

**FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD**  
**December 16-17, 2009**  
**Room 5N30**  
**441 G Street NW**  
**Washington, DC 20548**

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***Wednesday, December 16, 2009***

**Administrative Matters**

• **Attendance**

The following members were present throughout the meeting: Chairman Allen, Messrs. Dacey, Granof, Jackson, Showalter, Schumacher, Steinberg, and Ms. Fleetwood. Mr. Werfel was present with intermittent absences; Ms. Kearney represented him during his absences. 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.

- **Other**

Mr. Allen explained that he attended the CFO Council meeting held the day before and asked Mr. Werfel to provide the Board a short version of the explanation of the Council's role that he provided at that meeting. Mr. Werfel explained that a guiding principle for the CFO Council is to focus its energies in specific areas rather than try to "boil the ocean." One focus is fixing financial management by addressing some of the major concerns about cost versus benefits. The cost of implementing systems is \$600 million to \$1 billion—which is troubling. Why does it take so long to modernize and why does it cost so much? At the same time, the outputs are not meeting the needs of the users. Reports are not read by the public and not used by managers. A lot of audit focus is on the statements— which has benefits ; but at the same time other information streams are not being audited and yet these are being relied on by the public. There is a misalignment. The reporting model is an area to focus on—to question whether the information stream that is extremely expensive, complex to audit, and not meeting information needs should be rethought. Can we audit an information stream developed and automated in a less complex, less expensive environment? Can we have it be a stream that is actually used by the public and by managers? Can we simplify our environment and find information that's useful?

Mr. Werfel explained there are additional areas to focus on. We'd like to decrease the footprint of financial management. We'd like to look strategically for opportunities to centralize. For example, at Treasury department – we'd like to create a stronger partnership. One where Treasury can take on some of the work of agencies, reducing their footprint. Treasury could produce the financial statements on behalf of agencies. Another area of opportunity is payables, where we are still not automated and there are a lot of manual processes.. Since Treasury makes all the payments there is an opportunity for a central solution. Mr. Werfel noted "common solutions" for data cleanup is another area of interest. Data in the feeder systems is disparate and non-standard. Over time that is fed into a legacy system and over a number of years it is patch worked together. When a new system is put in place, the first time the system is turned on 80 % of the data gets rejected for quality issues. The cleanup is expensive and each agency tackles that in its own stovepipe. Maybe there is a better solution for cleaning data and collaboration can help.

Mr. Allen noted that at least half of the members were involved in the transition in state/local governments to centralized processes. Tremendous efficiencies were realized through modernization of systems. While not a lot of people read the reports, the data in the systems is used. The difference in outcome in the federal arena is puzzling.

Mr. Werfel related that a common comment during the "first thirty days" for a new federal CFO is "there's a lot of data but not much of it answers the questions I have." Even the legacy systems are not answering questions.

Ms. Fleetwood indicated that the reports she used in her 30 years of management experience were the cost reports. Managers looked at cost and changes in cost from

period to period. She believes these are reports that people use to manage – government is about value for money.

Mr. Dacey noted that a great deal of money is spent to get feeder systems to feed legacy data into ERP systems. It is a challenge to establish a vision for these systems. Mr. Werfel acknowledged that no one has ever collaborated on how to do that. Ms. Fleetwood noted that cloud computing – where everyone works off the same system – could improve the consistency and accessibility of data. Mr. Werfel noted two emerging technologies – cloud and XBRL – that can allow common systems to be developed.

Mr. Allen noted that while states were much smaller—it is the same challenges and same processes. He noted that the Single Audit Act was not auditable until a centralized system was established in a state.

Mr. Jackson noted that developing information and auditing information that has no utility whatsoever is something that needs to be addressed. The literature should be reviewed –what are we doing that we get no value out of. Also, what information do we need to effectively manage that we are not getting. The CFO Act is about information needed to manage. We need to start asking ourselves what information is needed by agencies. We need to stop wasting time on information that is worthless. He noted that he is looking in more detail than financial reports – he wants to look at information needs.

Mr. Steinberg noted that all these reform efforts evolve. He recalled that Sky Leshner – an early expert in federal systems – considered the goal of having a single system for the entire government. But, except for a few exceptions, such as the disbursements system or retirement system, the government was too large – he suggested getting individual agencies down to a single, integrated system and then consolidate from there. States followed the same path. We are moving in the right direction but it takes time.

Mr. Showalter affirmed the notion that the movement toward more ERP-type systems is to be applauded as a factor to improve the quality of information. Mr. Werfel noted that it was not a single system –rather it was consolidation in payroll systems. Ms. Fleetwood noted that vendor payments through electronic invoicing was an area being explored – Treasury has a solution but it is not used widely. Huge savings could be had if it expanded. Mr. Jackson noted that the payable issues he has seen is the IBNR issue—we have bills in the pipeline and they come in increments but you don't have the receiving reports. Systems recognize payables once something is in the pipeline. But those things you received without an invoice are the problem – a lot of effort goes into modeling the IBNR amount.

Mr. Allen noted that even in smaller states it took a longer time to integrate specialized departments like transportation. But when all were integrated, each had unique information that was integrated, there were savings. The ability to integrate would be very helpful.

## Agenda Topics

- **Measurement**

Ms. Wardlow presented a draft of a proposed FASAB concepts statement on measurement attributes. As the Board directed at the October 2009 meeting, the draft used the GASB's October 2009 proposal as its foundation and included proposed changes for consistency with the federal financial reporting objectives and environment.

Mr. Allen said a joint project with the GASB is not essential, but the FASAB has been challenged as to why its standards differ from those of other national or international government accounting authorities. He and GASB chairman Robert Attmore had discussed possibilities for a joint project and they thought measurement attributes would be a good candidate. Mr. Allen noted there are differences between the projects. The GASB's measurement proposals are part of a broader project on recognition and modified accrual accounting and the GASB plans to issue a preliminary views document. The portion on measurement attributes might need to be issued separately for the GASB and FASAB to work together, because the FASAB plans to go directly to an exposure draft on measurement attributes. Mr. Allen would like FASAB and GASB to either jointly issue an exposure draft or issue two exposure drafts at about the same time. This would be a challenge and the GASB would need to make modifications that they may be unwilling to make. In today's session, FASAB members would consider the differences between the FASAB and GASB drafts. Having decided on the FASAB draft, the FASAB would invite the GASB's reaction to its proposals, including whether the GASB would be willing to issue the measurement portion of its project as a separate document.

Ms. Fleetwood said the proposed FASAB document includes more changes from the GASB document than she anticipated; this would make "convergence" more difficult. Ms. Payne pointed out that FASAB's financial reporting objectives differ from the GASB's. Most significantly the FASAB objectives include program managers' needs whereas the GASB objectives do not, and the GASB's interperiod equity objective is not a FASAB objective. Also FASAB has a reporting objective that she believes the GASB does not—namely, whether future budgetary resources will be sufficient to meet needs. For the Board to converge to the extent Ms. Fleetwood describes means the FASAB would need to revisit and converge its reporting objectives before attempting to converge measurement attributes.

Mr. Allen asked Ms. Wardlow to summarize the major differences between the two drafts. She reviewed the "Summary of Proposed Changes" from the staff memo distributed to the Board with the proposed concepts statements. She said that each Board decided independently to relate the discussion of measurement concepts to the financial reporting objectives and qualitative characteristics stated in each Board's concepts statement on objectives. As Ms. Payne said, some of the differences between

the GASB and FASAB drafts are due to the fact that the two Boards have different financial reporting objectives. The FASAB draft includes the information needs of program managers in its scope. It also includes examples relevant to federal government reporting that may not be relevant to state and local government reporting. She had sought to maintain the structure of the GASB draft while incorporating expanded material on attributes and methods, as the Board requested in October. This effort results in some additional repetition and complexity. She had included definitions to clarify the new material on, for example, measurement attributes and methods. Instead of asking the Board to decide between “price” and “value” in naming measurement attributes as previously proposed, she proposes that the Board use the term “amount,” as suggested by Mr. Steinberg. Related material has been reworded accordingly.

Regarding cost and interperiod equity, Ms. Wardlow said the GASB draft interprets the term “cost” in their concepts statement on objectives to mean historical cost. However, that is not necessarily the case in the FASAB’s reporting objectives. The GASB draft takes the position that cost of services should be reported at initial amounts (historical cost) to comply with the interperiod equity objective. As a result, the GASB draft proposes that capital assets used in providing services also should be reported at initial amounts because of the need for articulation between balance sheets and operating statements. The FASAB draft does not take a position on whether historical cost or replacement cost is generally preferable. This follows the Board’s decision in October that the FASAB’s proposed concepts statement should discuss the advantages and disadvantages of different measurement possibilities in a neutral fashion, rather than taking a position that could be interpreted as a financial reporting standard. The effort to remain neutral accounts for some of the wording changes from the GASB draft. Other changes are due to efforts to clarify measurement concepts.

Mr. Allen invited members’ observations and questions for the staff. Mr. Showalter said that, like Ms. Fleetwood, he had expected fewer changes, but as he read the document he concluded that might not be possible. He perceived some bias in the document against cost and he asked whether other members had the same observation. Mr. Allen said he read the document as neutral. Mr. Schumacher said that, like Ms. Fleetwood, he expected something different, but as he read through the document he understood the difficulties. He liked the document, thought it was well written, and did not see a bias or have other major issues with it. Mr. Dacey seconded Mr. Showalter’s comments about bias, but he thought it might be the nuances of language, rather than substantive changes. He found some statements rather unequivocal, but that also is true of the GASB document. The basis for some of the discussion might need to be clarified, but overall he thinks the document is a good place to start and move forward. Ms. Kearney said the document is well written and moving in the right direction. Mr. Allen asked Mr. Showalter to provide any examples of where he perceives bias to Mr. Wardlow.

Mr. Allen said that when he read the document, he was looking for substantive differences and thought there was only one: cost and interperiod equity. That is, should the Board make a decision in the concepts statement or remain totally neutral? The

differences between the two Boards' financial reporting objectives would not necessarily affect measurement. The use of different terminology does not substantively change the document. Both documents support a mixed attribute model and he does not think GASB would object to clarification. He found the definitions helpful and not inconsistent with the GASB draft. If the FASAB draft is presented to the GASB, one of the most important questions will be whether the GASB is willing to remain neutral in discussing measurement alternatives. Even if the GASB disagrees, the Boards still could issue parallel documents for due process feedback. The issue of neutrality could then be addressed in redeliberations. Like Ms. Fleetwood, he found the document longer than expected, but the reasons for that are legitimate.

Mr. Steinberg said he likes the approach. He looked at whether the draft reflects the uniqueness of the federal government environment, compared with the GASB's draft and other instances, and he had several useful discussions with Ms. Wardlow on various issues. He has a major issue with terms—"measurement approach," "measurement attribute," "measurement method." The Board can establish its own definitions, but he would like to stay close to dictionary definitions. He recalled that Mr. Showalter mentioned bias, but he did not see any bias. In terms of neutrality, he does not have a problem with the document laying out when different measurement approaches are appropriate, provided it is done in a completely neutral or unbiased fashion; it would be extremely helpful for the Board to present both views.

Mr. Jackson said he always wants to see the relevance to managers of a particular measurement attribute. He likes the fact that the discussion is framed in terms of the financial reporting objectives and the qualitative characteristics. He does not know where the document will go, but he has no negative comments at this point.

Mr. Granof said he discussed the draft with Ms. Wardlow. He thinks she did an outstanding job, given the Board's instructions, but the task given to her is impossible. The FASAB draft says the objective is to discuss issues relative to establishing standards. That is not a very useful purpose. He does not see how the document will help solve issues the Board will face in the future, such as how assets should be valued. The issues have been discussed for decades. There is not a single statement in the document that someone would not counter. The document says there are two approaches to selecting measurements for reporting, but there are at least four models: nominal amounts—historical cost; historical cost adjusted for inflation; current value; and current value adjusted for inflation. So, there is a fundamental difference to begin with. Then the draft addresses, say, the advantages of historical cost. He believes many people would take exception to every argument made. The question is, what has the FASAB added to the literature with this document, and what is the FASAB adding to its own discussions? The statements made are very controversial and he is not sure the FASAB will do itself any good by issuing a document of this kind.

Mr. Allen referred to the history of concepts statements—why they are not the first thing standard-setting boards do, why they take so long, and why boards sometimes issue standards inconsistent with their concepts statements. He said that concepts

statements only force board members to think and choose; they give a starting point, which has some value, but the Board should not spend a lot of time developing them. Given the existence of other important projects on the agenda, he would like to finish this one and issue it.

Mr. Jackson said he appreciated Mr. Granof's comments. Questions are raised from time to time about using a different valuation approach, such as fair value, or continuing to use historical cost. Without some definitional guidance, some sense of what these terms mean and how they might relate to the financial reporting objectives, some material to help the Board think through the issues, the Board is debating blindly. One can argue about whether this document is the right one or comprehensive enough, and whether there are four ways to do things or two ways, but he is more concerned about having a foundation to help the Board understand how the different approaches relate to the objectives and to help guide the Board. At present, with some exceptions, we use historical cost and maintain traditional accounting approaches without considering whether they are useful today.

Mr. Schumacher agreed. He said that, at the beginning of the project, Ms. Wardlow found twenty different terms in FASAB standards for similar measurements. If nothing else, this project gives the Board a starting point to move forward and a foundation to decide whether to deviate in the future from initial cost or remeasured cost and for what reasons, whether or not the Board amends prior standards. This is the value he sees in the project.

Mr. Showalter said that when reading the draft he considered whether the statement Mr. Granof referred to—that the purpose of the concepts statement is to discuss issues relative to establishing standards—is the purpose of a concepts statement, and he concluded that it is the purpose. The purpose is for the Board to communicate among itself and to others how the Board thinks about concepts that support financial reporting. As Mr. Schumacher said, the Board has used different terms at different times and members on the Board at the time may have had different views about what the terms meant. But in this concepts statement the Board is saying that, from this point forward, this is what the Board is thinking, these are the terms the Board will use, and here is what the Board means. That does not mean the Board will follow the concepts one hundred percent; as Mr. Allen said, no standard setter does that. Also, people will always disagree with concepts statements. But the value is that the concepts statement gives the Board a way to think about things and communicates the Board's thinking to others.

Mr. Allen asked Ms. Wardlow how she would like to proceed. She asked if members have things they want to clarify or change in the draft, from the perspective of a FASAB document. There was also the issue of when to present a draft to the GASB. Her memo laid out a tentative timetable for the Board's discussion. This is based on the GASB's current agenda, which does not call for additional discussion of their draft until May, when it would be discussed as part of the GASB's project on recognition. Mr. Allen said the GASB could include a discussion in an earlier meeting or by teleconference. GASB

project manager Roberta Reese said it would depend on the level of comments from the FASAB whether the issues needed to be discussed at the GASB Board level, or whether they could be discussed by the two Board chairmen and staff and not brought to the GASB members until May. Mr. Allen said he would like to be sure that FASAB members still wished to send something to the GASB. That was his understanding from the last meeting, but if members objected, the Board should vote on it. He would like today's session to result in a proposal that the Board could vote on and the majority of members would support, although there still could be changes in wording. The Board would send that proposal to the GASB and ask whether the GASB finds value in modifying its draft to bring the two proposals closer, or whether the GASB would prefer to stay with its draft. In that case the two Boards would expose their documents for comment and he hoped they could discuss the due process feedback and decide whether they should attempt to bring the documents closer together, or whether there is a legitimate reason to keep them similar but separate.

The biggest issue Mr. Allen said should be voted on is whether the FASAB draft should identify a circumstance when there is a preferable way to value a particular asset or liability. GASB has done that in relation to measuring cost of services at historical cost. He did not know how strongly the GASB favors that concept. The FASAB should vote on whether its intent is to remain neutral in a concepts statement. He asked whether members have other areas they would like the Board to explore. Several members have indicated they are comfortable with the document as it is; others have indicated the document has more changes than they envisioned.

Mr. Dacey said he would like to move forward. He is not sure he favors a joint document, but concurrent documents are important to him. The Board should understand and discuss appropriate differences between the two drafts, explain the reasons for them to users in a due process document, and ask users whether the differences reflect something unique to the federal government that would not apply to state and local governments. GASB intends to propose a rule that it would generally apply for measuring cost of services versus assets that will be converted to cash. He would like to see concurrent FASAB and GASB drafts and a common description of the differences between them. The Boards could receive broad-based input from the state and local government community and the federal government community before moving to final documents. The Boards still might not end up in the same place. Ms. Wardlow asked whether each Board would explain why it took a different position from the other Board. Mr. Dacey said each would explain substantive differences. Mr. Allen thought the explanation could be jointly written by the GASB and the FASAB.

Mr. Steinberg said he envisions two different exposure drafts. The GASB will refer to state and local government needs; the FASAB will refer to federal government needs. Respondents will respond to each Board if they do not think there is sufficient reason to be different from what the other Board did, and the two Boards will consider those comments. He thinks there will be some differences; the Boards need to expose them for comment in different documents. Mr. Dacey said he was not against different documents; he was proposing that there be a common explanation of the differences.



Mr. Steinberg said it could be that the GASB would explain it differently from the FASAB. Mr. Allen said in some cases it is only the terms that are different; one would want to ask whose terms are preferred or why are they different. Mr. Steinberg recalled Mr. Jackson's comment that one difference we have from state and local government accounting that we should provide for is our present value approach to federal loan accounting. Ms. Wardlow suggested the Boards would need to refer to their financial reporting objectives because many of the differences between the GASB and FASAB drafts are due to different objectives. The Boards would need to say that and she wondered whether respondents would then ask why the objectives are different. Mr. Allen said it is true that the Boards have different financial reporting objectives. GASB provides information to those who are elected to govern. FASAB does that too but also provides information to managers. But, he questions whether that means the Boards need different definitions or different words for describing things. He does not think different words are necessary to address different users' needs. He is looking for the words that are most broadly understood. He can envision the Boards exposing different documents, but he would like to understand why we use different words.

Mr. Jackson said there should be no differences between the definitions of terms, such as fair value. It should mean the same thing for GASB as for FASAB. And we should not have the same definitions if the terms we are defining are different. The application of concepts might differ. Mr. Allen said Mr. Granof described four different methods, but Mr. Allen thinks there are only two because three of them fit the "remeasured" category; "adjusted for inflation" means "remeasured." Mr. Granof said that "remeasured" involves two aspects: one is inflation and the other is substantive changes in supply and demand. You can still have historical cost. That is not trivial, because if you say in the document that historical costs are additive, they are not if you take into account inflation. You have to make those distinctions.

Referring to Mr. Allen's comments about different user needs, Ms. Wardlow said managers often need different information and information measured differently from that provided to external users—for example, the current costs of programs they are managing, rather than the historical costs currently reported. Mr. Allen said if you ask outside users, they want more information at current values than at historical cost. We may have reporting differences now, but we do not need to perpetuate them. Mr. Jackson said assumptions about users' requests for current values do not necessarily hold for all asset classes. Mr. Allen said that points to the value of remaining neutral in the concepts statement and acknowledging that in referring to "costs," people may mean historical costs or current costs; the term can be used either way. Mr. Showalter said that managerial and financial accounting may serve different needs, but there still can be common meanings for terms, such as historical cost, that are used in both contexts.

Mr. Allen asked whether any member objected to the Board's decision at the previous meeting that the discussions of different measurement approaches in the FASAB draft should be neutral; that was the instruction given to the staff. The Board would not take a position as to which approach or attribute was preferred. Mr. Dacey said he did not

have a strong objection. He was in the minority at the previous meeting. He thought the GASB's approach was a good one, but he acknowledges the rest of the Board is not quite in the same position. Given the cost vs. benefit of remeasuring, he thinks the GASB's position makes sense. Mr. Jackson asked whether the Board could not address those kinds of issues as it goes along; they do not have to be addressed in a concepts statement. Mr. Allen agreed that the GASB document makes a decision that theoretically the Board cannot do certain things, and the FASAB concluded that kind of decision was more appropriate for standard setting than in a concepts statement, which should just address the advantages and disadvantages of alternatives. Mr. Showalter said he thought there was some bias in the FASAB draft; in reading it he found an implication that cost is inferior, but that may be an issue of tone and not intentional. Mr. Allen said it would be good to find those places and make sure. Mr. Dacey said he found similar nuances and rather than extend the Board discussion he would provide comments or meet with the staff. Mr. Granof said he felt the bias was the other way. Ms. Wardlow asked members to circle any text with which they have a problem.

Mr. Allen invited members to comment on other differences—whether they were differences that the Board would point out to the GASB as important to the FASAB or whether they were preferences. Mr. Steinberg said he likes initial and remeasured “amount” instead of “value.” He had discussed various issues with Ms. Wardlow. In the FASAB draft there are three different levels: first, the measurement approach (initial amount or remeasured amount), then the second level which talks about market price, fair value, replacement cost, etc., and then the third level is the measurement method, which is how the second level is determined, e.g., by one of several possible estimation methods. In the draft, the second level is referred to as the “measurement attribute.” In the dictionary, “attribute” is defined as a characteristic or quality of a thing, and he is not sure he would call fair value, replacement cost, etc. a characteristic. In their discussions, Ms. Wardlow had explained to him the history of the term “attribute” and that FASB, IASB, IPSASB and other boards are moving away from that term in favor of the term measurement “basis.” However, GASB uses the term “basis” with a different meaning when referring to “measurement focus and basis of accounting” and it would be difficult for GASB to use the term “basis” for something else.

Mr. Steinberg said FASAB can use any definition it wants. If the Board wants to be consistent with other boards, it could continue to use “attribute” as GASB does or go with “basis” as other boards have done. With regard to pointing out differences to GASB, he thinks FASAB should say it has defined three levels: measurement approach, measurement basis, and measurement method. Mr. Allen asked Ms. Wardlow to comment. She said she had no problem with “basis” and she briefly reviewed the current use of that term by the FASB, IASB and others, as well as the prior use of the term “attribute” by the FASB since 1976. She said the question for FASAB is whether the Board wants to use “basis” and be consistent with FASB, IASB, and IPSASB, or use “attribute” and be consistent with the GASB, assuming the GASB still prefers that term. She said that she and Ms. Reese had raised the issue with each Board in 2008 and both Boards had decided to use “attribute.”

Mr. Allen called for a vote on whether FASAB should use the term “basis,” which is a newer term used by the FASB and international boards, or the term “attribute,” which is the term the GASB is using, as well as the term used historically by the FASB and others. Messrs. Allen, Jackson, Dacey, Schumacher, and Showalter preferred “attribute,” Mr. Steinberg and Ms. Fleetwood preferred “basis,” and Messrs. Granof and Werfel had no preference. Mr. Showalter suggested asking respondents to the exposure draft to say which term they prefer. At Mr. Jackson’s suggestion, Ms. Wardlow said she would add “measurement basis,” either in parentheses after “attribute” was used for the first time or in a footnote.

Mr. Dacey said that in Table A and in the text, the FASAB had taken a different view from the GASB on the degree to which initial amounts promote the understandability and reliability of reported information. He is comfortable with the GASB’s conclusion that the initial amounts possess both qualitative characteristics to a high degree, but the FASAB draft indicates that the degree “varies.” Given the definitions of those two characteristics in SFFAC 1, he thinks the degree of compliance probably is high. He asked whether the Board agrees with that or thinks the degree varies.

Ms. Payne said that one of the things the staff tried to clarify was that initial amounts can be historical costs in a transaction sense or they can be fair value. For example, in a nonmonetary exchange, such as in some of the TARP activities, there is no initial dollar amount to look at, so there is a need to report the fair value of the items exchanged. That is an example of where Ms. Wardlow was thinking that initial amounts might not be very reliable or very understandable. Mr. Dacey responded that the TARP transactions were intended to be reported at cost, or a proxy for cost, because there was no amount expended. In a general sense, he still would support an evaluation of “high,” because there would not be enough situations to change it to “varies.” Ms. Payne said other examples were assets with long constructions periods, long R&D periods, or a lot of allocated costs. She is not sure whether in a concepts statement one should go with what is ninety percent the case or make it clear that there are exceptions. Mr. Allen thought maybe one is saying that initial amounts normally are higher than remeasured amounts in reliability.

Mr. Granof said he does not know what “normally” means. If you are talking about the market price of a publicly traded stock, that is as objective as you can get compared to the amount assigned to a constructed asset, which is not objective. Talking about generalities does not mean anything. Ms. Wardlow addresses the issue in the text, and to say “high” in the table conflicts with the discussion on page 7 of the document. Mr. Dacey agreed and said he does not like the discussion either. He does not think the FASAB draft has supported a significant difference from the GASB’s conclusion.

Mr. Showalter asked whether the assessments of compliance with the qualitative characteristics were comparing one approach with the other (initial with remeasured amounts) or to a separate set of standards. It is one thing to compare each characteristic with a definition, but when you compare characteristics to each other you may have a different answer. Ms. Payne said we might want to clarify the table to show

that it is a comparative weighting rather than a weighting against a definition. Mr. Showalter agreed. Ms. Payne said the IPSASB was the first to prepare a table like the one in the GASB and FASAB drafts and she recalls that a lot of the IPSASB board members thought the table was inappropriate because it seemed too definitive; at least some of them wanted to delete the table. Ms. Reese said the GASB members really liked the table. Ms. Payne said she attended both the IPSASB and the GASB meetings and noticed the different conclusions about the table. Ms. Wardlow said when she first saw the table in the IPSASB document and the GASB document she wondered whether it was intended to mean “generally,” because it becomes very dogmatic to summarize a discussion with a table like that. That is even more the case for the FASAB document because it discusses various attributes and one cannot say that all attributes are equally, say, reliable. The result is a table where many of the assessments are “varies” and she wonders how useful the table is. If the document is to discuss different attributes, then the table should be expanded to include possible differences depending on which measurement attribute is used, and also which measurement method is used, because using one estimation technique vs. another can result in a large difference in reliability, relevance, and understandability. Ms. Reese said she also has a concern about using “varies” in the table and how useful the table is. Adding more detail to the table might be appealing.

Mr. Dacey noted that in the remeasured section of the table the assessment of comparability is “high” in the GASB document and “varies” in the FASAB document. Ms. Wardlow said that is because the GASB document does not discuss different attributes. If you only discuss remeasured amounts in general, then you can make a single, general assessment, but if you break remeasured amounts into different attributes, then there are different assessments. Ms. Reese agreed; GASB took only a broad, general view. Mr. Dacey said that, rather than changing from the GASB table, he would prefer to include a footnote to the table stating that the observations are general. Mr. Allen said that if there is a table, you almost have to put “varies” in each cell. Mr. Dacey said he would agree if the FASAB wants to go to the GASB and say we disagree with their answer. He raised the issue because he thinks the change in the FASAB document is a substantive difference from the GASB document and the Board should deliberate it. Maybe the GASB would want to change some of their assessments to “varies.” Mr. Allen said that sometimes illustrations are more powerful than text discussions, and that may happen with this table. If we are challenging what should be put in each cell of the table, we need to make a general statement or consider whether we even want to have a table. Mr. Jackson said that with the word “varies” in it, the table loses its significance. Mr. Allen said that is a conscious effort. You are consciously saying you can’t simplify the assessment by just saying one or the other measurement is superior, because different circumstances may give different results.

Mr. Granof proposed the Board eliminate the table, because you are trying to take a nuanced discussion and boil it down to a black and white table. Mr. Allen called for a vote. The vote was five to four in favor of eliminating Table A. Messrs. Granof, Jackson, Steinberg, Allen, and Showalter voted in favor of elimination. Mr. Allen said he would explain that the reason for eliminating the table is the FASAB’s desire to remain

neutral in the document, and the table detracts from that. Messrs. Dacey, Werfel, and Schumacher, and Ms. Fleetwood voted to keep the original table from the GASB document. Mr. Dacey said he would also revert to the related discussion in the GASB document. Mr. Allen asked if members wished to discuss that point.

Mr. Dacey said the FASAB document makes the statement that “the meaning of reported information about capital assets . . . based on initial amounts . . . is difficult to understand.” He thinks that some may prefer a remeasured amount, but initial amounts are not difficult to understand. Mr. Allen said that might be an example of a comment that probably is not neutral. Mr. Dacey said he thinks it confuses things because in his view, initial amounts generally are reliable and understandable and we have made statements to the contrary. Mr. Jackson said he does not think initial amounts are difficult to understand, but he questions their relevance. Mr. Allen said he could say initial amounts may not be relevant and still be neutral, but he thinks it is harder to say that initial amounts are difficult to understand and still be neutral. Ms. Payne said she believes there is a problem with understandability, but it relates to the cost of programs, rather than the balance sheet. If you have program A in a brand new office building and program B in a multi-use heritage asset that is one hundred years old, the costs will be markedly different; yet there is nothing to explain that to users when they are looking at the statement of net cost. Mr. Dacey said he did not see that it would be hard to understand if the stated policy is to report at cost. Mr. Allen said it was a complicating issue. Mr. Jackson mentioned comparability; if comments on that were added it would be difficult. Mr. Allen summarized that the Board would eliminate the table and make the discussion of qualitative characteristics as neutral as possible.

Mr. Allen said the FASAB document has definitions that the GASB does not have. He asked whether members are comfortable with the definitions and believe they add value to the concepts statement. He noted the comment in Ms. Wardlow’s memo that many of the definitions were the same as the GASB’s and she had used dictionary definitions when there was not a GASB definition. Ms. Wardlow said the definitions are common ones in the literature and people are used to them. Mr. Allen asked whether members had objections, but none was expressed. He said we should point out the definitions to the GASB. Ms. Wardlow asked whether members agree with using the definition of fair value that we are used to, rather than the FASB’s definition in its Statement 157. There was no comment.

Mr. Allen asked members who have individual comments on the draft to give them to Ms. Wardlow. The FASAB would present its draft to the GASB for its views. He would contact the GASB chairman to see whether in its scheduling, it can give at least a tentative reaction, because we need a tentative response on whether GASB will split this part out from its broader project, if we are talking about issuing FASAB and GASB documents at the same time. If that will not be the case, we probably can give less time to trying to be consistent with the GASB draft. The FASAB does not intend to issue a preliminary views document on measurement concepts.

**CONCLUSIONS:** Members will provide any additional comments they have on the December draft to the staff. Staff will prepare revisions to that draft based on the Board decisions at the meeting and consideration of additional comments from members, in preparation for sending a draft to the GASB for its reaction. Mr. Allen will contact the GASB chairman with respect to scheduling the GASB's tentative views on the draft. He also would request a tentative response on whether the GASB is willing to carve out the measurement attributes portion of its preliminary views on recognition and measurement and issue it as an exposure draft at approximately the same time as a FASAB exposure draft on measurement.

- **Social Insurance**

The Board discussed the final draft of the social insurance standard presented by staff. After making editorial changes to paragraphs 25, A87, and other paragraphs and illustrations in the standard, the Board approved the standard.

- **Natural Resources**

Ms. Ranagan, staff member, began the discussion on natural resources by stating that a draft pre-ballot draft had been emailed to all members on November 10, 2009, with comments requested by November 24, 2009. Ms. Ranagan noted that she had incorporated the members' comments on that draft into the current version contained in the binder materials. She also explained that Attachment 1 to the transmittal memorandum included five issues for discussion at the meeting that were developed from members' comments on the emailed draft.

**Issue 1: Ending Period for RSI – To be explicit or not to be explicit?**

Ms. Ranagan stated that the majority board vote at the October meeting was to require that the dollar amount of the government's royalty share of federal oil and gas proved reserves and the dollar amount of those royalties designated to be distributed to others be reported as Required Supplementary Information (RSI) for three years. The board decided that it would reconvene prior to the end of the RSI period to decide whether to require the information to be recognized in the financial statements or disclosed in the notes to the financial statements. The board plans to utilize the experience gained by the Department of Interior (DOI) and others during the RSI period to inform their decision regarding financial statement recognition versus note disclosure.

Staff pointed out that additional implementation time might need to be provided if the board decides to require that the information be recognized in the financial statements. This will allow time for the Standard General Ledger (SGL) Board to finalize the accounts and transactions and for system changes. Mr. Dacey said that since the information would most likely be gathered outside of the system and then entered with a journal voucher, he does not believe a significant amount of lead time would be

required. He noted how quickly transactions were recorded and reported for the new initiatives that were undertaken this past year as a result of the Troubled Assets Relief Program and other stabilization activities.

Mr. Jackson commented that the board could require the information to move from RSI to note disclosure for a period and then to recognition in the financial statements so there would be a nice continuum while allowing time for the (SGL) Board to create the entries and the agencies to modify their systems.

Mr. Steinberg said he would like to turn the footnote suggested by staff into an actual paragraph in the standard in order to better highlight the board's decision. The majority of the board agreed with Mr. Steinberg's proposal.

## **Issue 2: How about mentioning that current revenue reporting will not change?**

Based on a comment from Mr. Steinberg that the standard should mention that current revenue reporting will not change, staff inserted a footnote into the standard and a paragraph into the basis for conclusions. Mr. Steinberg and Mr. Dacey suggested some editorial changes to staff's proposed language, as follows:

<sup>[footnote 2]</sup> SFFAS 7, par. 45, requires, in instances where there are virtually no costs incurred in earning exchange revenue, that federal entities ~~to report custodial activity and recognize exchange~~ the revenue as a financing source on the statement of changes in net position, rather than the statement of net cost, ~~if there are virtually no costs incurred in earning the revenue.~~

A38. The Board acknowledges that royalties received from federal oil and gas leases will continue to be recognized on the statement of changes in net position with non-exchange revenue rather than on the statement of net cost with other exchange revenue as long as the ~~information~~ asset value is reported as RSI and not recognized in the financial statements with a corresponding depletion expense. ~~The Board continues to believe that presentation of revenues arising from federal oil and gas leasing activities as exchange revenue would assist users in understanding how the government's efforts and accomplishments were financed. The current practice of combining revenue derived from the sale of assets with revenues derived from taxation or other non-exchange sources may obscure the fact that costs were incurred to generate the revenues—the federal government exchanged proved reserves for a future stream of royalty payments. However, as noted above, the members Board would like to have more information before it makes a final decision regarding changes to revenue recognition.~~

The majority of the board did not object to the above additions proposed by staff, as edited by Messrs. Steinberg and Dacey.

## **Issue 3: Where did the journal entries go? What about double-entry bookkeeping?**

Staff noted that Mr. Steinberg would like to retain the illustrative journal entries to enhance the reliability of information reported by DOI and other entities and help them prepare for a possible transition from RSI to recognition in the financial statements.

Staff explained that there is no requirement for entities to record journal entries for information reported in the footnotes or as RSI. In addition, the SGL Board does not maintain accounts, account transactions, or crosswalks for information that is not recognized in the financial statements. She described the process that DOI uses to capture RSI and footnote information using FOOT-05, an application used with Hyperion, DOI's financial reporting tool. She indicated that including the illustrative journal entries might cause confusion since journal entries are not required.

After a discussion on the advantages and disadvantages of including the illustrative journal entries, Mr. Allen polled the members on whether they would prefer to include or exclude them from the final standard:

<b>Member</b>	<b>Include entries</b>	<b>Exclude entries</b>
Allen		X
Dacey		X
Fleetwood	X	
Granof		X
Jackson		X
<i>Kearney*</i>		X
Schumacher		X
Showalter		X
Steinberg	X	
<b>Totals</b>	<b>2</b>	<b>7</b>

\*OMB representative for Werfel (vote is "unofficial")

The majority of the board voted to exclude the entries from the final standard but directed staff to ensure that DOI is provided with a copy of the journal entries.

#### **Issue 4: Illustrations – Are X's enough?**

Staff explained that Messrs. Granof, Showalter, and Steinberg had communicated their preference that illustrations include numbers rather than "x's." Staff described some of the advantages and disadvantages of including numbers rather than "x's" and displayed the illustrations populated with numbers up on the screen. After discussing individual members' preferences, Mr. Allen directed staff to populate all illustrations with numbers (actual amounts, when actual data is available, and hypothetical amounts when actual data is not available). The members agreed that this preference should be applied to all FASAB standards going forward. In addition, staff was directed to add a note to the illustration indicating the amounts are hypothetical.



## Issue 5: The Million Dollar Question: What to do with fiduciary activities?

Staff communicated that several board members had indicated support for staff's alternative recommendation (i.e., require DOI to report the nature and quantity of fiduciary oil and gas resources, but not require that they be valued). The primary staff recommendation is to require similar reporting for fiduciary oil and gas resources since it is staff's understanding that DOI's fiduciary responsibility for the leases extend beyond just the collection of oil and gas royalties.

Mr. Dacey questioned whether DOI actually has a fiduciary responsibility for the leases. He said DOI negotiates some of the leases but the tribes are the ones who actually sign the leases. There was an ensuing debate about how much responsibility DOI actually assumes. It was determined that DOI would be the appropriate entity to determine how much fiduciary responsibility it assumes for non-federal oil and gas leases, if any, beyond the actual collection of oil and gas royalties.

In light of Mr. Dacey's concerns, staff proposed dropping the paragraph on fiduciary oil and gas resources from the standard and deferring it to the technical bulletin on other types of natural resources in order to gather more information. Since the board is requiring the federal government's asset value to be reported as RSI rather than basic information at this point, the standard could be silent with respect to fiduciary assets and no additional reporting would be required. The majority of the board agreed with staff's proposal and directed staff to include a paragraph in the basis for conclusions that communicates the reason for the board's decision to drop the paragraph from the standard and makes it clear that no reporting on fiduciary oil and gas resources will be required as a result of the standard. The formal vote was as follows:

Member	Keep Par. As Is	Modify Wording	Delete Par.
Allen			X
Dacey			X
Fleetwood			X
Granof			X
Jackson			X
<i>Kearney*</i>			X
Schumacher			X
Showalter			X
Steinberg		X	
<b>Totals</b>	<b>0</b>	<b>1</b>	<b>8</b>

\*OMB representative for Werfel (vote is "unofficial")

The board will revisit the issue of reporting on fiduciary oil and gas resources either through the issuance of a technical bulletin or when the board revisits accounting and reporting for federal oil and gas resources in three years as discussed above in Issue 1.

**CONCLUSIONS / NEXT STEPS:** Staff was directed to make the changes discussed by the board and present an official ballot draft to the board on Thursday morning.

- **Deferred Maintenance and Asset Impairment**

Mr. Savini began the presentation with an overview of the TAB D materials which included (1) a corrected page 4 highlighting the track-changes feature, (2) a brief review of the three attachments along with a summary of the three questions he was asking the Board to address, and (3) a reminder that this project comprises three phases; definition, measurement and then reporting wherein the first phase is near completion. In addition, Mr. Savini invited questions from the Board.

Specific to the first question, staff provided background that since the task force consisted of a mix of disciplines from diverse professional communities, establishing a “common-language” proved challenging. This question is asking whether or not there are significant enough differences that do in fact warrant a change to the current SFFAS 6 definition of “maintenance” as contained in paragraph 78 of the aforementioned standard.

Concerning the second question, two of the issues addressed by the task force were (1) defining “repair” in light of numerous agency interpretations and practices and (2) whether or not to continue excluding capital improvements from the maintenance definition. It was clear that clarifying/expanding the maintenance definition to now explicitly include “repairs” would require a FASAB glossary definition. As such, the basic principle the task force set was that maintenance activities “retain” function whereas repair activities “restore” function. Notwithstanding the measurement and reporting phases of the project, the task force agreed that excluding capital improvements was appropriate.

In regards to the third question, a minority task force view (i.e. that current and proposed definitions, “*rely heavily on unspecified human judgment*”) would lead us to consider establishing goals for deferred maintenance reporting that could help better frame the data and thus, help reduce lack of comparability arising from data analysis as opposed to data presentation. In essence, the flexibility and the discretion that SFFAS 6 allows for may be contributing to the lack of agency comparability that seems to plague (federal asset) deferred maintenance reporting.

The minority view is asking us to address two matters: first, should we take away subjectivity/flexibility by for example, more crisply and succinctly defining terms and second, should our accounting standard provide a framework since the minority view would posit that the data do not speak for themselves and that users who may in fact share similar end-goals, are using different frameworks resulting in confusion/ambiguity over the most effective use of deferred maintenance information.

Mr. Jackson began by asking if the consequences of the proposed definition on page four had been evaluated. For example, the list of activities noted in the second sentence in the context of weapon systems was cited. Meaning this, replacing a jet engine might be interpreted under this definition as being either maintenance or repair. Furthermore, there are some proponents who would argue for capitalizing certain repairs that do not add to the capacity or extend the useful life of an asset.

Staff noted that the task force was divided into two groups: the real property subgroup and an equipment subgroup with active participation from DoD (both real property & equipment representatives). Although the genesis of the revised definition is from a real property perspective, both the equipment and personal property task force representatives confirmed that the definition would dovetail and fit within their current operational constructs. Staff further noted that the literature review confirms that these terms of maintenance, repair, improvement, betterment, etc., are all fungible and have been historically difficult to precisely define. It is important to note that the task force decided to retain the exclusion that currently exists in the last sentence of the definition and acknowledging that there are maintenance and repair (M&R) activities that in fact increase capacity or upgrade an asset. The task force wanted to clearly identify and specify that maintenance retains asset functionality whereas repairs restore asset functionality and that not all repairs are capitalizable.

Mr. Steinberg agreed that although from a functional perspective these terms are separate and distinct (i.e. between maintenance and repairs) from an accounting point of view they are basically the same. What accountants are mostly interested in, is distinguishing the dollars or amounts that need to be treated as expenditures versus those dollars that need to be capitalized. In essence, Mr. Steinberg saw no problem having a joint definition that treats repairs as separate and distinct from maintenance since in the end, he opined that there should be no significant change or adverse impact to the accounting.

Ms. Fleetwood acknowledged that staff had proposed (in addition to the task force recommendations) additional language concerning useful life. However, it was unclear to her how this addition benefits the accounting and reporting since Federal assets typically are used well beyond any such accounting estimate of "useful life." For example, a machine that might have an initial useful life estimate of ten years could be used up to 50 years. Moreover, Ms. Fleetwood asked if staff could explain how a change in estimate comes into the discussion with for example, an asset with a ten year life in its ninth year of service. Furthermore, if in fact the government has a significant amount of fully depreciated assets in use well beyond their useful lives, insertion of any reference to useful life could be problematic during an audit. Concluding her comments, Ms. Fleetwood saw no reason to add additional language to the task force definition.

Staff noted that this question touches upon a difference between asset maintenance philosophy and accounting philosophy. It is fair to say that asset managers in Federal government are highly professional people who take their stewardship responsibilities quite seriously and in fact keep assets working as efficiently and as long as possible to meet mission requirements. As such, asset managers go to great lengths to keep

assets working as long as they can. However, we accountants tend to look at the same asset, for example, a half empty glass of water and instead of looking to replenish the glass, we are concerned with the portion that has been consumed and whether or not we need to recognize a cost. Staff advises that if we adopt the definition without a relationship to either performance and/or useful life, we miss the connection that an asset is purchased in order to provide either a good or service; in essence foregoing the additional language might suggest to some that asset maintenance becomes an end unto itself. Additionally, assets are put into time buckets per se in order for costs to be allocated and recognized through depreciation; having a useful life estimate facilitates that process.

Also, staff noted that for an asset that is at the end of its useful life and still in operable condition, will more than likely continue to be kept in service. Citing Ms. Fleetwood's example, Ms. Payne further noted that as one moves through the original ten year life, at some point there might be an event such as a possible improvement that could change the useful life estimate of the asset necessitating changes to the depreciation schedule. Whether the accounting records capture these changes adequately is always an issue but the intent is that the useful life be adjusted overtime so that it is as realistic as practicable. Staff then noted that the language concerning useful life and performing as planned was important since it tied directly to our stewardship reporting objective. In short, assets are purchased to perform a function or provide a service/good and asset maintenance should not be left to itself, but there should be confines to how long we keep assets in service.

Mr. Steinberg in addressing Ms. Fleetwood's inquiry noted that even though an asset may have gone beyond its original estimate of useful life, if it is still in use and performing as planned, it is going to be maintained and repaired for an additional useful life period. However, noting this point, he went on to express that his concern is that useful life should be added as a component of the last sentence of the maintenance definition in dealing with the exclusions to M&R. Mr. Steinberg would agree with the staff definition along with the additional reference to useful life in the exclusionary (last) sentence.

At this point Mr. Schumacher stated that although he liked the staff definition, the word restoration was of concern to him. Restoration infers bringing new life to the asset and as a result, extending its useful life. Therefore, by its definition (inference of new life) it is an excludable activity as per the last sentence and should not be included in the second sentence. Mr. Schumacher went on to say that since restoration infers a capital improvement or betterment that it should be deleted from the list of activities.

Staff then asked the board concerning the term "restoration", since it was the replacement for the term "repair" (which was a replacement for the original SFFAS 6 term of "normal repair"); would the board advise reverting to the term repair?

Mr. Schumacher responded that repair would be a better substitute for restoration if the board decided to keep such language in the second sentence.

Mr. Granof suggested that this discussion raises the question of whether or not behavior will be changed as a result of our refining terms and for definitions. These are well known distinctions in accounting, for example, between maintenance and repair versus what is capitalized or not. Both FASB and GASB have definitions, and the resultant variety of practice that we now have is exactly the issue that Mr. Jackson raised earlier; these interpretations require judgment calls. Mr. Granof concluded by asking two questions, first, are we changing a principal? Second, are we accomplishing very much by changing the definition?

Staff noted that at the October board meeting it was discussed that task force members did in fact state that they believed there would be positive changes brought about by the redefining these terms and definitions. One member specifically noted that clarifying that repairs were not a subset of maintenance would bring about efficiencies in the field through their operational practices.

Both Messrs. Steinberg and Granof seemed to agree that there would be no substantial changes in accounting practices as a result of this definitional change.

Mr. Jackson inquired about the distinction between maintenance and repair and where specifically in the FASAB literature would the distinction be clearly noted. Staff replied that the task force's proposed definition for repair as shown on page five would be included in the FASAB glossary. Mr. Jackson then noted that the definition of repair as shown on page five should not be defined by stating what it is not, as it is currently written in the first sentence of that proposed definition.

After some discussion concerning Mr. Schumacher's concerns over the term restoration, Ms. Payne proposed to strike the term from the definition since the second sentence is meant only to be a partial list (examples) of activities and not meant to be all inclusive or exhaustive. The board concurred with this recommendation.

The board then engaged in an extensive discussion concerning the practical application of the definition versus the conceptual accounting of fully depreciated assets. This discussion concluded with Mr. Jackson observing that the proposed definition will not create or add any additional problems that do not already exist. Further, Mr. Allen noted that this area of deferred maintenance is an area that many accounting standard-setters struggle with. Mr. Allen went on to advise the board that we should not be overly prescriptive if at all for this area, but be clear that it is general guidance that needs to be coupled with judgment and with materiality limits set in place.

Ms. Payne clarified that a goal of this definition is to ensure that new capital needs are kept separate and distinct from the core maintenance and repair activities that need to be done to existing asset infrastructure and/or asset inventory. Ms. Payne noted that reporting new capital needs commingled with M&R could be misleading to financial statement users such as Congress. Furthermore, she noted that a significant amount of these issues can and should be resolved through a question and answer format (Q&A's) in order to help avoid confusion or ambiguity.

Mr. Granof concurred with Ms. Payne stating that the decision for the board is how prescriptive or principles-based it wishes to be. At this point, Mr. Allen advised that the board remain at a high enough level to allow the community and staff to work through these technical issues.

Concerning the overall policy of deferred maintenance, Ms. Payne acknowledged that there is much confusion regarding what is needed or required from deferred maintenance reporting. Simply put, she suggested that the board reiterate to the community that management should (1) present their best explanation (estimate) as to what agencies need in the form of maintenance funding in order to keep their assets working properly and (2) what maintenance has not yet been funded and is therefore deferred. Ms. Payne advised that we have some type of a goal statement; for example, clarifying that the capital needs should be left out of the deferred maintenance amount. Mr. Jackson then noted that possibly we should consider materiality thresholds as well in order to avoid reporting immaterial amounts while helping reduce any agency administrative burden.

Mr. Dacey had an observation and also a question concerning the definition. First, his observation was that the additional language which staff has proposed also raises a concern for him but for different reasons than previously discussed. First, how does useful life relate to an asset that has already achieved its original useful life estimate: that is, is the term self defining? Second, concerning the concept of preserving or maintaining the asset; this relates to keeping the asset in acceptable condition and as such, adding new terms such as useful life may further confuse readers. His question was in regards to the term "fixed assets." Generally, and as contained in SFFAS 6 since we refer to assets as property, plant and equipment would retaining "fixed assets" create confusion?

Staff agreed that the term fixed assets was probably meant to only include property, plant and equipment. Staff agreed to review this term and advise the board regarding whether or not to change it to PP&E. Concerning the term acceptable condition, it is here that the minority view holds that we are allowing for too much flexibility which then results in lack of comparability. The staff's proposed additional language comes directly from the FASAB glossary where "condition" is defined and includes references to an asset performing as planned and achieving its useful life. It is also interesting to note that the glossary does not define "acceptable" or "acceptable condition".

Mr. Showalter stated that based upon his understanding and review of a similar situation when GASB was working on Statement 34; they too left certain terms undefined. This in turn led him to initially conclude that we should do the same with this term "acceptable condition" and allow the preparer to exercise their judgment in this regard which then leads the board to the staff's third question concerning whether or not to espouse guidelines or a framework. An agency should have a condition assessment policy that it discloses and communicates along with its definitions. Although this may not bring consistency between the agencies, it will increase the value of reporting in this area.

Mr. Allen stated that by requiring agencies to disclose their policies, including definitions, and requiring consistent application over time will give users extremely important information. Mr. Showalter then noted that this is in essence what the GASB stipulates. Mr. Allen stated that he believes what is most important is tracking an agency's progress over time as opposed to comparing one agency's deferred maintenance dollar amount to another agency's figures.

Ms. Kearney then asked if this requirement would also be at the government-wide level to which Mr. Allen responded in the affirmative. However, he noted that different questions might be answered from the government-wide level reporting perspective. In his estimation, this information needs to be evaluated over time since its value as a singular yearly amount is limited. Ms. Kearney agreed that trending information would probably be the best form of disclosure and also stated that such information could also enhance narrative disclosures. Additionally, she stated that some ideas that have come to OMB include reporting agency assets by asset class wherein assets with similar characteristics across government would be grouped together. Another thought of what OMB would consider valuable is the identification of those assets whose cost to fix today is minimal but whose cost to fix in the future is significant. Ms. Kearney noted this is an example of the type of managerial information that the decision makers could use.

The board then began an extensive discussion of the relative merits and implications of the proposed additional staff language. Two important points during this discussion arose, first, if an asset has reached its useful life and is still in service does it or does it not incur deferred maintenance. The board discussion seemed split regarding this matter where some board members believed that no deferred maintenance would be attributable to an asset whose service life or useful life was achieved while others believed that in cases involving critical assets such as x-ray machines in hospitals, deferred maintenance would be appropriately reported on all assets regardless of useful life criteria. The second important point noted was it does not seem to be appropriate for an agency to report deferred maintenance on assets that it does not have any intention of truly ever incurring such M&R. However, it was suggested that from a funding point of view, deferred maintenance on such assets would still need to be reported in order to secure funding for the replacement of those assets at a later time.

The board made two points clear: first, capital investment needs that go unfunded are not to be included in deferred maintenance and second, since no bright line appears to exist between specifically defining what a capital improvement activity is versus what a maintenance activity is, we should not expend research resources to that end. It was further noted that this would seem almost impossible to do among the different agencies relative to their unique mission requirements.

Mr. Allen then called for a vote between the task force definition as written and displayed on page four versus the staff proposed additional language as shown on page seven. Mr. Allen noted that the board may wish to revisit the staff recommendation (i.e. that assets should not just be maintained for the sake of good order, but rather be maintained for specific purposes/useful life) during the reporting phase of the project.

For example, an asset which is perfectly maintained and in acceptable condition might be impaired due to technological reasons and therefore written off the books.

In conclusion, the board made the following decisions:

Question one. By majority vote, the board adopted the task force definition as shown on page four with three points being noted. First, it was agreed to eliminate the term restoration and not make any substitution for the term repair, second, the term fixed assets may need to be changed to PP&E in order to be consistent with SFFAS 6 and third, any and all changes either by the task force or today's board meeting should be reviewed again in light of SFFAS 6 language to insure that there are no (i.e. internal document) inconsistencies.

Question two. The board consensus agreed with Mr. Jackson's suggestion that the repair definition as proposed by the task force be rewritten so that it would not include any reference to maintenance. As such, it will read as follows:

“Repairs are generally directed towards putting assets back into an acceptable condition (restoration of function).”

Question three. The board consensus answered in the affirmative to both elements of the third question. Mr. Showalter identified other accounting standard-setters that have taken similar courses of action in the standards-setting process. However, Mr. Allen expressed concern in trying to define “acceptable condition” in particular, also citing work he was associated with at GASB.

Mr. Steinberg asked that we provide a project timeline tied to future board meetings in order to facilitate and manage board workload requirements. Staff acknowledged said request and will take appropriate action to work with the task force in order to develop target project timelines.

Mr. Allen's final comments were that there will be further discussions on this topic and that he would like to avoid unintended consequences of being overly prescriptive. He reiterated that the value of deferred maintenance information is ensuring that management (1) discloses how it defines deferred maintenance in-practice, (2) discloses how it measures and assesses acceptable condition, (3) applies practices consistently and (4) adequately discloses both asset maintenance/management policy and practices.

Mr. Allen then concluded this portion of the meeting by thanking staff and Board members for the discussion.

- **Steering Committee Meeting**

The Steering Committee reviewed the FY2011 budget and did not raise any immediate issues. The committee further discussed the recent changes to the Memorandum of



Understanding and agreed to discuss related changes to the rules of procedure at a future meeting.

## **Adjournment**

The meeting adjourned for the day at 5 PM.

***Thursday, December 17, 2009***

## **Agenda Topics**

- **Natural Resources**

Ms. Ranagan, staff member, presented the board with a final ballot draft of SFFAS 38, *Accounting for Federal Oil and Gas Resources*. Ms. Ranagan walked through the small number of changes that had been made as a result of the previous day's discussion. A couple of additional edits were proposed by Messrs. Steinberg (adding discussion of effective date and the proposed transition to basic information in the summary section) and Dacey (clarifying wording in par. A12 and adding a sentence and footnote about the board's discussion of whether there are currently any oil and gas reserve activities that would meet the definition of fiduciary activity). Ballots on the exposure draft were passed out and are due January 5, 2010. If approved, the final standard will be issued in April 2010.

**CONCLUSIONS / NEXT STEPS:** After receiving all nine ballots, staff will transmit the final proposed SFFAS to the sponsors for the 90-day review period. If no objections are received during the review, SFFAS 38, *Accounting for Federal Oil and Gas Resources*, will be issued as final in April 2010.

- **Federal Entity**

Staff member Ms. Loughan began the Federal Entity project discussion by explaining the primary objective for the December meeting was to provide the Board with a summary of the Federal Reserve Briefing that was held on November 18, 2009. The session will also allow staff to seek Board concurrence on issue areas and planned actions for the Federal Entity project.

Ms. Loughan explained that before discussing the project, she wanted to ensure the Board members received a copy of the GAO Report *Federally Created Entities-An Overview of Key Attributes*. She noted a copy along with a staff summary of key points had been provided at the table. She explained staff believes the report will be a good resource for test cases and reviewing certain entities. Ms. Loughan explained many of the conclusions and points of interest of the report further support issues identified in

our federal entity project. The report details the executive departments (15 of the 219 entities in the report) and the other executive branch entities (88 of the 219 entities) received approximately 98.4 percent of the appropriated funds. Staff notes our conclusive principle would capture all these types of entities because they are included in the budget. Ms. Loughan also noted certain restrictions related to the scope of the report which was summarized in the staff memo and explained in detail in the report.

Ms. Loughan explained the Federal Entity Task Force met with Federal Reserve representatives in November. The session was very informative for the task force and provided an overview about the Federal Reserve's transactions with the federal government, its governance, and its current accounting policies. The summary (which is included in the Board materials) was prepared similar to the way staff prepares minutes to enable Board members to gather much of the same information conveyed to the task force. Staff noted the Federal Reserve reconsideration is included in the list of issues and the task force will develop a recommendation for the Board's consideration.

Mr. Jackson explained that he believed the session with the Federal Reserve representatives appeared to be very open and candid. He noted that from the summary, he didn't sense any adverse reactions to the task force member questions.

Mr. Showalter noted there were a few questions that didn't seem to be answered with clarity and he recommended staff follow up. One question dealt with the legal status of the Board of Governors and Reserve Banks. It would be informative to our discussion to understand the key principles they considered. Staff noted this was discussed in the meeting with the representatives and they explained it is often debated among individuals, especially as "instrumentality" is used when referring to the Reserve Banks status. Staff noted the Board of Governors is referred to as a federal agency, even in its financial statements, but the Reserve Banks are very different.

Mr. Dymond explained this is an interesting area that was considered in the GAO report as well. He noted GAO discovered that an entity can be considered an agency or instrumentality for any number of specific purposes. He referred to the Smithsonian where it has been found to be an agency under one law, but not under another law. He notes it really depends on the purpose of the law.

Mr. Schumacher asked if the Board of Governors and Reserve Banks prepare financial statements. Staff noted the financial statements for the Board of Governors are prepared annually and in accordance with FASB GAAP. The Board of Governors is also required to order a financial audit of each Federal Reserve Bank and the Board of Governors believes the best financial disclosure is achieved by issuing separate financial statements for the Reserve Banks. The Federal Reserve Banks Combined Financial Statements explain the statements are prepared in accordance with accounting principles established by the Board of Governors of the Federal Reserve System, as set forth in the Financial Accounting Manual for the Federal Reserve Banks, which is a comprehensive basis of accounting other than GAAP. Staff explained both sets of statements are provided to Congress annually.

Staff explained this relates to another issue identified by staff in the paper-- *Issue 5: Legal status or legislation* which may be one of the toughest to resolve. Specifically, the question is, if legislation is worded so as to indicate that an entity is not a “federal” entity, can it still be considered part of the federal reporting entity for financial reporting purposes. Mr. Jackson noted that one must look at substance over form. Staff explained this is also supported by what GAO found in the report. Congress defines what constitutes an agency or instrumentality of the federal government for purposes of a particular statute or set of statutes that assigns duties, liabilities, and administrative requirements and grants privileges of the federal government to individual entities or types of entities. Even in cases where Congress defines an entity as “not an agency or instrumentality” of the federal government, it appears possible the entity may be found to be part of the federal government for certain purposes.

Mr. Steinberg compared the complexities with the issue as similar to GASB 14. He suggested the reporting entity project determine what is part of the reporting entity and the reporting model address how it is presented. Staff requested that Mr. Steinberg clarify that point and whether he perceived the scope of the project to stop after determining what’s within the boundaries (versus continuing to state how it would be presented). Mr. Steinberg stated he believed the Federal Entity project would address the boundaries, but he doesn’t want the consequences of “consolidation” to constrain the issue of whether an organization is part of the reporting entity. He added that the reporting model could decide how a component would be presented—separate column, separate financial statements, footnote, etc.

Ms. Fleetwood explained that she believes the federal entity project should address both--what’s part of the reporting entity and how it should be presented. Mr. Allen agreed and believed it would be hard to separate the two in the determination.

Staff explained it was envisioned the project would include the presentation issue as well. Staff explained as the project progressed, there have been many unique organizations and relationships addressed and believes there perhaps needs to be a middle ground presentation—one between consolidation and note disclosure. Staff directed the Board to the staff paper *Issue 6: Confirm Board’s Views on Reporting Model Interface (and if there should be a middle ground considered in this project)*. Staff explained the federal entity project was initiated to answer the question of what gets consolidated in the federal entity. However, in doing so, one must also consider what type of reporting may be required for entities not consolidated. Therefore, when considering other reporting formats, there are questions that relate to the reporting model and what information is important for presentation and how tightly this needs to be integrated with the reporting model project. Staff noted the Board agreed both projects could continue simultaneously, but staff believes it is important to confirm the Board’s view regarding presenting other display options because many issue areas involve determining options for disclosures or other alternatives. This is an area where the reporting model project would have relevance if perhaps some other presentation may be more appropriate than consolidation.

Mr. Granof suggested that an approach similar to GASB 14 should be considered in determining if something is included, then the next question is how something is presented and there are three alternatives—consolidation, note disclosure, or something in between whether its called discrete presentation or something similar.

Mr. Jackson explained that the project should include the next step of how it is presented and the task force should not be limited by the reporting model in its recommendations.

Mr. Dacey explained that he is open to the idea of a middle ground but he does not want to presuppose if it exists or not at this point. He believes it is too early to make that determination but it should be part of the consideration. He explained it may be a possibility, but that should be decided at the end, as the Board may decide it is critical or may decide it is not necessary.

Mr. Granof stated that while we have considered GASB and FASB standards during research, he suggested staff also consider the old NCGA standards.

The Chairman directed the Board to identify any concerns with the issues identified by staff in the paper. The first issue related to the Federal Reserve and whether the exclusion should remain. Mr. Allen asked if there were any other questions that Board members wanted staff to follow-up on as the Federal Reserve representatives noted they would be open to questions. Mr. Showalter noted the question of “what the potential risk to taxpayers is” wasn’t clear to him from the meeting summary. Mr. Jackson stated this may be a broad question that they may not know exactly. Mr. Showalter agreed but stated it wasn’t conveyed and knowing these risks would inform the Board. Mr. Dacey explained the Federal Reserve investments are heavily collateralized and there isn’t great risk taken on its part so its numbers are well backed. He noted there is the transfer of earnings that occurs as well, which is described in the summary paper. Although there is the risk that the transfer would be lower if the Federal Reserve had losses, historically this hasn’t happened because it assures investments are collateralized. Mr. Jackson explained there is also the monetary policy risk which is much broader. He also noted that half of the balance sheet of the Federal Reserve would be wiped out when you take out the Treasury securities against the money supply, therefore the balance sheet would shrink greatly with consolidation.

Mr. Allen suggested if Board members have other questions or clarifications on the Federal Reserve issue to inform staff and staff will follow-up either by a letter or other communication.

Staff explained *Issue 2: Conclusive really just means in the Budget* is fairly straight forward and relates to the fact the principles were revised to include the Conclusive Principle for directly financially accountable “Federal reporting entities include all entities that the federal government is directly financially accountable for. This includes entities in the program and financing schedules of the *Budget of the United States Government* (the President’s budget) as well as those entities the federal government has an ownership interest of 100%.” Members expressed concern over using the terminology

“directly financially accountable” and also with including the notion of ownership in the conclusive principle. Staff plans to rewrite the conclusive principle with solely focusing on the budget. This type of language could be included in the Basis for Conclusions if necessary. Staff will also put all ownership criteria in the indicative principles. The Board members agreed.

Staff explained *Issue 3: Unintended Consequences of Proposed Standard* relates to members concern whether the proposal would result in unintended consequences or changes. Staff explained the plan was to perform test cases and assessments either prior to, and perhaps some in conjunction with the exposure draft. Staff will consider the best timing and method to incorporate testing. Mr. Jackson asked what types of unintended consequences we are referring to. Staff explained it could be the consolidation of a previously unconsolidated entity. Mr. Jackson explained it could be broader—are we inferring the federal government had taken on more risk than it has in the past. He suggested we have to be careful that we are not suggesting that the Federal government is taking responsibility for things it is not responsible for. Mr. Granof explained there are also political ramifications. Mr. Jackson added we must consider what we are conveying when we say something is part of the federal reporting entity and what are the consequences. He noted this may be very difficult but should be considered. Mr. Steinberg suggested an example: the consequence of donations to the Smithsonian decreasing because it was considered part of the federal entity. Staff agreed these unintended consequences should be considered as well, but also believed the exposure draft process is another means of broadening the consideration of this issue to gain feedback. Mr. Allen commented that the test cases and consideration of the consequences should come near the completion of the proposed standard.

[Short Break]

Mr. Allen explained that staff had done a great job in laying out the issues in the paper and the planned actions. He would like Board members to ask any questions or express concerns for any they may have versus going through all the issues.

Mr. Jackson noted *Issue 9: Misleading to Exclude* may be problematic without criteria. Staff explained the Misleading to Exclude principle (“Federal reporting entities should also include entities not meeting the conclusive or indicative principles if the nature and significance of their relationships with the federal government are such that the exclusion would cause the federal reporting entity financial statements to be misleading or incomplete.”) helps to ensure that the proposed Standard could accommodate rare or unique situations that may arise in the future. Staff also noted it complements what is currently in SFFAC 2. Mr. Jackson explained he understood why it’s needed but he believes it’s too subjective as currently written. Mr. Allen explained it is similar to what GASB provided in GASB 14 and it serves as a placeholder for those unique situations where the preparer and auditor agree something should be included that was not captured by the existing standard. Mr. Steinberg noted there are criteria for others and he believes this is necessary, but criteria may not be necessary as judgment plays a huge role in this area. Mr. Allen didn’t favor spending additional time on the issue to determine if criteria would be possible to develop, but he believed the principle was

necessary. Mr. Showalter commented that it is like a safety valve, it is a mechanism to get something included in the financial reporting entity (versus not excluded) and he didn't see the harm and it is principles based. Mr. Dacey agreed the Board shouldn't spend time developing criteria for the misleading to exclude, because he believes the indicative criteria are so broad that it would be captured there. It was agreed that this could be revisited after the indicative principles and related criteria are finalized to determine if still deemed necessary. Mr. Jackson agreed with comments from members.

**CONCLUSION:** The Board agreed with the staff memo which contained a list of open issues and planned actions on the Federal Entity Project. The Board provided concurrence on the planned actions. Staff will address the open issues at upcoming meetings and continue work towards developing an ED on the Federal Reporting Entity.

- **Federal Reporting Model**

#### Overview

At the December 2009 meeting, the FASAB discussed the financial management aspects of other countries and decided to survey the reporting models of several countries. Upon completing the survey, the Board may invite officials from a particular country or countries to attend a FASAB meeting and conduct more in-depth research. Also, members discussed concerns regarding the existing financial reporting model, the need for managerial cost accounting information, and the scope of generally accepted accounting principles (GAAP). Details of the discussion are as follows.

#### Discussion

Mr. Simms began the discussion, noting that staff is proposing to conduct an education session regarding the Canadian financial reporting model. Board members would be able to learn about matters such as: 1) the guiding principles that Canadian officials considered in developing their model; 2) the information that users need; and 3) the initiative to have audited financial statement of departments.

Ms. Fleetwood noted that it may be good to study the reporting models of several countries and present the study results to the FASAB. Canada's approach is interesting, but there are others that the FASAB may want to consider. Canada uses a top down approach where they first developed the government-wide financial statements. Now, they are in the process of preparing department level financial statements and having those statements subjected to a controls-based audit.. Alternatively, Australia is somewhat similar to us. Their underlying entities' financial statements are audited then rolled-up to the government-wide statements.

Members discussed some of the unique aspects of Sweden, New Zealand, and Australia's financial management practices and discussed televideo as an alternative to

having officials from other countries travel to the U.S. Ms. Kearney added that it would be good to reach out to other countries. They may have something useful that the FASAB may want to incorporate. Mr. Allen noted that it would be good to know who they believed to be the users of the financial statements and how did they think they were responding to those users. As discussed in the FASAB concepts, the anticipated users of agency financial statements are different from those of government-wide financial statements. There may be one set of financial statements at one level and a different set of financial statements for another level. Ms. Fleetwood noted that it would be good to determine what we would like to ask the officials or what matters we would like them to be prepared to discuss. She pointed out that when she participated in studies of other country practices, they spent days discussing issues. However, the FASAB may not have that kind of time.

Mr. Allen suggested identifying three or four countries to survey. Ms. Payne noted that staff may start with a survey of practices and bring back some sense of where we have the most lessons learned potential. The next question would then be whether the FASAB wants to invite a particular country to a FASAB meeting or conduct a televideo session for a more in-depth discussion. Ms. Fleetwood noted that in October 2010, all the top treasury officials from other countries will be attending a conference in Boston.

Mr. Steinberg stated that the FASAB should get what underlies the financial statements of the other countries. For instance, what are their financial reporting objectives and have they built their financial statements from those objectives. Ms. Payne noted that a lot of the English speaking countries chose to start with the private sector standards and changed some of the words so that the standards would be more understandable in the government environment. Later, they added unique areas such as social benefit programs. Mr. Dacey added that the International Public Sector Accounting Standards Board (IPSASB) is currently in the process of developing a conceptual framework and a lot of national government standards-setters are looking to the IPSASB and participating in the effort.

Mr. Allen presented an idea for members to consider. He discussed a process that he believed to be helpful to the Governmental Accounting Standards Board's (GASB) reporting model deliberations. Mr. Allen noted that each GASB member was asked to develop a financial reporting model and present his or her results. Once the Board members understood each other's views, they were able to move forward. It may be helpful for each FASAB member to think about how he or she would design a reporting model and present their ideas.

Regarding additional questions to ask other countries, Mr. Steinberg suggested asking them whether they have financial reporting objectives and how were they developed, and to what degree did they consider the private sector model. Ms. Fleetwood believed that we should not limit the discussion to external users. We are considering a managerial cost accounting plan and managerial cost accounting concerns internal users. Also, more fundamentally, we need to first establish what we are trying to accomplish. Answering that question will help determine the specific questions we need to ask.

Mr. Allen pointed out that if one asks managers whether they use historic financial statements to manage, they will probably say no. However, the information systems that produce those financial statements ought to have the information that is useful to management. Mr. Allen noted that he would like to understand that link.

Ms. Fleetwood noted that they would review managerial cost accounting information on a quarterly basis to make decisions and she believed that the reporting model project should include managerial cost accounting. Mr. Allen noted that it appears that those decisions were being made based on information generated by the financial systems rather than waiting for the audited financial statements produced at the end of the year. Also, Ms. Payne noted that as part of the user needs segment of the reporting model project, staff is determining what information program managers are using.

With respect to cost accounting, Ms. Payne asked whether the FASAB needed to explore cost accounting down to the level of say, the cost to cut a check. Ms. Fleetwood noted that if the FASAB wanted to prepare reports that are meaningful, the Board will need to discuss some level of cost accounting which would include direct and indirect costs.

Mr. Dacey noted that the FASAB should try to figure out what additional information is needed and who should be the relative players because, in some instances, FASAB may not be the front player. He did not believe that FASAB is the appropriate body to get involved in deciding what entity should be audited. However, it would not be a bad idea to cast a wide net and determine what information individuals perceive that they need but is not being provided. The FASAB could decide that there is certain information that is not being provided in financial statements and require it. If individuals need cost accounting information, the FASAB could develop more detailed guidance on managerial cost accounting. Ms. Kearney commented that the FASAB could change the set of department level financial statements and maintain traditional financial statements for government-wide.

Mr. Jackson expressed concern whether external financial reporting could produce meaningful cost information for an enormous agency with diverse operations such as the Department of Defense. Also, some agencies, like the Department of Health and Human Services (HHS), primarily provide funds to other entities. The HHS reimburses health insurance organizations and others for healthcare purposes, but it is not clear how to establish a cost accounting mechanism to measure its internal operations. At the end of the day, what we would be measuring the cost of would be a rounding error.

Ms. Fleetwood noted that users get financial information now, but not in a way that it is meaningful. We should provide the information so that it is clear that what we spend our money on is related to the value we receive. The information should answer questions such as what is the cost of the drug programs or how much does it cost to conduct the war in Afghanistan. The FASAB could play a leadership role in determining what information is needed by internal and external users.



Mr. Jackson responded that those types of questions are not answered through external financial reporting (financial statements). How we measure the cost and the outcome of that cost must be articulated internally within the agencies. FASAB's role can be to determine what needs to be considered in terms of the cost of program operations. However, it cannot be done in a vacuum. We have to have the collective efforts of individuals who care, such as the Congress who wants the information to make decisions based on the information.

Mr. Dacey noted that the GASB has published a document on service efforts and accomplishments that is non-authoritative and the question for the FASAB is whether the FASAB would want to issue guidance that would not be in the form of a traditional financial reporting standard.

Mr. Simms provided members with a chart showing the scope of GAAP and financial reporting and the types of documents directly and indirectly affected by GAAP. Ms. Fleetwood noted that the FASAB should consider the types of reports that are currently outside of the GAAP domain (indirectly affected by GAAP) and pull them in, such as Recovery Act reporting. As part of Recovery Act reporting, users want to know what they received for their money and answering this involves cost accounting. An agency could identify activities that it plans to track and then produce meaningful reports. However, much of the focus of reporting appears to be on the balance sheet.

Mr. Jackson noted that agencies have the prerogative, under the existing reporting model, to define activities or programs for which they want to measure costs and performance. Defining important activities that they want to report on and collecting the cost of those activities is an internal policy decision, of that agency, working with the Office of Management and Budget (OMB) and others.

Mr. Werfel noted that one could argue that nothing stops an agency from producing a balance sheet. It could be a policy of that agency, working with OMB and others, to produce information for a traditional balance sheet. To make it happen effectively requires more than a policy decision. It requires many organizations, such as the FASAB, the agencies, and Congress. Also, agencies are trying to implement managerial cost accounting, but the process needs to be part of a larger government-wide framework. There is a resource drain and the way systems are architected around the balance sheet and traditional financial statements makes it difficult for agencies to change directions.

Mr. Werfel believes that the FASAB needs to look at a variety of options and that the Board could design a set of financial statements that could provide more transparency to citizens, decision support, and drive internal controls and disciplines that are more closely linked to risks that the government faces today.

Mr. Jackson expressed that through the existing cost accounting standards, the capability for agencies to explore alternatives exists now. He does not believe that the existing standards are an inhibiting factor.

Mr. Allen acknowledged that financial statements probably do not answer questions to the detail that the questions are being asked. However, the information necessary to ultimately produce financial statements ought to be the same information necessary to answer the questions that users may have.

Ms. Fleetwood believed that the reporting model project could focus on what kind of document would be meaningful for the public and agency management. The project could consider the major output of the agency, what value was received, and how this information should be displayed. The display could be based on the same information that exists currently, but possibly different attributes.

Mr. Jackson noted that for most agencies, the balance sheet is not significant to containing items that end up in the cost of its operations. A cost type financial statement is needed for those agencies. However, the agencies need to name the programs where cost and output need to be measured for decision-making. Then, one could immediately move away from the balance sheet for a number of agencies and focus on internal control concerning the reliability of the information in the financial statements that we decide to present.

Mr. Werfel noted that the Board could evaluate the existing reporting against some key criteria, such as interest from the public and information for decision-making, and the Board would probably conclude that it does not meet those them.

Mr. Granof noted that he would like to see the project result in providing information that individuals care about. However, the information that is of interest one year may not be of interest the next year. Also, the information that is of interest may cut across several different agencies. The challenge for the Board is to set forth principles. For example, discussing what type of information should be presented in the Management's Discussion and Analysis section of the financial report.

Mr. Werfel noted concerns regarding the existing financial reporting infrastructure. He explained that there has been a build-up of data and a lot of Chief Financial Officers are overwhelmed by how much data exists. In addition, the current set of financial statements misses the mark in two respects: 1) the statements are not useful; and 2) the data that feeds them are not usable. For example, at the National Aeronautics and Space Administration (NASA), there is a lot of data segments that feed into valuing and depreciating the space station, but those data segments are not translating into something that the agency business leaders are held accountable for or care about, which includes overseeing contracts, ensuring that there are not cost overruns in those contracts, and there is fair competition among contractors. Also, focusing on cost accounting merely builds on the existing data when some of that existing data may first need to be cleared away to facilitate progress. The Board could determine where accounting standards can be streamlined.

Mr. Steinberg commented that, with respect to the notion that we are building on the existing infrastructure, our financial accounting is being built on budget accounting, which has been in existence for 200 years, and if one wants to address the

infrastructure, they could take a look at streamlining budget accounting. Also, the FASAB concept statement regarding entity and display is a broad framework and OMB can change the form and content.

Mr. Werfel noted that the CFO Council has a working group and it will present its ideas for improvement at the February 2010 Board meeting. Also, the working group will explain where FASAB standards would prevent some of the ideas from taking hold. Mr. Steinberg noted that the CFO Act requirements should be considered in this discussion.

**Conclusion:** Staff will survey the reporting model of other countries and will continue studying user needs including needs for managerial cost accounting information.

## **Adjournment**

The meeting adjourned at 12:15 PM.