. Ms. Parlow agreed. She added that for the deferred compensation funds, there are additional reporting requirements in SFFAS 5 and SFFAS 33, so it’s not as if all the reporting on pension funds would go away.

Mr. Jackson agreed, and said that if the government is recognizing a long-term liability, there is no need to go through the earmarked funds exercise and impose additional requirements.

Mr. Allen asked if the members would like to go through all the specific filters, or whether the members should like to address the other type of filter, the materiality-type filters.

Ms. Parlow said that it would be helpful to get a sense of what the members would like staff to pursue with a task force of agencies. She said that there were also a couple of easier questions, such as draft language to clarify the fact that earmarked funds must get at least some of their funding from external dedicated collections. She said that the big question of the day is whether the Board approves the idea of getting together a task force from agencies to flesh out and test some of the potential filters. She asked if the members could indicate general approval or disapproval of the two materiality-type filters that were described in the briefing materials.

Mr. Steinberg asked if there is a principle for the exclusion of deferred-compensation funds. Mr. Dacey said that the recognition of the long-term liability is the principle. Ms. Payne said that the principle that she sees is that there is a 100% exchange transaction. She said that our standards require the recognition of 100% of the obligation to the employees; this obligation shows up on the consolidated financial report. She said that there is no intra-governmental lending that has any consequence on the government-wide level. Mr. Steinberg said that this could work as a principle. Mr. Jackson agreed. He said that he would make the same case for deferred revenue, where it arises from an exchange transaction with external parties. He said that if a liability or deferred revenue, then that would negate the need to show special reporting as an earmarked fund. He said that this would, in effect, combine more than one of the options identified in the briefing materials. Ms. Parlow agreed.

Ms. Fleetwood asked if SFFAS 27 requires the splitting out of earmarked funds net position, as shown in the tables in the briefing materials, or whether it requires splitting out of restricted assets, as Mr. Dacey had described. Mr. Dacey said that the current requirement shows spitting out of net position, but that he was suggesting splitting out restricted assets as a possible alternative. He said that if you went that route, you would keep all the [earmarked] funds, but you would split out assets such as investments in Treasury securities instead of net position.

Mr. Dacey asked if we know why the Department of Energy (DoE) recognized deferred revenue. Mr. Jackson said that his understanding is that the funds were collected as a fee for disposing of nuclear waste in what was previously designated as Yucca Mountain. He said that the DoE has been setting that revenue aside until it incurs expenses in moving the nuclear waste to the disposal site.

Mr. Steinberg said that he likes the summary principle suggested by Ms. Payne, that where there is exchange revenue with an external party, and a liability or deferred revenue is recognized, there is no need to report the fund as an earmarked fund. He said that with some funds, like PTO and SEC, he believes that regardless of what the agency determines, to him that is exchange revenue.

Ms. Parlow said that the staff recommendation is to explore such options with agencies so that the Board would have additional information on the likely results of different potential filters.

Mr. Steinberg said that he believes that some agencies may not call it exchange, although he believes that it should be.

Mr. Allen asked what staff thought the members should vote on. Ms. Parlow said that there are potentially two big categories for a task force – principle-based and materiality-type – and that the Board has not yet discussed materiality-type filters.

Mr. Allen said that if you were going to use materiality-type filters, you would apply those first, which would greatly reduce the number of funds that you needed to examine relative to the principle-based filters. Ms. Parlow agreed, although she mentioned that materiality would be applied at the agency level.

Ms. Parlow said that the staff paper describes two materiality-type filters. The first uses existing guidance in SFFASF 27, paragraph 24:

> [24] Selecting earmarked funds to be presented individually requires judgment. The preparer should consider both quantitative and qualitative criteria. Acceptable criteria include but are not limited to: quantitative factors such as the percentage of the reporting entity's earmarked revenues or cumulative results of operations from earmarked funds; and qualitative factors such as whether an earmarked fund is of immediate concern to constituents of the fund, whether it is politically sensitive or controversial, whether it is accumulating large balances, or whether the information provided in the financial statements would be the primary source of financial information for the public.

She noted that she was not aware of any implementation difficulties for this requirement. She said that this filter would exclude reporting on funds not significant enough to merit individual reporting by paragraph 24 of SFFAS 27. She said that out of 380 earmarked funds reported by the largest federal agencies, only 86 were reported individually.

Mr. Jackson said that in general he does not think that the Board should be setting materiality standards beyond what already exists in the standards. He said that he would support the principle-based filters and let the agency decide what funds are material.

Mr. Allen agreed, but said that the second materiality option has a concept of "major funds" modeled after a GASB standard and said that it can be viewed as simply a concept of "major funds" rather than a materiality standard.

Ms. Parlow agreed, and said that the selection of funds in the first option is based upon existing standards in SFFAS 27. She said that the first option does not draw a bright line but rather allows management judgment. She emphasized that staff has never received a single question or a single complaint about the requirement in this paragraph. She said that since only 86 of 380 were individually reported by the largest agencies, on a government-wide level it was likely that only about 100 of the 500+ earmarked funds would be reported. She said that utilizing something like GASB's "major funds" would further narrow down the number of earmarked funds reported.

Mr. Schumacher asked if the other members considered 86 funds too many?

Ms. Fleetwood said that in her opinion, less is better – you would just pick up the material funds.

Mr. Schumacher agreed.

Mr. Allen said that when he testified on SFFAS 27 on behalf of AGA, he thought that we were talking about two: Social Security and Medicare.

Mr. Jackson said that the Board may have thought that, too.

Ms. Payne said that out of the 86 reported individually by agencies, the CFR might pick only few to report individually.

Mr. Schumacher asked: if the “major funds” concept were selected, would agencies still be required to aggregate the rest? Ms. Parlow said that staff recommendation is that agencies would be required to report only the major funds and not aggregate the rest.

Mr. Dacey said that agencies could reasonably omit immaterial earmarked funds under existing standards. Ms. Parlow said that different auditors may have different views. Mr. Allen said that the topic is before the Board because of complaints.

Mr. Allen asked what staff needs to move forward. He asked if staff would like a generic vote on whether to explore both principle-based and materiality-type filters and if staff could articulate what the Board should vote on.

Ms. Parlow asked if the Board would approve a task force of agencies reporting significant earmarked funds activity to assist staff in exploring the potential impact of both types of filters, with the next question being about whether to explore materiality-type filters (regardless of how such filters might be labeled).

Mr. Allen expressed concern regarding how much time it would take due to other projects that the Board wants to address.

Ms. Fleetwood asked if the task force would field-test the potential filters. She asked if the right people might actually be able to respond informally without field testing. Ms. Parlow replied that unanticipated results often occur when agencies actually try to implement standards that have already been issued. For example, because staff does not have detailed information for all agencies’ earmarked funds, staff could only estimate how many earmarked funds would be considered “major funds” using the criteria described. Staff would need agencies to provide feedback.

Ms. Bond said that if the Board considers filters, she would want the filters to be field-tested. She said that this is what she would want the task force to do, to see what kind of result we would actually get. She said that before voting, she would want to know what the result is going to look like.

Mr. Dacey, Mr. Schumacher, Mr. Showalter and Mr. Granof said that they were in support of a task force.

Mr. Jackson said that he agreed also, and asked how we would set the stage for the task force – for example, give them a group of filters to test rather than ask the task force for suggestions.

Ms. Bond said that considering the productive discussion that the Board had today, she would not like to limit the role of the task force but rather would welcome ideas and suggestions. She said that the Board’s discussion has been very hypothetical and the task force could provide valuable input.

Mr. Steinberg asked Ms. Parlow who would be asked to serve on the task force and what would be the process staff would use with the task force.

Ms. Parlow replied that she would select the agencies that are reporting the most significant earmarked activity – for example, the Department of the Interior currently reports 119 earmarked funds. Other agencies have very large earmarked funds – Social Security would be the most obvious example.

Mr. Steinberg said that he would like to see a variety of types, such as the Department of Energy's Nuclear Waste Fund, as well as the SEC and PTO. He asked how the task force would operate.

Ms. Parlow said that she would probably work up a briefing paper to explain what we are hoping to do – develop some filters to streamline and narrow this reporting and to field-test them – and that we are looking for other ideas in addition to the ideas that were discussed today.

Mr. Steinberg asked what is meant by "field test." Ms Parlow said that field testing would be to narrow down several filters and ask the agencies to go back to their FY 2009 data and see what the result of those filters would be: what kind of time and effort it would take to apply the filters, and what would be the impact on reporting in terms of what would be excluded and what would not be. Mr. Steinberg indicated agreement with that plan.

Mr. Allen asked the remaining members if they would approve a task force.

Ms. Fleetwood indicated approval. Mr. Allen said that he would approve but reiterated his opinion that only two accounts- Social Security and Medicare- need to be reported as earmarked funds.

Ms. Fleetwood said that she wished that materiality should have been discussed first because she thinks that it is the more important filter.

Ms. Parlow said that at the February meeting, the Board had discussed limiting earmarked funds reporting to just the social insurance funds but a majority of the members voted against that option. She said that the Board could always reconsider that decision but meanwhile had indicated a desire to explore other options.

Ms. Bond said that the Board has just voted in support of forming a task force to look at all these issues. She said that it would be pretty useful to get their feedback and not presuppose what the result is going to be.

Mr. Allen asked for a Board decision on whether the task force should also look at the other type of filters that could be called "major funds" to avoid the word "materiality."

Mr. Showalter said that he likes the suggestion of exploring the major funds concept by the task force.

Mr. Steinberg and Ms. Fleetwood indicated approval.

Mr. Dacey said that he seriously questions whether the Board should be putting out materiality guidance. Mr. Schumacher said that he would approve the task force examining the issue but that he tended to agree with Mr. Dacey. He said that it could be a slippery slope putting percentages into a standard. Mr. Jackson agreed.

Mr. Granof said that although the Board has voted to approve exploring this issue, they've all expressed reservations and wondered if it's worth it.

Mr. Allen said as long as they're talking, is it fair game that they can talk about it.

Ms. Parlow said that one of those magnitude-type filters does not use percentages but rather uses language that is already in SFFAS 27.

Mr. Showalter said that he prefers the "major fund" concept.

Mr. Jackson asked Ms. Parlow if she believes that the interpretation of the standard has gone beyond the original intent of the standard.

Ms. Parlow said that there were two different purposes. She said that purpose of splitting out the positive net position of Social Insurance failed, because of all the negative net position funds that ended up being included. She said that the existence of 500+ earmarked funds has resulted in a great many phone calls from agencies and a great deal of time and effort spent on funds that are immaterial. Mr. Jackson asked if the Board at that time had originally contemplated such a large number of earmarked funds- he asked if it was important for the Board to do something. Ms. Parlow said that it was.

Ms. Payne said before the meeting adjourned that she just wanted to make sure that the members were comfortable with the draft language to clarify that an earmarked fund must have some source of outside revenue other than general fund appropriations.

Ms. Parlow said that the language in SFFAS 27 was surprisingly easy to misinterpret and that the draft clarifying language was on page 23 in the briefing materials:

> At least one source of specifically identified revenue or other financing source must be provided to the federal government by a non-federal source for a fund to qualify as an earmarked fund. Note: In some cases earmarked funds receive amounts, such as certain payroll taxes, that are collected by one agency and transferred or appropriated to another. This internal process does not change the nature of the revenue or other financing source. However, a fund receiving only an appropriation that cannot be tied back to an external source dedicated to the fund's purpose would not qualify as an earmarked fund.

Mr. Allen asked if any members objected to the draft language.

Mr. Jackson said that the reference to "certain payroll taxes" was confusing. He said that some might believe that payroll taxes referred to all taxes deducted from payroll, and not the narrower sense of Social Security taxes. He asked if other members agreed. Mr. Dymond said that he would also have some suggestions for editing the language in the last sentence.

Ms. Parlow said that she could change the language to explicitly name Social Security or even expand the description of the example, as well as delete the last sentence. Mr. Jackson said that simply naming Social Security would be sufficient.

Mr. Allen said that Ms. Parlow could also work with Mr. Dymond on edits that he would recommend.

Ms. Bond said that she found the draft language clear and had approved it but would like to see the revised language to consider whether any revisions would cause her to change her vote. Mr. Allen said that the Board would have the opportunity to vote on the revised language.

CONCLUSIONS:

1. Staff should recruit a task force of representatives from agencies that have reported significant earmarked funds activity. Task force briefing materials should include:
   - Original (dual) purpose of SFFAS 27
   - Results – over 500 funds being reported, including large negative net position

2. Task Force would:
   - Evaluate options for filters already identified, in terms of:
     (a) likely impact on reporting
     (b) comments on time and effort involved in applying filter(s)
   - Suggest other potential filters

3. Additional potential concepts to develop
   - restricted assets rather than restricted net position (and limiting this to restricted assets that have not been offset by recognition of a long-term liability)
   - focus on intragovernmental investments in Treasury securities

4. Staff will also work with FASAB general counsel on edits to language that would clarify that earmarked funds cannot be entirely funded by the general fund.

Adjournment

The meeting adjourned at 3:15 PM