FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
February 23-24, 2011
Room 7C13
441 G Street NW
Washington, DC 20548

Wednesday, February 23, 2011

Administrative Matters

- **Attendance**

The following members were present throughout the meeting: Chairman Allen, Messrs. Dacey, Granof, Jackson, Reger, Showalter, Schumacher, Steinberg and Ms. Bond. The executive director, Ms. Payne, and general counsel, Mr. Dymond, were also present throughout the meeting.

- **Approval of Minutes**

The minutes of the December meeting were approved electronically before the meeting.

- **Financial Report of the US Government**

Mr. Reger provided an overview of the 2010 report. He noted that the process for including fiscal sustainability information improved significantly this year but the opinion was again a disclaimer. He presented key information from the Citizens Guide.

Mr. Reger indicated that the opinion on the Statement of Social Insurance had previously been unqualified but was a disclaimer this year. Mr. Dacey explained the underlying reason is the uncertainty regarding the ability to attain cost savings through reductions in cost growth brings into question the reasonableness of the assumptions. He added that there was a panel formed to consider what cost growth assumptions might be reasonable. The panel has not provided conclusions at this time.

Mr. Reger pointed to chart 8 – the depiction of debt over the projection horizon. The chart also presents the difference attributable to policy changes. It demonstrates that significant changes in policy can affect the long-term outlook.

Mr. Reger noted that the three reasons for the disclaimer (Department of Defense, intragovernmental transactions, and the consolidation process) are being addressed. Plans are in place that may bring issues back to the Board for discussion. He noted that a set of books for the general fund is being prepared.

Ms. Bond noted the significant achievements at the agency level. NASA moved to a qualified opinion and State Department attained an unqualified opinion. While Labor lost its previous unqualified opinion, great strides have been made on a new system. She believes the community is positioning itself for successful demonstration of accountability over taxpayers' dollars.

Mr. Dacey noted that GAO saw more press contacts following the issuance of the report than usual. He sees more attention and focus on the reporting. Mr. Granof indicated that he would be doing a webcast for university alumni.

Mr. Reger announced the creation of a more robust website for the CFR. He acknowledge Scott Bell's role in working with a large team to develop the site. Mr. Bell demonstrated the website.

- **Consent Agenda**

The staff proposal to rename the Pronouncements as Amended was approved without discussion.

Agenda Topics

- **Deferral Request – SFFAS 38, *Accounting for Oil and Natural Gas***

Julia Ranagan, staff member, summarized the materials at Tab B regarding the proposed standard to defer Statement of Federal Financial Accounting Standards (SFFFAS) 38, *Accounting for Federal Oil and Gas Resources*. Ms. Ranagan noted that the majority of respondents were in support of the one-year deferral; the one respondent that disagreed with the deferral raised an issue regarding accounting structure that the board had discussed previously during the development of SFFAS 38.

Mr. Allen asked the members if there were any questions or comments. Mr. Dacey noted that there had not been any new information in the letters that the board had not contemplated during development of SFFAS 38. Ms. Ranagan agreed.

Because there were no other comments, Mr. Allen inquired if any of the members objected to staff going on to develop a pre-ballot draft standard.

There were no objections.

> **CONCLUSIONS / NEXT STEPS:** Staff will email a pre-ballot draft to the members for review.

- **Annual Report**

Ms. Payne recognized Mary Foelster, AICPA Director, and thanked her for her assistance in coordinating reviews by the AICPA team. She noted that a copy of the annual report including changes made since the briefing materials were distributed had been placed at each member's seat. She asked members whether there were any concerns regarding the marked changes and no concerns were expressed. She then asked if members wished to propose any additional changes.

Mr. Granof asked if the assertion that the reduction in funding (from FY2010 to 2011) would not impair FASAB's ability to meet its mission was reasonable. He wondered if a reader would think that if that was true then why not cut more. He believes we will be able to address fewer issues on a timely basis. He wondered if we could leave the statement out or say what the effect would be. Mr. Allen responded that you had to couple that point with the plan spelled out later that we seek assistance from other agencies to address issues.

Mr. Showalter suggested that we add the explanation that additional resources – through detailed staff – would be sought as needed be included in the discussion of mission. Members agreed to such an addition.

Mr. Reger asked for a revision to the chairman's report. It referenced the first time that financial reports have included comprehensive long-term projections but the report has voluntarily included similar information. Ms. Payne pointed to technical language that dealt with that but noted it was perhaps not clear enough. Members agreed to clarify the point.

Mr. Reger referred to page 9 and asked if it was necessary to count the number of members making each comment. He believes each comment should be acknowledged and stand on its own. Members noted that the count provided perspective (so that it is clear that the view is not necessarily a board view) but that it was not necessary if the language is clear that the items are views of one or more individual members. Members agreed to remove the count while making clear that the views were individual views.

Ms. Payne provided a revised copy the following day and the members approved the final annual report.

- **Strategic Directions Review**

Ms. Payne noted that the Board last considered strategic directions in 2006 and developed directions for a five-year period. She indicated that she was seeking two products for the session—a list of considerations that may influence technical agenda setting and a decision on whether to refresh the 2006 report on strategic directions.

Members asked how the discussion would inform technical agenda setting. Ms. Payne indicated that in developing the 2006 strategic directions report, members considered the Board's mission, comparative advantage as the GAAP standard setter, and language from SFFAC 1 on reporting objectives and decided to focus on two of the four reporting objectives – operating performance and stewardship. The consequence of that decision was that technical agenda options that could best further those objectives were preferred over others. A member asked if we were simply refreshing the report because five years had passed or if something had changed.

After some discussion, members concluded that there was value to addressing the questions as presented:

> What key events and trends are most likely to affect FASAB in the next three to five years?
> What opportunities and challenges may arise as a result of the key events and trends in the next three to five years?
>
> Based on the foregoing:
> What might need to be considered in setting technical agenda priorities?
> Are revisions to the 2006 strategic directions needed?

Mr. Dacey indicated that he would like to take a longer view of where the Board is headed. He wanted to better understand the potential demands on the Board over a longer period of time so that a three to five-year agenda could be set. This would support a discussion of resource needs. He believed that the 2006 report would hold up very well and he would not want to take up an effort that involves roundtables.

Mr. Showalter indicated that he believes the expectations of the receivers of information are different now than they were in 2006. He believes the demand is stronger than it was but still aligns with operating performance and stewardship objectives. He identified a trend toward increased demand for information by citizens and for different types of information.

Mr. Allen pointed to the AGA CFO surveys and noted that many of the CFO comments focused on the management of the agency. The concepts identify four user groups – citizens, Congress, executives, and management. The CFR primary users have been differentiated – Concepts 4 identified CFR users as citizens and citizen intermediaries. Certain CFO comments were that a balance sheet was not useful and he thought that comment was more likely to be valid if you take the manager perspective than if you take the citizen perspective. He thought we ought to spend time on such differences.

Mr. Jackson asked if one of those two views ought to take precedence over the other. He wondered if we should, given the fiscal pressures on the government, have the work of the Board be driven more by the citizen information needs than by manager needs. A focus on government-wide information needs rather than agency information needs may lead to different standards. Audit effort may be expended on things that are not relevant at the national level. He believed that we should look at efficient use of management resources. The CFR does produce a lot of relevant information. He expressed the belief that the standards should drive management of that which is important at the governmentwide level, which would provide valuable information while at the same time preserve management and audit resources.

Ms. Bond asked if Mr. Jackson was suggesting a risk driven approach to standard setting. He tentatively agreed. He would like to see the focus on areas that are important from a macro or top down level.

Mr. Showalter agreed but asked who should we need to focus on? He said among the user community, only the citizens don't have access to information they need. He indicated that the CFR is not citizen friendly at this point – it uses jargon and is overloaded with too much data; data is not the same as information.

Mr. Steinberg believed the audience for the CFR would be broader, we need more plain language, and more focus on the future. He noted a challenge in the area of resources – fewer resources to prepare the standards.

Mr. Reger noted the importance of the integrity of the information. The numbers delivered in financial statements are audited but a great deal of data is flowing to citizens but without the validity of audited information. He indicated that we should do more to talk about risk; what really is a risk issue and do we need to address it or not. The change to electronic reporting is important – we need to work that into our thought process. He noted the significant budget pressures over the next many years. Disclosures must be accessible and usable—we need to better provide citizens with access. The CFR is produced by compiling the agency reports – we should consider who standards are aimed at – agencies or the CFR. He noted that agency financial activities are focused on receipts, payments, and audited financial reports. It is less focused on information for management purposes.

Ms. Bond indicated the integrity of the data is a focus at OMB. The public demand for data is higher. The problem is that data can be provided but the audit rigor around the information is lacking and the data is not framed so that the public can be educated. This led to the development of a statement of spending to bring the audit integrity into the mix and to better convey the data to citizens. The next area is a focus on risk—is our work really driving a focus on areas at risk. Knowing that the information on recipients and sub-recipients is reliable is a critical component of transparency.

Mr. Jackson noted the emphasis on risk. He noted that from a functional perspective you could translate the information into what agencies do that create risk. He liked the idea of focusing on what we do that can help agencies manage risk. His example was inventory—from a national security perspective you need to know what you have and where it is. The risk is that you don't have what you need when you need it. While it is over simplified, he thought that information was important from an operational and a macro perspective.

Mr. Allen noted the concept of management versus reporting and the need to have systems that help you manage and report. He wanted to differentiate between what is important in reporting while recognizing that some information may not be important for reporting but may be important for management. He's heard it said that if a standard doesn't require information, the agencies won't be able to justify collecting information they need. He feels the Board may be caught between these different needs.

Mr. Jackson believed we are sometimes encumbered by the traditional approach to standard-setting. He thought it would be interesting if we could talk to key managers such as those at DOD – who manage complex activities. He'd like to talk with them about what they do and how they manage to ensure readiness. Understanding what managers do to manage such major undertakings would be useful. He sometimes thinks managers are not sure what information they need. He also doesn't know what information they gather now. To establish a standard, he'd like to hear from them what their needs are –the needs for managerial information. He thought this might lead to a more balanced standard.

Mr. Dacey indicated he would focus on the integrity of the data but that he did not believe audits at the transaction level would occur. He noted the need for some improvements in the control over data that shows up on websites and that this is a significant new factor since 2006. He explained that GAO, the IGs, OMB and Treasury would be looking at risk areas to see what the connection is between those areas and the financial audits. The results will be shared with the Board. He noted the need to understand what financial information would be relevant to include in the reports. A structure to go through that is important. He also noted the need to focus on users—for example, if citizens are the primary user, then even the citizens' guide may be too long. A building block approach is needed. The rigor, structure and audit are important—and the CFR brings that. However, he doesn't believe a single document could meet all needs.

Mr. Showalter indicated that he has observed the benefit of the CFO Act. He felt many people discount the overall benefit the discipline brings to managerial information. He wanted to reflect on the role of the Board and OMB. OMB provides direction to agencies on managerial information and if the Board can support that role, it would be helpful. He further commented that one challenge for FASAB is that we have multiple user groups and that leads to more information requirements and larger reports. He is mindful that FASAB need not address management needs since OMB fills that role and he believes we get complicated standards because the Board is trying to satisfy too many users.

Mr. Jackson said that information we might want to gather to make standards better is how managers manage certain things. Such information might lead to a more thoughtful standard that would provide valuable information to readers and ensure the quality of managerial information. He noted that some believe a standard requires a certain process.

Ms. Bond indicated that OMB does have the role of management and serves it well. She thought the fundamental question becomes what is the role of the Board. That would lead to a strategic approach to technical agenda setting. She acknowledged the immense value of the audit and the rigor that it brings; the question remains what should be the focus of that rigor.

Mr. Granof said he didn’t see much about the 2006 report that needed to be changed. He was a bit disappointed in the attention given to budgetary integrity. While we do not set standards for the budget, there are ways to apply economic concepts to the budget. He wondered if it was possible to have a budget to actual comparison and said he was persuaded that we could not. However, he would like to try to explore ways to improve.

Ms. Bond noted that the Board’s role relative to budgetary integrity was hard to define. She noted the extensive information available about the budget and where money is going. She said the budget and the financial statements are simply looking through different lenses.

Mr. Steinberg noted there are two ways to view budget integrity – one is whether you can report on the status of resources and the other is the underlying assumptions used in the budget process. The financial statements address the first. With regard to the role of FASAB, he noted that we set standards for only one entity and that makes the role of FASAB easier in many ways. He asked Ms. Bond to articulate what OMB hopes to see come from the Board.

Ms. Bond said that the answer is integrally tied to the technical agenda. She sees a need for a closer link to the needs of the financial management community. For example, the work on the statement of spending focuses on community needs.
Ms. Bond said she doesn’t see a need to change the 2006 document. The difference she sees is the focus and speed of the standard setting – we need to focus on the right things and the various users that we need to be accountable .

Mr. Reger explained that he considered himself a traditional accountant. He noted that FMS – after compiling the CFR – prepares a detailed report that feeds the President's Budget. He said if you ask today's CFO's what they are worried about – it is their budget. However, the CFR serves an important role by addressing issues that can not be taken up in a budget. He said he is not comfortable with FASAB diving into the budget—if we can help budgetary reporting that would be great, but as a by-product.

Mr. Granof said he does not see the Board addressing how the budget is prepared; the role he sees is comparing actual and budget; with comparing after the fact results with assumptions. He would like to inform the budgetary process.

Mr. Reger says he clearly sees the CFR as informing discussion. He sees references to the information often and the report has a following in the academic community.

Mr. Jackson noted that actual data is comprised of transactions associated with multiple budgets. This is a complexity that you would not experience in a state—where budget resources are available only for one year. In the federal government, spending (outlays) today relate to budgets approved over the past several years. This makes budget and actual comparison quite difficult. Mr. Granof acknowledged this, but he would like to see some improvement in the reports.

Ms. Bond noted that the Budget also displays actual expenditures but it is done on a different basis. The information is publicly available.

Mr. Reger noted that a CFO who receives a disclaimer might be looking for a new job but a CFO who has an anti-deficiency violation would need a lawyer.

Mr. Steinberg noted that the budget does not present full cost information. The financial reports are audited and present full cost.

Mr. Schumacher asked about Canada's presentation of budget to actual. Members explained that the budget was prepared on an accrual basis.

Mr. Allen noted that the stewardship objective addresses financial condition. He believes this is a broader concept and lends itself to the different financial statements that we have—such as long-term fiscal projections. It raises an issue of how to communicate financial condition. He indicated that the MD&A does a better job of communicating than the financial statements (some of which are not articulated) – do.

Ms. Frenzel – GAO's Managing Director for Financial Management and Assurance – noted that GAO saw a remarkable increase in press inquiries regarding the CFR. A local station in Louisiana broadcast an interview with a local CPA who delivered a lesson on the messages in the CFR. She believes we'll see more interesting uses of the report in the future. Mr. Dacey agreed and noted that the fiscal sustainability information was timely.

Ms. Payne indicated that she has made a summary list of the considerations for use in technical agenda setting. She indicated that she did not hear support for rewriting the strategic direction but that one member suggested an addendum. The addendum would focus on the trends that would influence agenda setting.

Ms. Bond indicated that it was an important question for the Board. She felt that the material in the addendum would be embodied in the technical agenda and it would be more efficient to move directly to the technical agenda.

Mr. Dacey believed the addendum would reiterate the 2006 strategic directions, identify trends that were significant, and memorialize the fact that we did review and refresh the strategic directions. He did not envision anything elaborate.

Mr. Schumacher was comfortable without the addendum and felt agenda setting would be sufficient.

Mr. Showalter agreed to the addendum if it does not take long to reach agreement. Confirming for the public that the document is still relevant is of value.

Mr. Granof believed the strategic directions should be more specific and identify trends. He supported the addendum.

Mr. Jackson believed an addendum would be appropriate to memorialize the discussion. He would refresh the executive summary and change the date on the cover.

Mr. Steinberg agreed that the discussion should be memorialized through an addendum. He thought it should indicate the objectives and key trends that exist.

Mr. Reger agreed.

Mr. Allen asked if members wished to reaffirm the selection of operating performance and stewardship as the primary objectives. Members agreed. He noted that the members had emphasized the focus on the citizens and asked if the members wished to include that focus.

Ms. Bond noted votes had not been taken on each consideration. Mr. Showalter indicated that the list of considerations was important because it documents the lens through which the Board views the objectives and that is important. Mr. Dacey indicated that the areas could be listed without the Board taking a position endorsing each consideration.

> **CONCLUSION:** Ms. Payne agreed to draft an addendum taking into consideration the results of the technical agenda discussion. The Board will review and approve the addendum at subsequent meetings.

- **Priorities and Plans – Reporting Model, Note Disclosure, and Technical Agenda Setting**

The Board reviewed the Reporting Model task force recommendations and will consider them in setting its technical agenda goals. Key points raised by individual members were (1) a functional breakout of net cost poses many implementation challenges and some members viewed program cost information as an alternative, (2) experimentation with the statement of spending is important and it would be premature for FASAB to address the addition of the statement now, (3) many other proposals can be adopted voluntarily by the preparers, (4) inter-governmental financial dependency may be an area to address through a broader project on risk assumed and commitments, and (5) the conceptual framework is not complete and current.

Ms. Payne introduced the topic of the technical agenda. She noted that it would be some time before staff resources are available to begin a new project. She then asked if members wished to have any outreach conducted before considering final decisions on the technical agenda. Mr. Allen noted the outreach that Treasury and OMB have done is helpful. Members did not support additional outreach.

Ms. Payne reviewed the activities that have not been on the board's active agenda such as AAPC activities and pending projects. She suggested that members share their priorities for the coming years from among the three highest priorities identified in 2010 (internal use software, note disclosures, and risk assumed) and other potential projects. Members might also identify currently active projects that they did not believe should be priorities. She noted that while staff is not available to take on additional work, an aggressive list of three to five year priorities could be used to recruit agency detailed employees as needed.

Mr. Allen noted that of the three 2010 priorities, some work had been done on all but the risk assumed project. Ms. Bond asked if current projects could be nominated to be taken off the list. Mr. Allen said that could be done but that members ought to consider the remaining time on a current project – that is, if it could be completed more quickly by accelerating the pace or narrowing the scope, then it might be best to wrap it up.

Ms. Payne suggested that each Board member give their priorities based on all projects—active and potential. She noted that the final prioritization usually requires two meetings. The second meeting focuses on a smaller group of projects in more detail. She noted that the results of the pre-lunch session on strategic directions produced a list of considerations that members might factor in.

Mr. Jackson said he focused on the items that pose the greatest risk to the government. Therefore, he focused on risk assumed as being important. Clearly, risk assumed will contribute to fiscal stress at the federal level. His second area would be considering existing standards for cleanup cost since this may be an area where we can make substantial headway quickly. Ms. Payne asked if any of his priorities rise above existing projects. He indicated that he would not replace any existing active projects because of the amount of time already invested in those projects. However, he would not evaluate existing disclosures at this time.

Members briefly discussed the merits of indicating whether each item was a high, medium, low or no priority. One member explained that he would like to have a set of criteria against which to make that ranking. Ms. Payne explained that once the list was shorter she would provide a more detailed discussion and information about how each project aligns with the factors for selecting projects such as whether there was an opportunity to partner with other standard setters.

Mr. Showalter noted that an informed citizenry is very important. He was looking for improvements to what was reported and quick efforts to reduce the burden on preparers. He believes he would go back to reporting model and think about the recommendations. He also thought risk assumed was important. Mr. Allen agreed with these priorities and particularly wants to look at ways to present information currently contained in the CFR in a more understandable and user friendly manner.

Ms. Schumacher agreed that risk assumed was number one. He would not drop any current projects but would try to reduce the deferred maintenance project. He also agreed with Mr. Showalter's priorities. He would like to advance the reporting model and take on reducing the burden to preparers. Leases should be addressed as soon as FASB's work is complete.

Mr. Dacey rated a project on risk assumed, commitments, and inter-governmental dependencies as a high priority – he prefers a broad approach. On leases and insurance, he would wait until FASB has completed its work. He would not drop any projects but would also take a narrow approach to deferred maintenance.

Ms. Bond agreed with Mr. Showalter. She thought evaluating the current standards was important to ready the community. In a three to five year horizon, she thought the statement of spending would be important. She agreed risk assumed would be important. Of the six high priorities from 2012, only leases would be a priority and only after FASB completes its work. She would like to speed deferred maintenance. She questioned whether the near term projects listed on page 34 were important. For example, she did not favor a project on deployed assets. She favored looking at all the potential projects and ranking them as high, medium, low and no priority to develop a clean list.

Mr. Allen wanted to separate the projects between those benefiting external reporting and management information. He would not focus on management information.

Mr. Reger agreed that risk assumed was a high priority. He also thought investments in non-federal securities was important. He believes we could use the lessons learned and develop a standard quickly. He also wanted to look at electronic reporting. He would combine commitments with risk assumed. He would also combine public private partnerships with investments. He also wanted deferred maintenance to accelerate.

Mr. Steinberg prefers to address liabilities and would put risk assumed first. He would also address cleanup costs. The amount is large, changes frequently, and disclosures don't help you understand why it changed. He wondered about evaluating existing standards – he thought that internal use software could be addressed quickly. His students complain about it and he sees it as a quick fix. For the three to five year horizon, he would take up performance reporting and address characteristics. He also believes electronic reporting is important. He would also discontinue evaluation of existing note disclosures.

Mr. Granof agreed that risk assumed is first. He thought investments in non-federal securities should be addressed. He would also address public-private partnerships due to the increased use of contractors. He would rank electronic reporting high. He thought it might be part of the reporting model and could be done quickly.

> **CONCLUSION:** The April meeting will include a discussion of priorities among the projects individual members ranked highly.

- **Measurement Attributes**

Ms. Wardlow presented a preballot draft of a final Statement of Federal Financial Accounting Concepts, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*. A marked-up version of the draft was projected for Board discussion. The projected version incorporated (a) changes requested by the Board at the December meeting and (b) revisions proposed by members or staff since distribution of the February draft. The (b) set of revisions and additional changes made at the February meeting were as follows.

Fifth paragraph of the introductory explanation of "Statements of Federal Financial Accounting Concept": The second sentence should be changed from:

> Until the Board amends existing standards, the Board expects practice to be governed by the accounting principles embodied in the four levels of the GAAP hierarchy specified in SFFAS 34. . .

to:

> Until the Board amends an existing standard, the Board expects the principles and practices addressed by that standard to be governed by . . . [continue as before] . . .

Par. 2, p. 3, line 28: Change "elements" to "an element."

Par. 3, p. 3, line 34 through p. 4, line 1: Change "is only directly applicable to assets and liabilities" to "is directly applicable only to assets and liabilities."

Par. 7a, p. 6, line 7: Staff had proposed rewording part of the first sentence in 7a. to "The measurement approach is whether an asset or liability is reported at the amount initially recorded ('initial amount'...)" Members proposed various amendments to the proposed wording, including: "The choice of measurement approach determines whether [continue as before]" and other possible changes. Staff was instructed to propose appropriate wording in the next draft.

Par. 19, p. 12, line 17: Delete the final sentence: "They do not represent advantages or disadvantages within the scope of this statement."

Par. 21, p. 13, line 10: Delete the final sentence, which referred to Appendix A's presentation of initial and remeasured amounts under current standards. (The Board eliminated that appendix at the December meeting.)

Par. 24, p. 13, line 36: Change "resulting costs" to "resultant costs."

Par. 26, p. 14, line 22: Change "level of judgment" to "extent of judgment."

Par. 43, p. 19, line 14: Change the definition of "settlement amount," so that it is not restricted to financial assets and liabilities. The revised definition reads: *Settlement amount is the amount at which an asset can be realized or a liability can be liquidated.*

Par. 44, p. 19, 16: Delete the parenthetical explanation, "(i.e., with external parties)" and change "but" to "and."

Par. 44, p. 19, line 17: Change "externalities" to "circumstances."

Par. 44, p. 19, line 18: Delete "financial assets, such as."

Par. 44, p. 19, line 20: Insert "or net realizable value" after "settlement amount."

Par 44, p. 19, line 28: Change "resulting" to "resultant."

Par. 44, p. 19, line 29: Insert "resultant," so that the first phrase reads: "The resultant measure represents . . ."

Par. 44, p. 19, line 32: Amend the last sentence to read: "In contrast to fair value, the settlement amount would not take into account the price . . ." [as before].

Par. 45, p. 20, line 8: Delete "other."

Par. 47, p. 20, starting line 19: Replace "replacement cost may be more easily measured as" with "it may be difficult to measure remaining service potential directly. There may be several ways of arriving at an approximation. For example, one way would be to measure . . ." [continue as before].

Par. 51, p. 21, line 12: Delete the word "exchanged."

Par. 51, p. 21, line 13: Change "valuation" to "estimation."

Par. 54, p. 21, line 37: Change "externalities" to "circumstances."

Par. 54, p, 22, line 4: Delete "entity specific and."

The Board approved the revisions and requested the addition of a Basis for Conclusions consistent with the requirements of the Board's Rules of Procedure.

> **CONCLUSIONS:** Staff will prepare a revised preballot draft for consideration and response by members prior to the April 2011 meeting. At the April meeting, staff will provide a ballot draft that incorporates additional changes, if any, and a ballot.

Adjournment

The Board meeting adjourned for the day at 3:30 PM.

Thursday, February 24, 2011

Agenda Topics

- **Federal Entity**

Staff member Ms. Loughan began the discussion by explaining for the February meeting the Board requested staff to define and add a description of the different organizations to the beginning of the proposal. Staff was also tasked with developing attributes and criteria for each. She explained the Board preferred that the standards establish a broad principle regarding what entities represented core government entities and non-core entities. In this draft, staff included narrative describing the categories as core government, discrete accountable entities, and related parties. The flow of the standards has also been revised. Staff believes input from the Board on this structure is needed before developing a draft including factors guiding disclosure for various categories.

Ms. Loughan explained the primary objective for the February Board meeting is to determine if the Board approves the distinction between core (general) government entity and discrete accountable entity. The proposal includes a description of the two types of entities, including a discussion of the attributes of each. Staff referred the Board to the list on pages 3-4 of the staff memo that summarized the differences:

Core (or general) government entities

- Generally provide goods and services on a non-market basis, redistribute income and wealth, and are financed through taxes and other non-exchange revenues.
- Receive taxpayer support
- Accountability rests with elected officials
- Substantially all the risks and rewards fall to the taxpayer.
- Their governance structure is vertically integrated as evidenced by the establishment of organizational authorities and budgets by elected officials, and the appointment of organizational leaders through the political process.

Discrete accountable entities

- May provide core federal government goods and services, but are more likely to provide goods and services on a market basis.
- Receive limited or no taxpayer support.
- Accountability rests with elected officials, but elected officials have less direct involvement in decision making than is true in core government entities.
- Limited risks and rewards fall to the taxpayers.
- In some cases, the relationship with the federal government is not expected to be permanent.

The proposal also notes that in addition to organizations for which elected officials are accountable, the federal government may be able to exercise significant influence over certain entities. Such parties are referred to as "related parties." Related parties *may* provide core federal government services but are more likely to provide market based services. Related Parties do not receive taxpayer support directly, but may engage in transactions with the federal government. Accountability does not rest with elected officials. Risks and rewards do not explicitly fall to the taxpayer.

Chairman Allen opened the floor to questions from Board members.

Mr. Reger noted he had tried to determine how certain entities, such as the Boy Scouts and Amtrak might be assessed using the proposed framework. Staff noted it is a challenge to do so without all the facts regarding entities, but one might conclude the Boy Scouts wouldn't be included and the Amtrak is a difficult issue where different opinions have been identified. Staff noted that it was included in related party disclosure of the CFR for the first time, which was an improvement in reporting compared to last year as the federal government owns all of the preferred shares.

Mr. Steinberg explained he had the same concern that in reviewing the significant entities, that some may fall out of being consolidated. Staff noted that items included in the budget are considered to be core. Also, items that are considered discrete accountable entities have the option of being consolidated.

Mr. Steinberg explained he wasn't sure what the quasi governmental financially independent agencies are. He asked for clarification and staff explained it potentially could be Amtrak or Federal Reserve—though that is not a definite, simply a staff observation of a potential entity and this is not saying it would be consolidated; it would potentially be some sort of disclosure. Mr. Steinberg confirmed the criteria hadn't been finalized yet. Staff agreed and noted the placeholder throughout the document stating that guidance was forthcoming. Staff noted that museums and FFRDCs probably don't need to be separate categories but may be able to fall under one of the stated categories.

Ms. Payne explained staff has been very reluctant to name specific entities because the intent of this is to allow some judgment. The challenge with using live examples is often facts and circumstances change. Once there is a staff exercise that has been discussed publicly with the Board, it makes it challenging for preparers and auditors to substitute their judgment. There is also the risk that there is similarity between this and Concepts 2 and how it affects component entity reporting. Staff plans to create straw man description of entities as examples as an Appendix that would be used as a tool.

Mr. Steinberg explained the standard has to be implemented so there must be a way to ensure you have the intended results. Ms. Payne explained that members will need to draw on their vast experience to flag possible unintended consequences. However, it would be shortsighted to think we could envision every entity that is out there. Ms. Payne acknowledged considering Concepts 2 addresses the Federal Reserve, it would most likely be explicitly addressed in the standard. Mr. Steinberg added he believes entities like the AIG and general fund would too. Mr. Dacey explained the general fund (non-intragovernmental part) is inherently included in the statements. He added the federal government owns 92% of the common stock of the AIG.

The Board discussed how Amtrak could be considered core versus discrete. Mr. Steinberg noted the federal government owned 100% of the preferred shares and there are aspects of control. Staff explained it was included in related party reporting of the CFR now. Chairman Allen noted it appeared to meet the criteria for core. Mr. Dacey noted it is preferred shares, though he is not arguing any position at this time. He also noted his interpretation is that if it isn't in the budget, the proposal allows judgment in determining presentation for core. Chariman Allen noted he thought all core was to be consolidated and noted concern for flexibility within core.

Chairman Allen explained by the end of the project, the flowchart should lead one to an answer. Ms. Payne explained that factors to consider are forthcoming that will assist in making some of the judgment calls for the discrete accountable entities.

Mr. Showalter explained that all staff was asking is whether this was the correct direction. Staff was asking if the distinction between the categories were appropriate. He noted there may be concerns or input for the next steps but staff has asked first for approval of this approach. He added that he is fine with the direction and the distinction between the categories.

Mr. Dacey agreed but noted that he wanted to point out that with the structure there are some discrete accountable entities that don't fit into the four identified categories but may be considered discrete accountable entities. Mr. Dacey noted he had some other concerns which he has expressed before. He explained if we equate core ultimately to the definition of federal entity as it drives GAAP then he would be okay with that. He explained that would be helpful as long as core is for those in the budget and not confused with some of the others that might be designated as discrete accountable. He added he was okay with the four categories of discrete accountable entities but there may need to be some work on the criteria for the box discrete accountable entities that aren't one of the four. He explained that is the area there can potentially be entities that fall in this bucket but not into one of the four categories, so what are the factors for disclosure in those cases. Mr. Dacey noted that may be the next step in this evolution but right now it appears to rely on judgment.

Mr. Steinberg asked if an entity is considered misleading to exclude, would it be considered core or discrete accountable. Staff noted it would be assessed against the attributes for core to determine. The Board briefly discussed the layout of the flowchart. It was noted the flow chart is high level so it doesn't represent all decisions.

Mr. Jackson explained as he goes through the process and in particular reference to the flowchart, the first question he asks is if the entity is in the budget—if so, it triggers core. The next question, would be is there majority ownership, or whatever the question may be. Whatever these factors are you build these entities.

Mr. Steinberg stated the Board seems to be agreeing that if an entity is in the budget, it is automatically core, but per the flowchart ownership and control are core as well. Staff explained the proposal requires an assessment, it isn't automatic.

Mr. Granof suggested the definitions of core, non-core and related parties be added to the Definitions section.

Mr. Dacey suggested for the sake of clarity, the Board equate core strictly with consolidated. He explained he would prefer a model that states if it meets certain criteria then it would be consolidated—for example the budget is one. At least it makes it simpler and cleaner. Ms. Payne explained staff had presented a model similar to that in the past but that resulted in several exceptions and it gets into a slippery slope because they share the characteristics for inclusion. The Board also had issue with naming so many things exceptions. Mr. Dacey wasn't certain if there were items that were in the Budget that shouldn't be consolidated that might fit into one of the discrete accountable categories identified.

Mr. Showalter commented he liked the flow chart and believes it complements the document. He added that he thought it addressed some of the concerns noted by members as it does have core going to consolidation.

Mr. Steinberg explained he agrees core should be consolidated, but suggested the Board be mindful of the politics and instead of jumping to presentation, the Board should first define the entity. For example, similar to GASB in Statement 14 they defined the primary government versus stating what was consolidated. Mr. Dacey explained he needed further explanation of what he was suggesting. Mr. Steinberg explained that he agreed with the proposed categories of core and discrete accountable, but the statement doesn't necessarily have to go any further regarding consolidation or presentation of the entities. He stated then we could talk about reporting after defining the composition of the entity. That would provide for a much cleaner flow.

Mr. Jackson suggested perhaps the discrete accountable won't be used. When he reads it, he believes either an entity is core or a related party. He explained the definition for related party as drafted now reads "related parties are considered to be related if the entity was established by the federal government, or if the entity can be significantly influenced in making financial and operating decisions, or if the federal government has an ownership interest."

Mr. Showalter explained he sees a difference. The discrete accountable was intended for those where there is more than a related party—for example, the definition didn't include risk. Meaning there would be more disclosure than in a related party, but probably less than consolidation. Mr. Jackson explained that he might agree but he is used to a traditional definition of related party. Therefore, it might be best to limit use of the term related party to its traditional definition if we are going this route. The disclosure requirement for the other discrete accountable can be different such as similar to what you see in segment information, but the related party would be more in line to traditional reporting.

Mr. Dacey explained at the last meeting the Board agreed at a future meeting (not necessarily this one) to develop criteria on what needs to be disclosed or factors that should be considered so that you adequately inform the reader. Mr. Dacey explained this needs to be viewed as a big continuum and it depends on the nature of the transaction and the risk. He noted some of the information would already be recorded as an asset or liability. He agreed there are some criteria that need to be developed in determining how much information should be presented for the non-core and related party.

Ms. Payne asked for the Board's input on the factors for core and discrete accountable (non-core) as listed on pages 3-4 of the staff memo and summarized in the chart on page 5. Does the Board want stronger factors? Are there specific comments on the ones provided thus far?

Mr. Showalter stated he believes it made sense and was fine, but the devil is in the details and how it gets interpreted.

Mr. Schumacher stated he was fine with the distinction.

Mr. Dacey explained conceptually after we go through the budget we would go through the other two categories, so conceptually he is okay with it but noted that there is judgment involved.

Ms. Payne offered that this serves as a foundation and asked if there needs to be crisper guidance offered regarding the judgment. Mr. Dacey explained he would like additional feedback on that as he is concerned when you run into a situation where this difference of opinion as to whether it results in inclusion or not. He noted he likes the fact it does offer flexibility but part of that judgment is how do you make that decision of what this ultimately will achieve is disclosure is more appropriate response than consolidation. He explained maybe there needs to be some tweaks with measuring this (need for flexibility) against reasons and considerations for consolidation. However, conceptually Mr. Dacey didn't have any comments for major changes at this time.

Ms. Kearney {OMB Rep for Ms. Bond} stated OMB agreed that it served as a good foundation and they agreed with it conceptually. OMB couldn't offer any major concerns at this time but if something comes up later, they would offer at that time. She asked if staff had shared the draft with the task force. Staff explained with the short time frames and only just completing the materials just prior to distribution, there wasn't time to do so. Staff explained the materials and an update would be shared with the task force.

Chairman Allen explained after the discussion he better understands the proposal. However, much of the discussion has been centered on in the budget but that doesn't seem to be addressed in the proposal. Most of the Board agrees that in the budget is core and should be consolidated, but that doesn't appear to be clear in the document.

Mr. Reger stated he wanted to thank staff for the chart. Also he noted that just from the discussion, more guidance is better.

Mr. Steinberg agreed with the distinction between core and discrete accountable entity. He would like as we move forward, we ensure there are entities that fall into each of the four categories identified in discrete. He believes we should test the contentious entities such as the Federal Reserve, Amtrak, AIG, general fund, etc. and see where they stand.

Mr. Jackson explained he liked the distinction between the core and other but he believes core should explicitly state in the budget—although it is assumed by 'taxpayer support'. He added it could be a subset of that as a percentage of funding through appropriation, or some sort of explanation making that link of in the budget to the core. Staff explained that "in the budget" wasn't considered an attribute for core because it was an inclusion principle. Though the concept is similar, staff didn't want there to be exact overlap or mimic of the two, but perhaps it is unavoidable. Mr. Steinberg agreed and stated that some agencies are self-supporting (SEC, PTO) and don't rely on tax payer support though they receive funding through the budget.

Mr. Granof agreed the proposal was on the right track, but believes certain key entities need to be assessed. He added his concern is that there are certain entities that are in the budget that we may not want to include, so we must consider how those will be addressed. Will there be additional criteria that are considered or will it be in the budget except for specified exceptions. Chairman Allen agreed that is an important question that should be considered.

Chairman Allen also explained another important question is what does core mean and does it equate to consolidation. The Board agreed this was a key point to confirm with members. Chairman Allen clarified the question is whether the Board agrees with the general notion entities in the budget are core entities and should be consolidated, given that staff will work on exceptions that may be listed in the budget.

Mr. Dacey agreed this was a cleaner approach for a couple reasons—if it is core, it is consolidated and it is a federal entity for GAAP purposes.

Ms. Bond agreed if an entity is core it should be consolidated.

Chairman Allen agreed as well, core should be consolidated.

Mr. Reger agreed considering exceptions in the budget would be identified.

Mr. Steinberg agreed.

Mr. Jackson agreed core means consolidated.

Mr. Granof agreed.

Staff explained two Board members noted concern with the term "discrete accountable" (though as the votes just confirmed they agree on the distinction between core and discrete accountable). One reason cited is that it may cause confusion with the way GASB uses the term discrete as there may be an expectation of separate columnar presentation.

Staff wanted to provide a list of options for consideration. Therefore, staff presented a list of alternates with pros and cons which included the following terms: Discrete Accountable, Affiliated Accountable, Distinct Accountable, and Non-core Accountable.

Mr. Showalter explained he was one of the members that noted concern and he didn't have a problem with the term on the surface, but until we know how we conclude on presentation, it makes it difficult. He explained if we determine discrete is a column then he doesn't have a problem, but if discrete ends up being a footnote disclosure, then there may be some confusion because discrete presentation is such a well established term on the state and local side.

Mr. Steinberg explained he also had concern with the term. He noted GASB came up with the term after determining component units needed to be presented separately. Mr. Steinberg added that he thought the term affiliated was a better term that fit.

Staff noted an observation in today's meeting the term non-core was used quite often in Board members discussion. Chairman Allen explained he would prefer to use a descriptive term versus non-core.

Ms. Bond explained she liked the term non-core; it's simple and direct.

Mr. Dacey suggested Other Accountable.

Chairman Allen explained Affiliated has some appeal as it acknowledges some relationship, but doesn't go as far to say you are part of.

Mr. Granof explained that affiliated often means related in a minor or insignificant way and considering we may be talking about the Federal Reserve, that doesn't seem appropriate.

Mr. Jackson explained he doesn't need to have the word accountable on any of them. He could be happy with Associated entities, Affiliated entities, or anything that is non-core entities that demonstrates it has a relationship and doesn't rise to the Core entity level.

Mr. Dymond asked if he understood Mr. Dacey's comment that core entities would be considered federal reporting entities for GAAP purposes. Chairman Allen explained that isn't necessarily true as entities can be pulled in for financial reporting purposes without stating they must follow federal GAAP—separate legal entities can be pulled into GASB for reporting purposes. Mr. Dacey explained that was what he had stated; Mr. Dacey stated the Board doesn't have to agree. Mr. Dymond suggested this should be resolved.

Mr. Dacey explained his concern is because the AICPA says that federal entities must follow FASAB GAAP, so it would be clearer if we state core entities are federal entities.

Ms. Payne explained she understood Mr. Dacey's concern and position. She believes it could be addressed by including the notion that core is subject to federal GAAP—without naming it federal. She added that doing so, would give the idea that all of the non-core entities aren't federal and that may not be the case. Mr. Dacey stated whatever needs to be done to address the issue, but we need to be clear the core is what follows FASAB GAAP. Chairman Allen explained he prefers to say subject to federal GAAP as FASAB may say you can follow FASB. Mr. Dacey explained the AIG is subject to the SEC and it states they must follow FASB GAAP. Mr. Jackson agreed and he stated he preferred to say subject to federal GAAP.

Chairman Allen noted that Ms. Bond had suggested Non-core entities as a term for the entities. She agreed but was also fine with Mr. Dacey's suggestion of Other Accountable entities.

Mr. Dacey explained he preferred Other Accountable but his second choice would be Non-core.

Mr. Schumacher noted he was fine with Non-core entities.

Mr. Showalter stated he didn't like the term "non" therefore he would prefer affiliated.

Mr. Granof explained if it were closely affiliated it would be better description, so Non-core entity is fine.

Mr. Jackson explained he doesn't like the term accountable, but it should end with the word entity; he is fine with affiliated entity or non-core entity.

Mr. Steinberg noted he doesn't like negative terms like "non" so he would vote for associated entities or affiliated entities.

Mr. Reger stated he is okay with non-core or affiliated.

Chairman Allen agreed with Mr. Steinberg and doesn't like negative terms like "non" so he would vote for associated entities or affiliated entities.

Based on the votes, there appears to be a slight preference for Non-core entity. The Board acknowledged this could be revisited.

> **CONCLUSION:** The Board approved the distinction between core and non-core entities. The Board also agreed with the general notion that entities in the budget are core entities that should be consolidated.
>
> Staff will determine possible exceptions to the budget consolidation rule and options for addressing. Staff will develop factors and criteria to assist in determining information that should be presented for non-core entities.

- **Earmarked Funds**

Ms. Parlow opened the discussion by stating the objectives of the agenda session:

- to select an amendment to SFFAS 27 that would resolve remaining concerns about the classification of funds;
- to approve language providing guidance on funds with mixed sources of funding, and
- to select a new term for "earmarked funds."

She noted that for the first objective, there were three options for amending SFFAS 27

Option 1. Revise the earmarked funds definition so that such funds must be intended to benefit members of the general public (rather than military or civilian employees)

Option 2. Revise the earmarked funds definition so that such funds must be primarily financed by non-exchange revenue

Option 3. Exclude post-employment benefit funds from earmarked funds

Mr. Allen asked if there were any questions about the three options. There were no questions. Mr. Allen asked for a vote on the three options. Mr. Jackson indicated a preference for Option 2 because Option 2 is principle-based. Mr. Dacey said that he would prefer to exclude funds with negative balances, but that he would approve Option 3. Other members indicated that although in general principle-based standards are preferable, in this instance Option 3 is a more practical solution. Eight of the nine board members indicated approval for Option 3.

Ms. Parlow asked the Board to consider the draft guidance for funds with mixed funding. Mr. Dacey asked staff to research how many funds are in this category and questioned whether the guidance was necessary. He asked if there would be any real issues if the Board included Option 3 but did not include the additional guidance for funds with mixed funding. Ms. Payne said that this issue was related to an implementation issue for SFFAS 27 that was addressed by the David Mosso letter of September 2006 (text below). She said that the letter said that for financial reporting, a fund does not have to be split, but should be classified according to the predominant use of the fund.
Ms. Bond asked how many funds have a fluctuation issue. Ms. Parlow said that she would need to research this question. Ms. Payne suggested that if the Task Force does not indicate a need for this guidance, staff will send the Board a preballot draft exposure draft that does not include it.

Background: Text of September 28, 2006 letter to The Honorable Linda M. Combs, Controller, Office of Federal Financial Management, Office of Management and Budget, from David Mosso, FASAB Chairman

Dear Dr. Combs,

Your memorandum 06-27 for Chief Financial Officers dated September 22, 2006 addresses matters relevant to implementation of Statement of Federal Financial Accounting Standards 27, *Accounting for Earmarked Funds.* At issue is commingling of funds which meet the definition of earmarked funds established in SFFAS 27 with those that do not. These cases are being referred to as "mixed fund accounts." Some have asserted that mixed fund accounts should be classified as earmarked funds if the primary source of funds is earmarked.

I understand that the intent of your memorandum was to address the issue of separate tracking of earmarked funds from non-earmarked funds within mixed fund accounts. The memorandum noted the implications of budgetary requirements in a "mixed funding" situation and explained that in such situations any unexpended balances must be returned to the appropriate source during the cancellation phase or when the expenditure fund has fulfilled its purpose.

In light of OMB's memorandum, FASAB staff has received inquiries from the preparer and auditor community regarding the impact of OMB's memorandum in regards to the implementation of SFFAS 27 for mixed fund accounts in FY 2006 and FY 2007.

The Board's intent in SFFAS 27 was that for reporting at the financial statement level, earmarked funds should be classified at the "fund" level. Paragraph 13 of SFFAS 27 defines "fund" as follows:

Fund in the statement's definition of earmarked funds refers to a "fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations."

Since the above definition requires a self-balancing set of accounts for both budgetary and proprietary information, it would correspond to a "Treasury account fund symbol" but not to a smaller subset of budgetary accounts (4000 series in the USSGL) within a Treasury account fund symbol.

Until the new OMS requirements described in the memorandum become effective in FY 2008, agencies may comply with SFFAS 27 by classifying an entire Treasury account fund symbol as earmarked or not earmarked, depending upon the primary source of funding.

In summary, SFFAS 27 addressed high-level classification and reporting, and accordingly it does not require classification below the "fund" (Treasury account symbol) level. I believe that the Board would be pleased to work with OMS to discuss the pros and cons of changing implementation for FY 2008 and subsequent periods.

Sincerely,
David Mosso, Chairman

---end of text---

Ms. Parlow asked if, absent support from the Task Force, the issue could be included in the Basis for Conclusions, with a question for respondents. Mr. Allen said that he wants to hear from the Task Force before making any decisions about this issue. Mr. Dacey said that the additional guidance might introduce more implementation complexity than it solves.

Mr. Allen asked the members to vote on a new term for earmarked funds. A majority of the members approved the staff recommendation, “funds from dedicated collections.”

CONCLUSIONS:

Staff will prepare a draft exposure draft that includes the following:

1. Amendments described as “Option 3” (exclude post-employment benefit funds from the category of earmarked funds)

2. Guidance on funds with mixed sources of funding, only if the Task Force provides support

3. Change the term “earmarked funds” to “funds from dedicated collections”

- **Deferred Maintenance and Repairs – Measurement and Reporting**

Mr. Allen introduced the topic by asking staff to discuss in general terms, a timeline for the resource expectations pertaining to each option presented in TAB J.

Mr. Savini began the presentation by stating that in compiling the minutes from the last board meeting, staff noted that to better frame the discussion of the options presented today, it would be advisable to review the genesis of what is being recommended. The recommendations were derived from both a GAO report as well as task force specific recommendations. The options can be looked at as representing two ends of a spectrum where Option A is a more comprehensive list of changes and Option B represents the minimal amount of changes that staff believes would be required to satisfy the GAO recommendations as well as the majority of the task force recommendations. Two major questions need to be answered before staff can advise the Board as to which option it should select. The first question deals with whether or not DM&R information is to be elevated to footnote status. There is historical Board concern and some interest that deferred maintenance would one day be elevated to notes status. This notion is also shared by some on the task force. When the board first studied deferred maintenance, it realized that it needed to be handled in an experimental manner, thus providing for a significant amount of flexibility.

However, if the board currently believes that deferred maintenance information is to be elevated to the notes within the next two to five years, staff advised that the community would need to be notified now and that additional rigidity and discipline needed to be incorporated into SFFAS 6. As a result, staff would then recommend that the board select Option A noting that this option would however elongate the project time-line. If instead, the board believed that deferred maintenance should remain in RSI along with some enhancements and improvements (that would satisfy both GAO and most of the task force recommendations) then Option B would be more appropriate.

Staff advised that further task force engagement concerning measurement and reporting is not expected to yield any additional results. Therefore, staff proposed that a draft exposure draft be presented at the April meeting for the board’s consideration. Staff would like to then concurrently work with the asset impairment subgroup so that by this summer a draft exposure draft on asset impairment would be ready for board consideration.

Staff then addressed the second question concerning the reporting of condition information. At the December 2010 board meeting there was discussion that condition information may not be as important or applicable to RSI reporting as are the DM&R dollars. Staff advised that additional enhancements for adjustments to condition reporting will elongate the project timeline. Staff recommended in both options that condition reporting remain with possibly only slight modifications or enhancements. Staff further advised the board not make any significant changes to condition reporting including the elimination of this reporting requirement. In either case staff noted that such changes would require more time and resources. As staff serves at the board's direction, it is prepared to move this project further ahead with either option. If project duration is a {major} concern, staff advised the board to then proceed with Option B while concurrently working on asset impairment.

Mr. Allen noted that that introduction was consistent with his expectation of framing the issue and he asked that asset impairment be discussed a little later in the meeting while now focusing on the two options being proposed. Mr. Allen then proceeded to ask the members if they had any questions for staff concerning either of the two options.

Mr. Dacey asked what staff thought would be a challenge to the community in Option A making it problematic to reach agreement.

Staff replied by noting the Option A sets forth more requirements by mandating certain practices. Specifically, Option A requires that certain standardized formats be followed in the reporting and presentation of both dollar information and condition information. The proposed schedule for the dollar information would require an agency to show its beginning deferred maintenance balance plus or minus the changes in the current year to calculate the year-end deferred maintenance balance. The second schedule would be the condition information where we would encourage agencies to provide more information on asset condition. In addition, Option A would require management to perform variance analyses' explaining the changes between what was expected versus what actually occurred.

Ms. Bond then asked whether Option B required the same use of the schedules or if they were to be considered as optional.

Staff replied that the schedules could be added to Option B; however, they were intentionally excluded since Option B represents minimal changes. Please note that Option B is designed to save time. This option would only refine and improve the current illustration in Appendix C moving it from an asset-specific template to more of an agency-specific reporting template.

Mr. Dacey raised the issue of the flexibility that currently exists in SFFAS 6 and that the current options seem to retain flexibility; i.e., how an agency might develop and report its deferred maintenance amount. Mr. Dacey then asked staff to explain what flexibilities would be narrowed by both of these options and which flexibilities would remain.

Staff stated that both options attempt to address the GAO concerns over lack of comparability and lack of a realistic estimate. In the case of comparability, requiring a Schedule of Deferred Maintenance would be building rigidity into the system to help address the reporting format changes that seem to occur at some agencies from year to year. This would also create traceability of deferred maintenance from one year to the next. As such, an agency might lose flexibility in the way it reports deferred maintenance. Additionally, Option A would require agencies to highlight and explain changes in a more meaningful and robust manner. As a result, some agencies might lose flexibility in the manner of reporting such changes.

Turning to Mr. Dacey, Mr. Showalter stated that although he does not see the data ever becoming truly comparable, he does believe that agency consistency from year to year is important. He asked Mr. Dacey to help him understand the GAO perspective concerning their comparability recommendation.

Mr. Dacey replied that {at the expense of generalization} the issue with deferred maintenance is that it was impossible to manage deferred maintenance due to the different ways these numbers are calculated between agencies and what they purport to represent. For example, deferred maintenance on a building might in fact never be incurred because the building would be razed. The issue goes beyond comparability because it is important to know what that {DM&R} number represents. In essence, the numbers represent different things to the agencies reflecting the flexibility they have in this area.

Mr. Showalter noted that such a lack of comparability could be totally acceptable.

Mr. Dacey replied by stating that lack of comparability might be a problem if an agency purports the number to mean one thing but it really means something else; {i.e., DM&R on a building planned for razing will never be incurred}. This is because of the broad flexibility which the board has defined {built-in} {in SFFAS 6}. What is important to understand is the objective; {which is} the amount of deferred maintenance and repairs that we expect to spend. What we are getting today from the agencies might not actually meet that objective. Therefore, in addition to a comparability problem we have a representational problem {an unrealistic estimate}.

Mr. Showalter stated that he believed the representational problem was more of a consistency issue.

Mr. Dacey said that despite consistent reporting, we still might not achieve our objective since disclosures might not represent what we believe we want in the way of information value.

Mr. Showalter stated that he struggles with this issue because the agencies are responsible for managing their assets and since the assets are not managed from a government-wide perspective, the importance seems to rest at the agency level.

Mr. Dacey noted that this is not an easy issue to grapple with especially given the fact that there has been a significant amount of flexibility built-in.

Mr. Steinberg noted that originally this information was a part of the footnotes but then later was moved to RSI because of auditor concerns. He believes that the board is facing a dilemma. That is, in trying to get reliable information we have to move from

RSI to the footnotes so that auditors would pay more attention to the information. However, on the other hand if we look for too much consistency, comparability, etc., the auditors {might react as they did before}.

Mr. Dacey stated that this is part of the challenge. The question remains can the auditors exercise {sufficient audit precision to satisfy the GAAP criteria}.

Mr. Schumacher asked Mr. Dacey if Option A relieved any of his concerns concerning comparability.

Mr. Dacey replied by noting that he was not 100 percent sure since Option A appears to address {only} some of his concerns because it still provides for flexibility. It is hard to say what the range of practice will actually be. Some agencies would have to change the manner in which they estimate the amount and gather the related information. Mr. Dacey does not believe that this option goes to the core of the comparability issue. Flexibility creates subjectivity, which in turn creates an audit challenge.

Turning to Mr. Dacey, Mr. Allen then asked {him to give some thought to} in light of what was discussed the prior day {strategic direction}, how would the board define success or the objectives of what it is trying to accomplish in this project; i.e., assisting legislators in resource allocation decisions, assisting managers, and/or educating citizens on the possible {fiscal} risk.

Ms. Bond stated that she shared Mr. Showalter's concerns regarding the value of going to this level of precision versus the costs associated with it. Although informative, these numbers are not driving budget decisions concerning how much money is being put forth to deferred maintenance. This information is not considered the primary source of making those types of budget allocation decisions.

Mr. Dacey noted that this (DM&R reporting) was an issue initially raised to address {fiscal} exposure related to {infrastructure degradation} and secondly to address the nature of any changes from year to year. At the time, this was information, which was already being developed for other purposes and as a result our standard allowed for the same flexibility which existed in actual practice. We were not requiring the agencies to do anything that they were not already doing for their own {internal} purposes and OMB purposes. The question remains whether or not {there exists sufficient} precision and value of this information that {would be of use to users}. There are two sides to this argument, that is, if this information were better it would be used more, {and conversely, if it were used more it would be better}.

Staff noted that although the Smithsonian might be an exception {to the normal budgetary process}; it was able to successfully secure additional funding using an approximate $1.5 billion deferred maintenance estimate. Concerning the issue of cost versus benefit, it is important to note that DOD has said that by pointing people towards asset management systems, cost efficiencies would be gained {as opposed to engaging in more ad hoc data calls}. In fact, Mr. Jackson made that observation at the December 2010 board meeting that JFMIP requirements state that financial systems should be tied to asset feeder systems. By using the standard to point people to such asset management systems we might actually see economies of scale and cost efficiencies achieved and as Mr. Dacey points out, we will begin seeing more confidence in the use of that number {DM&R estimates}.

Mr. Steinberg stated that he sees this as being more than just an informative number as it is {in fact} useful for resource allocation. Although Ms. Bond says that this {DM&R} is not used for budgetary decisions, Mr. Steinberg noted two points: first, several years ago the Department of Interior was successful in securing an additional $1 billion by using their deferred maintenance information and second, one can look to the National Parks to see the improvement in their condition as a result of additional funding over the past fifteen years.

Furthermore, by including this information {and making it available to} a decision maker, they can render whatever decision they would like, but it would be in the face of having this information. Mr. Steinberg recalled the prior day's discussion where the board sat and talked about the {importance of the} risk-side {of the balance sheet} that is, the importance of the liabilities, and DM&R is one of the major liabilities when {accounted for across government} one adds it up.

Mr. Showalter stated that he was quite sympathetic to shining the light on information that needs to be presented. However, it is all the other information that is being proposed that he questions such as the condition information. To him the issue is the DM&R number and how the agency derived the number. The additional information seems to add unnecessary burden on the agency. Ultimately, he can envision this number flowing into the sustainability report just like social insurance. He stated that he thinks we should look at this from the minimum amount of disclosure that is needed in order to achieve consistency.

Ms. Bond stated that she concurs with Mr. Showalter's comments. She went on to state that she is not saying not to disclose DM&R. Whether it is the Smithsonian or Interior examples previously cited, it is important to note that the agencies collect this information for other reasons and when the standard was done, it just mirrored what the agencies were already doing. It would be inaccurate to give the impression that the agencies did not have this information absent the audit.

From Ms. Bond's perspective, she does think DM&R should be shown. The value of the precision and what we are asking the agencies to do around this number is what she questions. We should look at this project in the context of the overall board priorities as well. To be clear, we do not necessarily have to pull information out of the financial statements in order to make a funding decision.

Mr. Granof stated that both Ms. Bond and Mr. Showalter expressed his thoughts. No one is denying that this information is important but what we are debating is how precise does it have to be and will this greater precision change a decision. Simply put, if we want to ascertain if aircraft is properly maintained we do not look at the financial statements.

Mr. Jackson stated that although this issue can be confusing, what we are {really} trying to achieve is more reliable DM&R information. This is the core issue. He agreed with Mr. Showalter that we will not achieve comparability; this is why we had to change this from notes to RSI. One can have two entities' that both look a lot alike but have two {totally} different estimates of DM&R. He liked the notion of insuring consistency from year to year. Mr. Jackson believes that we should do everything we can to achieve that goal including being prescriptive in the standard. For example, once an agency adopts a methodology it must be followed for a certain period. Turning to page 11 in TAB J, we can see how the task force has aligned both options to the issues raised by GAO. We need to adopt an option that provides some degree of consistency from year to year. We need to be straightforward and simple. That is, we must communicate that we are not imposing any methodology but rather requiring the agency to follow the methodology it chooses for a certain set period of time. He also stated that the methodology would need to be verifiable. We do not have to state a preferred method; however the board can do so if it is so inclined. He is not preoccupied with condition reporting although he would prefer it on weapons but not on other PP&E nor is he concerned with intra-agency communication – {at least} not as a part of the standard. He thinks we should require a schedule of deferred maintenance so that information will be at least reported/presented in a comparable manner and the reasons for the changes between the two years should be disclosed. He advised stopping at this point because it would be very difficult for anyone to argue against a standard that requires adopting and then following an acceptable method that property managers and others have deemed appropriate where we also allow for alternative methods. He called his option, Option C and noted that this is what he would propose to bring this to closure.

Mr. Showalter concurred with Mr. Jackson's proposal.

Mr. Allen then asked staff to comment on Mr. Jackson's proposal.

Staff replied that in essence Mr. Jackson has selected Option B with the inclusion of the Schedule of Deferred Maintenance as shown in Option A. Mr. Savini asked Mr. Jackson to confirm whether in his option he would in fact require agencies to follow the Schedule of DM&R.

Mr. Jackson confirmed that he would in fact require that the schedule be followed.

Staff noted that the task force did not want to set specific time frames regarding the selection of methodologies in order to allow agencies the ability to adopt new and improved methods or technologies that might be brought about in the area of asset management.

Mr. Allen advised staff that that concept is dealt with in accounting literature and is called "preferred change." That is, you do not change unless you can demonstrate that it is a preferred practice.

Mr. Jackson noted that the task force's concern could be easily dealt with by adopting Mr. Allen's suggestion. Specifically, Mr. Jackson noted that he likes the notion that if an agency changes within a set time period it would have to be to a method that is widely accepted by industry for the purposes of calculating deferred maintenance. He noted that we would not want a change to be made in a lighthearted manner.

Mr. Allen then noted that whenever you take the "preferred change" approach you ensure that management discloses their methodology and should they make later changes, that a discussion of the effects of the change would be a required disclosure.

Mr. Allen stated that he liked the way staff framed Mr. Jackson's proposal. That is, taking Option B and adding in the Required Schedule of DM&R.

Mr. Steinberg asked staff to confirm that the schedule of deferred maintenance is basically {to portray} a change(s) from last year to this year. Mr. Steinberg further noted that such a schedule would then increase consistency. In addition, the assumption is that the presentation of this data again would remain in RSI.

Staffed confirmed that understanding noting (1) the schedule is intended to basically show the changes between the two years {between beginning and ending balances}, (2) the intention is for the schedule to be at a fairly high level of aggregation, (3) placement would remain in RSI.

Mr. Jackson then asked staff whether agencies could illustrate DM&R by type of asset.

Staffed replied in the affirmative.

Mr. Steinberg then asked the board whether or not it should take a similar approach as to what it did with natural resources. Specifically, should we advise the community that we plan to look at this issue in three years and then consider whether we should move this information to the footnotes?

Mr. Allen noted that this was a key consideration that staff laid out when it opened this discussion. That is, if we are going that way we need to be much more specific if that is our intent.

Although Ms. Bond agreed with Mr. Jackson's proposal, she inquired concerning what the schedule would look like. Ms. Bond indicated that she agreed with capturing the changes in methodology from year to year however, she wanted to ensure that there would not be an unnecessary burden placed on the agencies.

Mr. Jackson referred Ms. Bond to the illustration {Attachment 1, page 18} further noting that staff will bring this forward for the board's scrutiny at a later date.

Staffed noted that the schedule had been reviewed by the task force and its genesis was from the Presidio Trust's RSI presentation of deferred maintenance information.

Mr. Jackson stated that what he envisions coming back to the board from staff would be to propose changes to SFFAS 6 chapter 3 that would include a proposed schedule of deferred maintenance.

Staffed pointed the board to Option B in Attachment 2 which basically represents what Mr. Jackson has said he would expect to see at the next board meeting. Option B proposes changes to chapter three and staff would need to add the schedule of deferred maintenance as Mr. Jackson has proposed. As Ms. Bond has noted, this would be a starting point for the board's discussion the next time it meets. Please note that the significant edits beginning on page five to the current hospital illustration, which is in chapter three, appendix c. Staff highlighted the reason for the edits by explaining that the example as it now reads is asset-specific and not agency-specific and as we all know, agencies do not report asset-specific data and that RSI is meant to be an agency-wide presentation of information. Staff would also like to note that some of this language has been lifted from DOD, VA, and NASA RSI narratives.

Mr. Jackson noted that the information {for the next board meeting} should exclude condition reporting.

Staff asked Mr. Jackson if he was proposing the total elimination of condition reporting or keeping condition reporting status quo without further enhancements or changes to it.

Ms. Bond stated that she agreed with Mr. Jackson and does not see the value of condition reporting. Ms. Bond does not believe that eliminating condition would impede project progress's staff has stated previously.

Staff acknowledged that Ms. Bond could be right, however staff wanted to be clear that the task force had not discussed the ramifications of eliminating condition reporting and how that could impact the reporting of heritage assets and stewardship land. As a result if this has to be vetted with the task force it would take additional time. However, the board does have the option before it to only carve out condition reporting for all assets except for heritage assets and stewardship land. As previously noted, staff does not recommend the elimination of condition reporting because it is needed to better understand DM&R and complies with what GAO is looking for in regards to developing a more realistic estimate.

Mr. Showalter stated that he would prefer relieving this burden from the agencies. Although he agreed that condition is important at arriving to the DM&R number, he does not believe that it needs to be disclosed.

Mr. Steinberg concurred with Mr. Showalter noting that condition information is {so widely reported in different ways that the user could be confused} and ultimately it is the actual amount of deferred maintenance that the user would be most interested in.

Mr. Allen stated that since it looked like there was agreement regarding this issue he would like to take a member poll {concerning Mr. Jackson's proposal}. The members agreed to Mr. Jackson's proposal as follows:

Mr. Allen agreed with Mr. Jackson's proposal noting that his option was well articulated.

Ms. Bond agreed with Mr. Jackson's proposal noting further review of the schedule of deferred maintenance is in order.

Mr. Reger agreed with Mr. Jackson's proposal and the elimination of condition reporting.

Mr. Steinberg agreed with Mr. Jackson's proposal.

Mr., Jackson agreed with his proposal.

Mr. Granof agreed with Mr. Jackson's proposal noting a general consensus as to where the board should be heading.

Mr. Showalter agreed with Mr. Jackson's proposal.

Mr. Schumacher agreed with Mr. Jackson's proposal.

Mr. Dacey agreed with Mr. Jackson's proposal.

Mr. Steinberg asked staff to confirm that the next submission to the board would be a draft exposure draft.

Staff confirmed that it would provide a draft Exposure Draft for the April meeting. Staff asked the Director if the board should be further queried concerning stewardship PP&E. Ms. Payne briefly reviewed that condition reporting is required for stewardship PP&E and that the board will be asked to decide whether condition reporting should also be eliminated for such assets. Ms. Payne does not see value in treating that as a separate project. Staff recommended that board members refer to Attachment 3 to review the Department of Interior's disclosure of condition information.

Mr. Allen invited staff to provide an asset impairment briefing.

Staff asked board members to refer to TAB J page 21 and provided a brief overview of the sub-group's work that reviewed the impairment standards promulgated by the FASB, GASB, and IPSASB. In addition to the staff member, the sub-group was comprised of a financial analyst, engineer, and budget analyst. Page 21 lists the initial impressions from the subgroup. In an effort to conserve resources and reduce the project timeline, staff would advise that concurrent with the exposure draft on measurement and reporting or shortly thereafter, that the members consider issuing a draft exposure draft based upon the information contained on pages 21 and 22. That exposure draft would basically follow the GASB 42 language with the difference being that we would recommend the reversal of partial impairment losses in the event that an asset's functionality or use is restored. The reason for this adjustment is to recognize that Federal assets are usually used well beyond any measurable economic or physical life and that asset managers typically do whatever they can to preserve assets. Staff invited but board member comments at this time.

Mr. Allen stated that GASB 42 has different ways of measuring and calculating partial impairment losses. {Should we desire} to have similar calculations then we need to schedule a meeting for some fairly robust discussions. For example, the technology impairment issue is one that comes to mind as being {rather} challenging. One can have an asset that although it is in good condition, it is no longer being used. GASB 42 actually requires that there would be a write down of those assets.

Mr. Jackson reminded the board that there is an impairment provision regarding software in SFFAS 10.

Staff stated that its intention is to take whatever material we have on pages 21 and 22 and then taking GASB 42 and crafting it with this subgroup and bringing it back to the board.

Mr. Allen suggested that in order to shorten the document and having it more principles based the subgroup should focus more on the objectives and not all the calculations.

Mr. Jackson asked if the subgroup had any representation from DOD equipment management personnel.

Staff replied in the negative. Staff indicated that obtaining assistance from DOD equipment would be problematic.

Mr. Jackson noted that there was a group working on the deployed assets and in his opinion there would probably be a significant amount of impaired asset {issues being addressed there}. We should not limit ourselves to just a real property perspective when addressing impairment because there are significant assets (personal property) that could be subject to impairment testing. Deployed assets are of particular interest. Keep in mind that if we develop an impairment standard based upon a real property perspective and if it is not adequately labeled the field will attempt to use it on all other classes of assets. Mr. Jackson requested that staff try and keep a broader {asset applicability} perspective in mind.

Mr. Allen noted that GASB 42 is not limited to real property.

Ms. Payne stated that the process would involve taking the subgroup's work and testing it with the broader community beyond the task force to get other points of view. We do not intend showing members a product without getting that broader input.

Mr. Allen asked if anyone had any objections for staff to work on asset impairment in parallel to the measurement and reporting exposure draft. If staff asked for permission to start the project he would have some reservations, however since staff has done the fieldwork in connection with measurement and reporting, he thought staff should proceed {as noted}.

Mr. Jackson noted that the audit community is focusing on {partial} impairment and using FASB 144 since SFFAS 6 only mentions impairment in a nominal manner. In the cases he is familiar with, the impairment issues deal mostly with personal property. FASB 144 will not work in a budgetary environment.

Mr. Allen noted that GASB 42 is totally different from FASB 144 since it is not {based upon} a cash flows approach.

Mr. Reger asked for clarification concerning GASB 42 and whether {a conflict might exist} since it was more of an equipment based standard while the subgroup had a real property focus.

Mr. Allen responded to Mr. Reger by noting that GASB 42 deals with both buildings and equipment.

Mr. Savini noted that there were illustrations in the standard that he recalled covered both equipment and buildings.

Ms. Bond asked staff to confirm that the SFFAS 6 has a total impairment provision but not partial impairment and that we were dealing with equipment as well as real property.

Staff replied in the affirmative to both.

Mr. Jackson noted that he did not believe this SFFAS 6 {provided sufficient guidance for the event of a total impairment}.

However, Mr. Dacey stated that for total impairment purposes, the existing language might be sufficient since the asset would need to simply be removed from the financial records.

Mr. Jackson then inquired about the international standards.

Mr. Allen noted that there were two differences with the international standards, the first being the reversal that staff previously identified and the second, the distinction of assets between those that have cash flow and those that do not.

Staff advised that the subgroup did not believe a distinction between cash and non-cash generating assets was required for Federal government purposes. The subgroup seemed to focus on ascertaining an assets recoverable value.

Ms. Bond asked staff to define recoverable value.

Both Messrs. Allen and Savini provided an explanation that recoverable value (1) is an asset's remaining service potential and (2) or as in the case with a technology impairment if the asset is not being used as much as it was originally planned, the asset's value is written down to reflect its actual usage. In essence the approach is from a services delivery perspective and not cash flow perspective.

Mr. Steinberg, asked the following question; if some do not believe that the asset side of the balance sheet has much relevance in Federal financial reporting and we are short of resources, why are we even concerned with a project that is looking at assets that have lost value and not worth as much as they were?

Mr. Allen stated that staff has already conducted the work we see presented here and as Mr. Jackson stated earlier, this might have a potential link to DOD deployed equipment. That is, deployed equipment {returning from theater} may cost too much to restore and exceed {any benefit to retain on the books}.

Concerning Mr. Steinberg's question, Mr. Jackson noted that it has been stated previously that assets are not of great interest to the board. That belief or position is not in an accounting standard and to the contrary, we require robust accounting over PP&E. Also there is an enormous amount of effort expended at agencies to properly account for PP&E. As Mr. Jackson previously stated, he is aware of audits now taking place that are attempting to do the right thing and determine to what extent assets are impaired. Therefore, it stands to reason this is an important matter regardless of what some may have said concerning the asset side of the balance sheet. Furthermore, since preparers and auditors are turning to the FASB standard (a cash flow based model that does not work in a government environment) for guidance, it seems that the void in the FASAB standards call for FASAB action using a nominal amount of resources.

Mr. Dacey noted that if one decides that an asset is partially impaired, the impairment may not be material enough to even be concerned with {recognized}.

Mr. Allen then took a poll concerning the staff recommendation. All members agreed to proceed with the proposal.

The Chairman thanked both Staff and the Board and concluded this portion of the meeting.

- **Natural Resources – Technical Bulletin**

Julia Ranagan, staff member, summarized the materials at Tab K, which included the eight comment letters received on the proposal and a revised draft of a proposed technical bulletin, *Accounting for Federal Natural Resources Other than Oil and Gas*. Ms. Ranagan asked the members if they had any questions or concerns regarding (a) staff's recommended response to each of the comments received or (b) the revised draft.

Mr. Jackson asked why this guidance was being issued as a technical bulletin rather than a standard. Ms. Ranagan responded that when SFFAS 38 was being developed, the board was concerned that if it is silent on other types of federal natural resources, auditors and preparers might apply the requirements of the standard to other types of natural resources by following the hierarchy of generally accepted accounting principles in SFFAS 34. The board directed staff to develop a technical bulletin that would allow for more consistent application of the standards and provide a targeted opportunity for interested parties to comment on the broader application of SFFAS 38, without the board having to spend a lot of time debating the details.

Mr. Reger asked staff for its thoughts on the Department of the Interior (DOI) response. Ms. Ranagan noted that the response from DOI seemed to contain conflicting views from the different bureaus within DOI; there was not one DOI-wide view communicated in the letter. In addition, one bureau within DOI, the Bureau of Land Management, submitted its own letter so its viewpoints were actually included twice.

Mr. Showalter questioned why pars. A16 and A17, which provide guidance on reassessing materiality periodically and the narrative discussion, were in the basis for conclusions (BfC) rather than in the guidance section of the document. He said he thinks it is a bad practice to bury guidance like that in the BfC. Ms. Ranagan responded that staff tries not to include anything in the body of a technical bulletin that was not in the original standard to avoid the appearance of setting standards through the use of a technical bulletin. Ms. Payne stated that a technical bulletin can be used to fill voids and she does not see a barrier to moving the discussion into the guidance section since it is intended to avoid unintended consequences.

Mr. Jackson questioned why the technical bulletin would address the reassessment of materiality at all. Ms. Ranagan responded that such a discussion was intended to eliminate the burden on preparers who were concerned that the auditors would require them to prove each year that nothing had changed. After a brief discussion wherein several members agreed that it is not appropriate for a standards-setter to specifically address the issue, the board directed staff to completely remove the discussion of periodically reassessing materiality from the technical bulletin.

Mr. Dacey and Ms. Bond expressed their concerns about the cost / benefit aspect based on DOI's letter. Mr. Reger agreed that it would be difficult to move forward without a consistent response from DOI. After a brief discussion, the board directed staff to seek more input from DOI on the costs associated with implementing the requirements proposed by the technical bulletin.

> **CONCLUSIONS / NEXT STEPS:** Staff will invite representatives from DOI to the April meeting to solicit their input on the costs associated with implementing the requirements proposed by the technical bulletin.

Adjournment

The meeting adjourned at 2:30 PM.