FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
February 24-25, 2010
Room 7C13
441 G Street NW
Washington, DC 20548

Wednesday, February 24, 2010

Administrative Matters

- **Attendance**

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

- **Approval of Minutes**

The minutes were approved electronically in advance of the meeting.

Agenda Topics

- **Measurement Attributes**

Ms. Wardlow presented a revised draft concepts statement on measurement attributes. She also presented a summary of a GASB meeting on February 18, 2010, at which the FASAB's draft concepts statement was discussed, and a proposal initiated by Mr. Granof to include in the draft a brief discussion on constant dollar accounting.

The purpose of the GASB meeting was to review the differences between the FASAB's draft and the GASB's draft and consider the possibilities for reconciling them. Ms. Wardlow and Ms. Payne attended the meeting and answered GASB members' questions. The GASB members were interested in differences between the Federal government and state and local governments which might affect financial reporting requirements. Some of the major differences were the two Boards' financial reporting objectives, and the fact that the GASB focuses on external users' information needs, whereas the FASAB includes the needs of program managers and other internal users as well the needs of external users. Ms. Wardlow reported that GASB members were interested in eliminating non-substantive differences between the GASB and FASAB drafts—for example, differences in terminology where the intended meaning is the same. However, members did not wish to eliminate differences where there is a reason for them. Those differences could be explained, not necessarily in the two documents, but the two Boards should be clear about what the differences are and the reasons for them.

Mr. Allen recalled the initial discussion with the GASB and other meetings between himself and the GASB chairman concerning a possible interest in joint or simultaneous exposure drafts. The GASB has decided that its measurement draft is part of a broader project and it will not be issued separately. Consequently, the timing will be different from the FASAB's. The FASAB will probably issue a final statement before the GASB issues an exposure draft because the GASB intends to issue a preliminary views document first. There will not be an opportunity to issue simultaneous documents, but the issue remains as to whether the Boards should agree on concepts. Mr. Allen thinks one of the benefits would be for the two Boards to use words in the same way, and if the words do not mean the same thing, they should explain the difference. The use of consistent terminology would help the FASAB with its standards. The FASAB can discuss but cannot control how similar the GASB's concepts may be to the FASAB's, which should be finalized first. But the closer the FASAB comes to the GASB's draft, the more likely it will be that the two documents will be similar. On the other hand, if the FASAB achieves a better statement with appropriate explanations, that probably will influence the GASB's work. In summary, there no longer is an opportunity for the two Boards to move forward together in the process, as he had originally hoped.

Mr. Granof said the most significant difference mentioned in Ms. Wardlow's summary is that the GASB's document is more prescriptive. He does not think the FASAB can be prescriptive because the Board has not debated the issues; that difference will have to remain. Mr. Dacey asked whether the FASAB's exposure draft and the GASB's preliminary views document could be issued at the same time. Mr. Allen responded that while the two documents contain much of the same content, the GASB document also addresses modified accrual accounting which will take additional time to develop and accordingly the timing of the documents will not be the same. Mr. Dacey asked Ms. Reese (GASB project manager) whether the topics the GASB needed to complete to issue their discussion paper would take longer than the FASAB needed to complete its exposure draft. Ms. Reese described the recognition portion of the GASB's project and the difficulty of one of the topics, which will address the current financial resources measurement focus. Another six months of discussion are scheduled for that, beginning in June or July. There needs to be a consensus on that topic before the GASB issues its document, and it might take longer than six months, but the preliminary views currently is scheduled for December. Mr. Allen said the GASB is close to finishing the measurement portion of the document, although there is an interest in working on wording. Ms. Reese agreed that, except for those issues, the GASB does not intend to revisit the issues it has discussed related to accrual-basis financial statements.

Mr. Jackson said he is particularly interested in conforming terms. There should be a joint meeting, if that is necessary to achieve a common terminology. Mr. Showalter agreed that should be the minimum. He wondered if there was a middle ground—an unbiased way to create some criteria that would give some indications to help with the standard-setting process. He would not go as far as the GASB has done with cost of services—that is, stating a firm position. But, are there indicators that could be included, that the FASAB would be willing to deliberate to give guidance to a future Board in setting standards? Could there be a way to step towards the GASB without going all the way there? Mr. Steinberg agreed with Mr. Showalter. He liked the expression that the concepts should not set standards, but at the same time, if the concepts do not set the parameters, then why would we have concepts? The GASB used a football analogy that the concepts set the goal posts for what the Board will work with. He agrees there is a football analogy, but it is that the concepts are the rules that govern what is called on the field, such as the decision in the recent Super Bowl game to grant the two point conversion. Mr. Granof said he had previously made the point that a concepts statement should provide the basis for future decisions. The question is: Are FASAB members willing to spend the time to debate what will be very difficult questions?

Mr. Dacey said that, in terms of coordinating the paper, we should try to harmonize with the GASB to the extent possible. There will be opportunities with the joint meeting this year to work over the terms. He hoped that, at a minimum, the Boards could agree on the advantages and disadvantages of each approach. Each Board has some unique objectives, but he thinks the paper could be written so that there is a common base, even though in the end GASB might decide to propose a specific preference for when initial or remeasured value would be used and the FASAB might decide not to go that far. He appreciates the willingness to look at terms. He also appreciates the improvements in the FASAB paper. He thinks there are ways to make it clearer. If we decide to make changes, we should coordinate with the GASB. Another issue he has is with some of the definitions of what is “initial” vs. “remeasured.” He thinks there are a lot of liabilities that probably technically are remeasured. He is not sure there ever will be a pure model that says these things will be at initial amounts for reporting on operations, and these are financial assets. You may be able to get closer saying that financial assets are remeasured, but you are probably going to be left with a balance sheet at the Federal level that is a mixture of both. So,you are not going to have nonfinancial assets necessarily always measured at initial value, particularly if you consider accrued liabilities for employee benefits to be remeasured every year. You will end up with a lot of things running through current cost—nonfinancial assets and liabilities that are remeasured under the current model we have—and that is a challenge too in the paper. He has some concerns about how to address that issue since it seems that a lot of our assets and liabilities will have to be remeasured.

In response to Mr. Dacey, Mr. Jackson said he thinks the document acknowledges that we will have several attributes or methods and a lot of variability on the Federal financial statements; he accepts that. The variability exists now, even if it is not articulated in a concepts statement, in credit reform accounting and pension accounting, which remeasure values every year, which is not the case for fixed assets. On another point, he agrees with the document, but he finds it hard to understand. He recognizes how difficult it is, but some time should be spent making the document more understandable.

Mr. Allen said, returning to Mr. Dacey’s points, that he did not want to change direction, but he is sensitive to others’ concerns. He asked Mr. Dacey whether he is asking for a somewhat different direction from going ahead with trying to harmonize the wording the best we can when it is has the same meaning, and to clarify when the meaning is not the same. That is the current direction. Mr. Dacey said he agrees with that, but he thinks that, in writing the document, we can be clearer about where there are differences and what is common to both Boards. That is the goal; we may not be able to get there. He appreciates that there are differences; it’s a matter of how to put that in the document. Mr. Allen said he interpreted that to mean we could continue on with the document in the direction we are headed, and Mr. Dacey agreed.

Ms. Wardlow said she found it difficult to incorporate a different approach to pros and cons within the structure of a document written by another Board. Having separate sections on initial vs. remeasured and remeasured vs. initial results in a lot of repetition. Combining the sections, would make the draft easier to follow and there would be room to say more about pros and cons. The staff has tried not to change the structure because, if we do, it becomes more difficult to see where the commonalities are between the two Boards’ documents. She did not know whether the Board wanted to change the structure or retain the current structure and try to make the commonalities and differences a little clearer. Mr. Dacey said he appreciated the issues and what staff has been struggling with. He is referring to a couple of things with harmonization. The points are all in the document. His question is whether we can organize the same points in a tighter fashion—keep the same points but change the structure a bit. He is not sure, and the FASAB needs to decide whether it wishes to do that. That is one of the challenges in trying to restructure the document—whether the GASB would entertain the possibility of coming up with a document which does not lose or gain anything, but which maybe reorganizes a bit to improve the understandability of the document for exposure. Any concepts statement is challenging, but this one is particularly challenging to try to get good feedback from our constituents.

Mr. Allen asked Ms. Reese to comment. She said that at one point the GASB talked about the structure of the document and considered talking about one of the approaches and then the other. However, it was hard to talk about one of them without referring to the other, so there are times when the discussion moves back and forth. The GASB struggled with the best way to present that. She is not sure how open the Board would be to reorganizing the discussions in the document. Mr. Dacey said he would like to develop some ideas on how that might be accomplished. Ms. Reese thought that, if the FASAB reorganized its document and the GASB thought it was a more understandable or easier way to present the concepts, the GASB would be open to improvements.

Ms. Fleetwood said one of the incentives for the project a few months ago was that the Board wanted to do something jointly with the GASB. She argued against it because she knew how difficult it would be. However, the Board started on that path and it would be premature not to continue it. The timing does not disturb her particularly. We should not drop collaboration just because GASB will take longer to finish their document. Maybe FASAB should expand the project to be more in line with what GASB is doing. We should not drop the effort to work jointly just because it is difficult. Mr. Schumacher agreed. He thinks the Board should continue and harmonize to the extent possible. He wondered what the final document will be, because we have timing differences, differences in the definition of terms, the GASB's statement goes further, intergenerational equity, and other things. Would FASAB have a document or exposure draft that is similar to the GASB's, would we mention GASB in it, that we have coordinated this project? Or do we end up with an exposure draft that is similar to a document that the GASB is going to put out that includes measurement as well as modified accrual accounting. There are two separate documents; how do we harmonize them so that the public knows that we worked together on this. Do we say that in the documents? Do we issue one joint document? Mr. Allen asked Ms. Payne, Ms. Wardlow, and Ms. Reese whether there was discussion of this at the GASB meeting. He had talked about similar issues with the GASB chairman, Mr. Attmore, several months before, but when he took the ideas back to the GASB members, there was less inclination to revisit what they had already done. As Ms. Reese said, the other part of what they are trying to deal with is conceptually very difficult: how do you conceptually define "modified accrual accounting," and Mr. Allen thinks there is some fear that if they separate the measurement part, which is definable and we could work closer together on, it would leave the modified accrual part of the GASB's project without the substance that it needs and they would withdraw from the measurement part. That is one of the reasons they are unwilling to split the project. He said Ms. Fleetwood is right that timing is not a really big issue. However, the summary memo tells him that there is a desire to work as closely together as possible. The FASAB has discussed a couple of times the issue of how prescriptive a concepts statement should be and has voted two times not to be as prescriptive as the GASB is. He thinks that is a critical point; we are saying we do not want to be lockstep. He thinks that is where the

FASAB is now, unless there is a recommendation from the Board to stop and rethink the process. With regard to Ms. Fleetwood's point about the other part of the GASB's document, Mr. Allen said we do not have modified accrual within our standards, so we could never have the same document per se. Mr. Schumacher said that, to the extent that we can harmonize the terms, agree on the terms, and come up with documents that are very similar, he agrees with Mr. Allen's points.

Ms. Payne said that timing is important from a resource standpoint. We are anticipating budget cuts in fiscal 2011. We anticipate that we will lose one full-time staff and that we will not have contract funding. So, while we will have funding and could continue until this project is done on our current timeline, she could not anticipate asking Ms. Wardlow to wait indefinitely in a gap, and she also does not know exactly when the funding would be unavailable. At some point it will become a choice between doing this project and doing something else, because we would have to use other staff.

Mr. Dacey said he thought the terminology could be worked out at a joint meeting. If we go through the FASAB document, potentially do some restructuring to improve understandability, and come back in June for a joint meeting with the GASB and try to hammer out the terms, he is not sure that we would be extending our period indefinitely, but rather trying to move to that goal of still issuing our document. It is just the question of whether we should pursue the goal of harmonization and trying to work with GASB on that, and he would answer yes to that. If we can come to a common point, he does not see it as a problem that the GASB would issue its document later. The benefit, too, is that the two Boards are thinking about the issues at the same time. It adds synergy and helps both Boards think through the issues.

Ms. Payne agreed and said the GASB also could benefit from seeing how people react to the FASAB draft. She does not think that the resource constraint would prevent the FASAB from harmonizing to the extent that the Boards can agree, but if the FASAB wants joint issuance of a document, that is where she sees an issue. Ms. Fleetwood asked Ms. Payne for clarification. Ms. Payne said she cannot anticipate GASB's timeline, but GASB envisions a preliminary views document based on the number of months that Roberta has said is the minimum. They would do a preliminary views maybe a year from now. A preliminary views has to be followed by an exposure draft before they go to a final statement. If it is not their top priority, as evidence indicates to date it is not, it could extend for two or three years. Ms. Wardlow will be available to FASAB for about a year and a half maybe, depending on how much we use up of the limited contract funds we have. Ms. Fleetwood asked whether Ms. Payne was saying she could not move this project to someone else if Ms. Wardlow left. Ms. Payne said if she had to move the project to a full-time staff member, the Board would have to sacrifice progress on standards projects because it has a limited pool of resources. This project would be in competition with other priorities. The Board could choose to do that. She just wanted the Board to be aware of the trade-off. Mr. Allen said that from earlier discussions, this project probably would not stand against some of the standard-setting projects, which tend to be viewed as higher priority.

Mr. Allen said he was hearing a desire to move forward with the draft that incorporates several members' comments and an emphasis on wording that FASAB and GASB staff would continue to work on. Staff would come to the next meeting with a comparison, where there are different words, so that the Board can decide whether there is a difference, whether the same word should be used or different words, and how to define the terms. He believes that is the direction the staff has laid out. If there is a desire to restructure the document, we can still go through the document today and the proposed wording changes. But between this meeting and the next meeting, we would need to start working fairly quickly on any suggestions members may have for greater readability so that we have the document we would like to have by the June meeting. Ms. Wardlow referred to comments by Mr. Schumacher and Mr. Dacey. She said she does not believe there is a significant difference in how the two Boards are defining things. The issue is that the GASB does not generally include definitions, so sometimes it may appear we have not said the same thing. We can certainly work on that. Where we have a difference in definitions is not in what the definitions should be but the fact that we have in our document a section on individual attributes. GASB has not taken that step, so it is difficult to see the objective for them in conforming the definitions of various attributes when they are not really looking at comparing those individual attributes with objectives. Ms. Reese agreed, saying they just cite certain attributes as examples. Ms. Wardlow said they could certainly work on conforming any definitions. It is more difficult to change the structure. The two Boards should be saying the same thing and staff can work on that, but FASAB does have the extra section and more emphasis on defining terms.

Mr. Allen invited discussion of the issue of whether a discussion of constant dollar accounting should be included in the draft. Ms. Wardlow referred briefly to the memo and the reason for Mr. Granof's proposal. Mr. Jackson asked where such a discussion would fit in. Would it be an attribute, for example, or a separate section? Ms. Wardlow said it probably would fit best right after the discussion of the two reporting approaches, with an indication that the rest of the document would not continue to compare constant dollar accounting and nominal dollar accounting. That seems to be a better place than adding a discussion at the end of the document. Mr. Jackson said it seemed like a measurement method. Ms. Wardlow said it was not really an attribute, but a change in the unit of measurement used for reporting. Mr. Jackson asked how constant dollars would play into it, if we were dealing with pension liabilities, or would it automatically be included by virtue of the calculation?

Mr. Granof said that constant dollar is not in addition to initial or remeasured amounts. There are four models: historical accounting at nominal dollars, historical accounting at constant dollars, remeasured amounts with nominal dollars, and remeasured amounts with constant dollars. That is the framework in which the issues should be discussed. We would not be adding or changing anything already in the document. The two basic approaches that we have can be supplemented with this. There is no question that, conceptually, it makes no sense to add together monetary units of 1910 and those of 2010. That is why he believes a discussion has to be included somewhere. Mr. Jackson asked about remeasured amounts in constant dollars—wouldn't remeasured amounts already be in constant dollars? Mr. Granof said no. If one is looking at remeasured amounts of ten years go, you could ask what was the market value ten years ago, but that would be expressing it in historical dollars. So, you can restate that in terms of constant dollars. Mr. Steinberg asked Mr. Granof, when he described an initial amount at constant dollars, why would that not be a remeasured amount? Mr. Granof said, you buy an asset in the year 2000 and express that at historical cost. We could also express it in terms of 2010 dollars. We can remeasure that asset in the year 2005 and that would be expressed in 2005 dollars, but then we could also express that remeasured amount in 2010 dollars. Mr. Steinberg said, if we are reporting in 2010 and we are using constant dollars, why would we care about the 2005 amount? We would look at the 2010 amount which is a remeasured amount. Mr. Granof said if you want to look at a change in value—a gain, for example—owing to supply and demand, that is different and you might want to back out the gain that is attributable to inflation, inflation being a change in the value of the dollar, not in the value in terms of supply and demand. One change results from changes in supply and demand and the other from changes in the measurement unit. Mr. Steinberg asked whether the purpose of constant dollar accounting is to be able to separate the causes of changes, but other than that, remeasured amounts would give you the same thing as constant dollars. Mr. Granof said yes, if you ignore inflation, which is a critical factor. Mr. Steinberg said in terms of the document, after we have looked at the two different approaches, initial amounts and remeasured amounts, then we look at the different measurement attributes and measurement methods, and then on top of that we look at measurement in constant dollars. Mr. Granof agreed. He said he was not asking the staff to change anything. We would just say that if inflation becomes a big problem you would need to take it into account.

Mr. Showalter said he agrees with Mr. Granof. Everything in the current draft can be applied in either context—nominal dollars or constant dollars. He thinks it could be set up in the beginning part of the paper. He has no problem with doing that in the concepts paper because we are not saying we will do this, we are saying that if we decide to do it, here is what should be considered. He supports including a discussion. Mr. Jackson said you would include the circumstances under which you would do it. Mr. Steinberg said he would include it at the end, rather than the beginning. Ms. Fleetwood said it was not as applicable for the government as in the private sector. Mr. Showalter said there could be a situation where it was applicable in the future. There might be elements of the financial statements where it would apply, not necessarily the entire financial statements. Mr. Granof said that the federal government restates all its statistics in constant dollars. He added that, as pointed out in the summary paper, there is a concern among economists that, with the size of the federal debt, there will be a lot of inflation in the future. Mr. Dacey said he understands the conceptual underpinning, but he does not know whether, if we do have inflation, it will be long lived, and he sees a challenge going forward to move to inflation accounting. He is not sure whether it would be good to include something in the concepts statement, but he would look at a staff draft of it. Mr. Granof said he would argue there is no question that inflation should be taken into account. That should be beyond debate because you cannot add together conceptually dollars of 1930 and dollars of 2010. This is a concepts statement and he believes it has to be brought in. Mr. Dacey said he was concerned about whetherf the Board would actually develop standards in this area in the future. He has mixed views;

he understands the conceptual underpinnings but he is not sure about the time, effort, understandability, and readability of this in the Federal context. Mr. Granof said we are talking about a couple of paragraphs in a concepts statement. Ms. Wardlow said staff would make an effort to ensure it is understandable. If there are two paragraphs or so close to the current section on reporting approaches, the Board could add an appendix with more information and discussion of how constant dollar accounting compares with current cost accounting. Mr. Jackson said he thinks the topic should be included. It has long-standing value. Whether the Board decides to use constant dollars in the future is a function of the utility managers would find in the information and the economic conditions. Leaving it out would be leaving out a major issue that the Board or a future Board might want to consider. The document is about how the Board will determine amounts in the future.

Mr. Allen called for a vote. Messrs. Granof, Jackson, Steinberg, Allen, Schumacher, and Showalter voted to include something about constant dollar accounting in the proposed concepts statement. Messrs. Allen and Schumacher said they would not want the inclusion to create major changes in the document. Ms. Bond and Mr. Dacey said they would like to see a couple of paragraphs and then decide. Ms. Fleetwood said she was unsure and preferred to pass at this time.

The Board then proceeded to look at the draft Concepts Statement and the changes made since the December meeting. Mr. Jackson asked, with reference to Reporting Approach a. (page 2) whether amortization and depreciation change the initial amount or whether they give some sense of the use of the asset. Ms. Wardlow said the intent, which is the same in both the GASB and the FASAB drafts, is that amortization and depreciation do not constitute remeasured amounts; they fall under the umbrella category of initial amounts. There was a brief discussion and Ms. Wardlow said she would look at how to clarify the issue.

Mr. Dacey said, with regard to the same paragraph and an equivalent portion of the GASB document, that he wondered how this applies to liabilities, particularly those that are apparently remeasured every year. There are a lot of federal liabilities that are not valued at initial amounts because we are calculating values annually, like pensions. He recommended a clarification of what constitutes an initial amount. Ms. Reese suggested an example, such as a pension liability, of items that are remeasured amounts. Mr. Dacey mentioned environmental liabilities. He thought initial amounts are a fairly narrow category on the federal balance sheet.

Mr. Showalter said he previously suggested pulling out the comments on qualitative characteristics from the various places they appear in the document and placing them in a separate section. The staff memo indicates why the change was not made, but he believes, consistent with the discussion on readability, it would simplify the document and make it more readable. He would like to raise the issue again. Ms. Wardlow said she and Ms. Payne discussed the possibility but were concerned that it would be a major structural change before the scheduled discussion with the GASB. She noted that the GASB draft includes the qualitative characteristics in various places in the sections on initial and remeasured amounts, where conclusions about the characteristics are necessarily general. The FASAB draft includes the same discussion but also includes a discussion at the end of the document on the individual attributes, against which the qualitative characteristics can be more specifically compared. She suggested that, if the FASAB's discussion of qualitative characteristics is to be placed in one section, the discussion should not also be included in the sections on initial and remeasured amounts.

Mr. Allen asked whether that was a staff recommendation or whether staff recommends leaving the discussion of qualitative characteristics the way it is. Ms. Wardlow said including the discussion only at the end, with the discussion of the individual attributes, would reduce the repetitiveness of the current presentation and also the awkwardness of first making an assessment of, say, reliability in relation to initial and remeasured amounts in general, and then making a more precise assessment with reference to the individual attributes. Her recommendation would be to remove the material on qualitative characteristics from the sections on initial and remeasured amounts and have the discussion only in the context of the individual attributes. Mr. Schumacher asked whether that would help the FASAB dovetail more with the GASB document. Ms. Wardlow said it would be different because the GASB document does not address the separate attributes. Mr. Schumacher thought the recommended change would be advantageous. Ms. Wardlow agreed for the FASAB document, but it would not make any difference for the GASB document for which the issue does not arise because the document does not discuss individual attributes. Board members briefly discussed whether the entire discussion of qualitative characteristics should be towards the end of the document, with the discussion of individual attributes, or whether there should be an introduction to the topic in the current location (before the discussion of initial and remeasured amounts) but no discussion of the qualitative characteristics until the section on individual attributes.

Mr. Allen asked members to indicate whether they would like at least to see the recommended change (move the entire discussion and references to qualitative characteristics to the last section of the document, where the individual attributes are discussed). Ms. Bond, Ms. Fleetwood, and Messrs. Showalter, Schumacher, Dacey, Steinberg, and Granof voted yes. Mr. Allen would not make the change. Several members indicated that they were interested to see whether the change would simplify the document.

Mr. Jackson questioned what the term "short-term assets" on p. 7, line 19 includes. Mr. Allen had a similar question, extending to the reference on the next page to "short-term balances." Ms. Wardlow said Mr. Steinberg has suggested including "such as accounts receivable and accounts payable," as examples. Mr. Jackson was concerned that the federal government does not present a classified balance sheet. Mr. Allen asked whether the reference was to short-term maturities. Ms. Wardlow said this came from the GASB draft and she believes the intent was to talk first about the short-term items and then on page 8, starting about line 13, move to the longer-lived items. Mr. Jackson suggested deleting the term "short-term," and saying "Assets and liabilities are reported at settlement amounts when that is the amount the government expects to realize or to sacrifice in order to satisfy the liabilities.“ In other words, you do not have to use the term “short-term.” Mr. Steinberg said he had the same problem and he suggested giving the examples of accounts receivable and payable. Mr. Allen said that would not include investments with short-term maturities. Like Mr. Jackson, he was trying to understand what the term includes. Mr. Steinberg said his example was not intended to be all-inclusive, which was why he suggested including “such as.” Mr. Showalter suggested saying “assets and liabilities with short-term maturities, such as . . .” Mr. Steinberg said he thought staff was trying to make the point that some assets and liabilities would be reported at initial amounts. Mr. Allen said page 8 refers to “such as short-term balances.” Ms. Wardlow said that would suggest that the term “short-term” need not be included earlier, on p. 7, but one could still provide Mr. Steinberg’s example of accounts receivable and payable. Mr. Allen asked if any member objected to removing the term “short-term” but including Mr. Steinberg’s example. No one objected.

Mr. Granof referred to the bottom of page 5 and top of page 6, where it states that “gains arising from remeasuring fuel reserves may not be considered relevant to assessing operating performance.” He thinks that is a prime example of where remeasuring is relevant. Suppose someone’s job is to purchase gasoline and to manage the purchase—to buy low and to hedge. His performance will be precisely measured by changes in value. Mr. Jackson asked if there is a difference between measuring operating performance and measuring the performance of the asset manager. Mr. Granof said they are the same thing. Mr. Allen asked whether Mr. Granof wished to delete the example or change it to something else. Mr. Granof said that he and others believe that remeasured amounts are always relevant, and historical cost has very, very little decision usefulness. So, when staff says “some believe” there are different views, he can accept that, but when an example is given, he will challenge it. Ms. Payne asked Mr. Granof whether there is a substitute for fuel reserves that he would agree with. Mr. Granof said: probably not. Mr. Schumacher agreed that remeasured values, no matter the example given, are relevant to someone. Mr. Allen said one would not have to give both sides; one could stop with the reference to loan guarantees (page 5) and not give an example going the other way. Ms. Payne said that maybe both examples in the sentence should be preceded by “some believe” or “some may believe.” Ms. Wardlow mentioned that “some believe” has been included in several places in the draft in order to maintain a balanced discussion. Some GASB members do not like the phrase, but it is a way to soften some of the more definitive statements made in the GASB draft.

Mr. Jackson said he does not like including “some believe” in a statement; it either is or it is not. It is fine to say “some believe” in the basis for conclusions, but not in the text itself. He also believes it is nice to have clear illustrations of the relevance of the various attributes. It may go beyond the scope of a standard or concepts statement, but if the document says that something is relevant to measuring operating performance, his next question is: How is that information valuable to a decision maker? There are places where the draft talks about the relevance of the information, but the reader does not understand how it is relevant. He agrees that holding gains in terms of holding fuel would be very valuable in measuring whether or not a manager had done a great job.

There are holding gains; that means they have bought the fuel low and they are holding a greater value, and that has been a great move to benefit the government. So, the reader sees the attribute, reads a statement with regard to the relevance of the attribute, and then sees an explanation of why it is relevant. He thinks that procedure would dramatically improve the document, although it does complicate matters and may make them even more difficult to deal with. Mr. Jackson said that approach is important because readers question the utility of the financial information when FASAB does not address the utility of a particular concept in clear terms. It then becomes very difficult to explain the value of financial reporting.

Mr. Allen said Mr. Jackson is asking legitimately for a next step that the FASAB often does not take. It is implied, but when you go that next step, you use the word “may” because by the time you add that next step of how users could use the information . . . He likes the approach, it would be clearer, but the further you go, the more useful it is, but the more you have prejudged certain circumstances. If the staff wants to do this, he would be happy to look at it, but still keeping the document in the context that users may find it useful and this is how. Mr. Jackson said some of it could be in an appendix; you do not have to modify the document itself because that could make it too complicated. He was not sure whether explaining how something could be useful fits within the text of the statement or in an appendix. But he is concerned about it because it is asking a lot of a non-homogeneous population to understand how something is useful.

Mr. Showalter said that maybe including how information is useful would move the draft closer to the GASB draft, without going as far as the GASB does. Mr. Allen asked if members would object to the staff making that attempt. Ms. Wardlow said it would need to be done in several places in the draft where the same problem exists. In the interests of trying to remain even, we would have to be very careful to make sure that the kinds of decisions we talk about are balanced so that there is no notion that the document is entirely looking at how managers are judged. One possibility would be to use some of the discussion about users’ decisions from Concepts Statement 1.

Mr. Allen asked whether remeasuring government buildings would be a better example than remeasuring fuel costs. The example could be “assessing the fair value of government buildings may not be relevant.” The reason given would be because generally they are not sold. Mr. Granof said fair value is relevant, for insurance. Other members indicated government buildings are not insured. Mr. Granof said you always have the possibility of selling a building. Mr. Allen said he was trying to find the example of low relevance. Would you take the change in the fair value of a government building and consider that a program cost? You probably would not. Mr. Jackson said he would look at it from a positive as opposed to a negative standpoint. He would not look at it as when he would not do something. If he says that doing something would improve the economy and efficiency of a program, then he would explain why. But he would not look at the opposite case and explain why not. Mr. Allen recalled that the Board agreed it would be neutral in discussing measurement attributes and methods, so if you are going to have examples one way you need to have them the other way as well. Mr. Steinberg said he looks at it differently. If you say when you should not do something, that is when you are introducing bias. If we want to provide guidance concerning when these different measures are appropriate, then that should be our focus—this will help give you better information for a decision. If we include the word "not," that is bias. Mr. Allen said that would be easier because we would not have to provide an example. Mr. Showalter agreed; it is the "not" that creates the bias. Mr. Granof asked whether he was saying leave out the negatives. Mr. Showalter and Mr. Jackson agreed. Mr. Jackson said if you say that remeasured value may provide value to measuring the effectiveness and the efficiency of a program, then what is missing is "how." He would not introduce a negative. It would be an educational comment, to him. If the Board was going to consider remeasured values, then everybody would be on an equal footing. They would have a comparable understanding of how that value might be used by managers and external parties. Mr. Granof said he agreed, but when you start describing the advantages of historical cost—initial cost—you will have very little to say. Mr. Jackson said that might be all right. Mr. Allen said the staff should try to address the issues of examples.

Mr. Dacey asked staff to look at the text from the bottom of page 11, line 21 to page 12, line 7, where he believes there is a mix of concepts—initial amounts and fair value. Maybe there would be a better example than donated assets, and an example could be provided of a case where there is no clear transaction amount. Mr. Allen noted that an example of no clear transaction amount had been removed as inappropriate. Either a new example should be provided or the sentence referring to the possibility of no clear transaction amount should be deleted. Mr. Steinberg agreed. Ms. Fleetwood agreed and said she could not think of an example. Mr. Dacey also did not have an example to offer. Mr. Allen said the staff would either provide an example or delete the sentence.

Mr. Granof said that, on page 12, the draft states that reporting initial amounts generally is more timely and less costly. He thought those statements should not be in a conceptual document. They are empirical questions and the assertions are not necessarily true. For example, if you are talking about inventories, reporting at remeasured amounts—current values—is probably easier than going back and looking at historical values. In fact, that is how we measure inventories. Those are tough questions. Sometimes remeasured amounts are easier to get than historical costs. Mr. Allen said that generally they are not. That assumption has been used in the past and is one of the challenges of using remeasured amounts—they take more time and effort. Mr. Granof said they may or may not take more time and effort, but as a matter of concept the assertion troubled him. Mr. Allen said he thinks it is a valid consideration. Mr. Granof said cost is certainly a valid consideration. Ms. Wardlow suggested that the comparisons in the draft should be with qualitative characteristics. Cost/benefit is not a qualitative characteristic. Cost/benefit considerations arise in setting standards. To try to treat them conceptually is difficult. There are references to cost/benefit in several places in the draft that she would prefer to remove. Mr. Allen asked why the references to cost/benefit were included. Ms. Wardlow said it was because they are included in the GASB draft.

Mr. Allen indicated the Board should vote on the staff recommendation. Mr. Showalter said that when the Board sets standards it needs to consider the cost of gathering information. Ms. Wardlow agreed; she was saying that a concepts statement should not discuss the pros and cons of looking at cost/benefit. Mr. Dacey said he would keep the references in the draft, because it is the framework that will guide the Board's future decisions on standards. It is important to say that is part of the consideration for standards. Mr. Granof agreed and said he thought Ms. Wardlow did too and she agreed. Mr. Granof said his problem was with saying that one reporting approach or attribute is more costly than another. He does not believe that assertion belongs in a conceptual document. Mr. Dacey said the issue might need to be stated in those terms. He would take another look at the way cost/benefit considerations are presented in the document, but he would not want to remove them. Mr. Allen asked whether the majority agreed or would the majority take it out totally? Mr. Granof said he would not take it out totally. He did not like the idea of making a comment that one approach seems to be more costly than another. Ms. Wardlow said she would suggest taking out the individual evaluations of whether something is cost/beneficial or not, but retain a statement that assessing the cost/benefit of the different approaches is important to standard-setting. Mr. Jackson said, in other words, do not take a position on individual attributes; he agreed with that. Mr. Allen indicated that all members seemed to agree with that.

Mr. Jackson said that on page 13, lines 6 through 13, he is concerned about the statement: "Initial amounts may be better than remeasured amounts for reporting cost of services when the objective is to enable comparisons with budgetary resources." His problem is that in the Federal community it is very difficult to compare the cost of operations with the use of budgetary resources because of the way the whole Federal budgetary process works. For example, if you look at the cost of operations in the context of the statement of net cost, we buy a capital asset and we depreciate it over time. If you look at the use of budgetary resources, at the acquisition of capital assets, the physical acquisition of those assets occurs over a long period of time. So, if you appropriate money this year you have a period of years to physically outlay the money for the purpose of acquiring the asset. He is not certain one can get any kind of harmony there. Therefore, he questions whether the illustration he mentioned should be included in the document. On another point, and referring back to the earlier discussion on negatives, he asked: Do we want to talk in the negative here? The Federal budgetary process and the state and local government budgetary process operate dramatically differently. He thinks the sentence should be deleted. If staff finds the series of statements from lines 6 through 13 are appropriate, he will not argue with that, but he believes the example he cited (from lines 6 through 8) is not a good example in the Federal context. Mr. Allen suggested that Mr. Jackson work with staff to provide another example. Mr. Jackson also said that lines 6 through 13 are another example of where the question how or why something may be more relevant should be addressed, as discussed earlier.

Ms. Fleetwood said that maybe the wording could be improved, but she thinks she would agree with the point, which is that the initial amounts are more relevant than remeasured amounts for comparisons with the budget amounts. Ms. Wardlow addressed the origin of the passage and thought it came from trying to include the Budgetary Integrity Objective 1C that is mentioned at the beginning of the document as one of the objectives used for evaluating the reporting approaches. Mr. Allen said that

Ms. Fleetwood's example works, but Mr. Jackson's concern is with the comparison with cost of services.

Mr. Granof referred to the bottom of page 13 and the first paragraph of page 14 where a distinction is made between assets and liabilities. The statement that "long-term debt may be viewed as equal in nature but opposite in amount to financial assets" is correct; buying and selling them is a zero-sum game. One party's gain is the other party's loss. However, the fact is that issuers of long-term debt can realize gains in almost all circumstances by, for example, retiring debt or defeasing it in substance. Furthermore, he thinks it is contrary to the FASB's position that you can revalue all financial assets and liabilities. He does not think the FASAB wants to take a position that is contrary to the FASB's on that. Mr. Allen asked Mr. Granof to work with Ms. Wardlow on the wording.

Mr. Allen referred to page 16, lines 15–16, and said that, given the reference in the sentence to assets and liabilities having a unique nature, the example should refer to "historic" buildings rather than buildings in general. He also questioned why some examples have been deleted at the top of page 17. Ms. Wardlow said she did not think the deleted text was very meaningful and staff received questions about its meaning and whether it contradicted other material. She thought the concept would be covered better by revising the text, but if that is not so, the text would be revised again. Mr. Allen said he would take another look at it.

Mr. Dacey said he has several other comments about what appear to be unequivocal statements and he will pass those along to staff.

Mr. Allen said he hoped the GASB and FASAB staff would continue to work together on wording. Ms. Reese said the GASB considered whether there should be more discussion in the draft about what the FASAB calls "measurement attributes" and "measurement methods," and the GASB agreed to talk about that again at its March meeting.

> **CONCLUSIONS:** The Board requested the following revisions to the draft concepts statement:
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> • Include a brief discussion of constant dollar accounting and the reasons for it.
>
> • Move the introduction of the qualitative characteristics on page 6 and related references in the sections on initial and remeasured amounts to the end of the document in the section on measurement attributes and methods.
>
> • Remove the qualifier "short-term" for "assets and liabilities" on page 7, line 19 and add an example: "such as accounts receivable and accounts payable."

- Clarify in various places how an initial or remeasured amount would help a decision maker, and focus on the positive aspects of reporting amounts and attributes.

- Remove evaluations of cost/benefit with respect to the reporting approaches and individual attributes, but retain a reference to the importance of cost/benefit considerations when setting standards.

- Other revisions, including revisions to the material on comparisons between cost of services and budgetary resources, to the discussion of financial assets and liabilities, and to certain examples in the text.

Staff will incorporate the revisions in a revised draft for the April meeting. Staff will also work to simplify the document and make it more readable. Members having additional changes or examples to propose will forward them to the staff. Staff will continue to work with GASB staff on possible ways to conform the terminology used in the two documents, when the intended meaning is the same and to identify when the intended meaning is not the same.

- **Subsequent Events**

The FASAB discussed comments received in response to the exposure draft (ED), *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards*. The American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards (SAS) AU section 560, Subsequent Events, includes accounting and financial reporting guidance that is not discussed in the authoritative literature that establishes accounting principles. The ED discussed a proposal to incorporate that guidance into the authoritative literature of the FASAB. Mr. Simms began the discussion and noted that staff received 17 responses to the ED. Respondents generally agreed with the ED and the Board determined that a public hearing would not be needed.

One respondent commented that the term "material" should be inserted throughout the document to make it clear that the standard applies to material events and transactions. The Board determined that the statement did not need to be revised. The statement clearly indicates that the standard did not apply to immaterial items and inserting the term "material" throughout the document or in a footnote would be a departure from the Board's practices and cause some readers to believe or expect a unique approach for subsequent events. In addition, the Board discussed a comment suggesting that guidance be provided regarding related parties. The Board deliberated this issue during the August 2009 meeting and the basis for conclusion section discusses the Board's decision to complete the Federal Entity project before developing guidance on related parties. The Board reaffirmed this position.

The Board also discussed a comment suggesting that the statement clarify what financial report components are subject to the statement. Members noted that the

Board establishes requirements for basic information, required supplementary information (RSI), and required supplementary stewardship information (RSSI), and decided to clarify that the statement applies to basic information and RSI.

On February 25, 2010, the Board reviewed a draft standard that incorporated changes to clarify that the standard applies to basic information, RSI and RSSI and members suggested additional edits for staff to incorporate.

> **CONCLUSIONS**: The FASAB will not conduct a public hearing regarding the ED and staff will incorporate members' comments into a pre-ballot draft before the April 2010 meeting.

- **Evaluating Existing Standards – Earmarked Funds**

Staff member Eileen Parlow opened the discussion by noting that there are currently over 500 funds in the U.S. Government that meet the definition of earmarked funds in Statement of Federal Financial Accounting Standards (SFFAS) 27, *Identifying and Reporting Earmarked Funds*. She said that the staff paper outlined several options for focusing the reporting on only the most important earmarked funds.[1]

Ms. Parlow said that an important objective for the Board's discussion would be to evaluate options for requiring agencies to report on only the most important earmarked funds. One option would be to limit the reporting to social insurance funds; however, several of the members had sent comments on the briefing materials prior to the Board meeting and had indicated that they believe that this would be going too far in the opposite direction.

Ms. Parlow distributed a handout[2] of a list of agencies with over 250 earmarked funds with a positive net position and a table that showed what proportion of the total net position for those funds would be accounted for if agencies were limited to only their five largest earmarked funds. The result was that 99.3% of total net position would be accounted for. A second table on the handout showed that if agencies were limited to reporting on only their three largest earmarked funds, 98.9% of total net position would be accounted. She noted that the Department of the Interior currently reports on 119 earmarked funds.

Ms. Parlow said that the Board might consider specifying a numerical limit to the number of earmarked funds to be reported on by an agency, although that might appear to be arbitrary. She said that another option might be for agencies to calculate and

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[1] The options outlined in the staff paper were:
Option A: limit reporting to social insurance programs identified in SFFAS 17, *Accounting for Social Insurance*
Option B: limit reporting by excluding funds with zero or negative net position
Option C: limit reporting to a note disclosure, further refined by limiting to the largest earmarked funds
Option D: eliminate reporting by rescinding SFFAS 27
[2] The handout is attached at the end of this document.

disclose the total net position of all of their earmarked funds but only be required to provide detailed reporting on individual funds that constitute 75% of total earmarked funds net position. She said that if that requirement had been in effect in FY 2009, the Department of the Interior would have been required to report on only about six earmarked funds (instead of 119 funds), and all other agencies listed would have been required to report on three or fewer earmarked funds. She also noted that if the requirement was for a disclosure only, and less than 100% of the agency's earmarked funds, there would be no reason that she is aware of to display eliminations within earmarked funds and between earmarked funds and other funds.

Ms. Fleetwood asked what causes the negative balances on some of the agencies' total earmarked funds, as displayed on the table at Attachment 1 of the briefing materials. Ms. Parlow said that the largest negative balances were caused by the recognition of large long-term unfunded liabilities, such as military and civil service pension liabilities. Ms. Fleetwood asked why the staff recommendation was to exempt funds with negative balances from the earmarked funds disclosure. Ms. Parlow said that one important purpose of SFFAS 27 was that the CFR should disaggregate the very large positive net position of certain earmarked funds (primarily social insurance funds) from the accumulated deficits of the rest of the federal government. However, if the reporting includes funds such as the military and civil service retirement funds, the large negative balances cancel out much of the positive net position of the social insurance funds. She said that there is also extensive reporting elsewhere on the various federal pension funds.

Mr. Steinberg said that he prefers criteria rather than size. He asked why the Department of Energy (DOE) Nuclear Waste Fund was not on the list. Ms. Parlow said that she had used the list of the largest earmarked funds from the FY 2008 consolidated Financial Report of the U.S. Government (CFR) and the DOE was not on that list, but that she would research DOE after the meeting.[3]

Mr. Steinberg said that he believes that the military and civil service retirement funds are funded by general fund appropriations rather than from dedicated collections. Ms. Parlow said that regarding definition, the agencies listed had made the judgment that the funds reported as earmarked met the definition of earmarked funds.

Mr. Jackson asked if the pension funds were funded by appropriations. Ms. Parlow said for civil service retirement, they are largely funded by deductions from federal employees' paychecks. She said that she was less familiar with military retirement funding. Mr. Dacey said that in accordance with the definition in SFFAS 27, if there is any funding from dedicated collections, the entire fund could be reported as earmarked, but that he did not believe that the Board's original intention had not been to include the federal pension funds.

[3] Staff note: The DOE's earmarked funds had a negative net position of $4.5 billion in FY 2009.

Ms. Parlow said that to illustrate this, there is a government-wide summary on page 2 of Attachment 1, showing that the FY 2008 CFR[4] reports a total net position of only $700 billion, because a $2.5 trillion positive balance was largely offset by the negative $2.2 trillion balances in the military and civil service retirement funds. She said that this negated one of the objectives of SFFAS 27, to disaggregate the general government's accumulated negative net position from the social insurance funds' positive net position.

Mr. Allen asked if the members would agree with a proposal that the reporting should exclude funds with a zero or negative net position (Option B in the staff memo). Mr. Steinberg said that the distinction should be the answer to the question, "what is the major source of revenue," although materiality should also be considered.

Mr. Jackson said that his concern with that option is that agencies would still need to run calculations for each fund. He said that he has heard that SFFAS 27 imposes a considerable burden on agencies. He said that he would prefer Option C (report in a disclosure only, and report major funds only). He said that this could be a disclosure or even Required Supplementary Information. He said that you could probably come up with a model for determining major funds – perhaps Fund Balance with Treasury or investments in Treasury securities. He asked what Ms. Parlow thinks of Option C. Ms. Parlow said that staff recommends Option C. Mr. Jackson said he also supports the provision in Option C for not requiring eliminations. He said that the Board might be able to find a way to define "major funds" without trying to define the broader concept of materiality. He said that he was uncertain about whether social insurance funds should be shown separately. Ms. Parlow said that the intent of that option was to separate funds with the huge negative balances from the funds with huge positive balances, and that those funds were actually few in number. She said that the same thing could be accomplished by showing the federal pension funds separately.

Mr. Jackson asked if military retirement is funded by payroll withholding. Mr. Dymond said that the Department of Defense receives an annual appropriation to cover its contribution to the military retirement fund, but that it was not fully funded. He said that the reason for the large negative balances is that the federal pension funds recognize an accrued long-term liability and the other funds do not.

Ms. Bond asked why staff believes that SFFAS 27 should not be rescinded. Ms. Parlow said one important contribution of SFFAS 27 that she has never heard any argument against was the required explanation of the nature of federal "trust funds" on both the agency level and the CFR level. Due to the magnitude and complexity of federal "trust funds," it was important for the Board to require an understandable explanation, and SFFAS 27 even provides sample narrative to accomplish this. Two other things the Board wanted to do were to (a) split out the large "trust fund" net position from the rest of government, and (b) provide accountability for dedicated collections showing them as distinct from general government revenues (such as individual and corporate income taxes).

[4] The FY 2009 CFR was not yet available on that date (February 25, 2010).

Ms. Bond asked if the Board could rescind SFFAS 27 but maintain key disclosures. Mr. Jackson said that much of what Ms. Bond was proposing could be accomplished with Option C. Ms. Parlow said that if the Board was going to keep some of the provisions of SFFAS 27, it would likely label that as an amendment rather than a rescission of SFFAS 27.

Mr. Dacey said that he would not support making a distinction based upon whether a fund has a negative or positive balance at the end of the fiscal year. He said that he would want to see a principled approach, although he said that it is odd to call something a "fund" if it has a large negative balance. He said that he would prefer criteria so that the "in or out" distinction could be made in advance of year-end. He asked if there were any aspects of the current standards that could be refined to do that.

Mr. Allen said that in terms used now in state and local government accounting, why at the end of the year couldn't you use the term "major fund" and define that in terms of percentages. For example, couldn't you say that if the receipts, payments or balances aren't more than a certain percentage of the agency totals, then it would not need to be individually disclosed.

Ms. Fleetwood said that if the Board is going to require reporting on earmarked funds, she does not see any compelling reason to omit funds with negative balances simply because they are negative. Ms. Payne said that if a fund has a negative balance, then per se its resources have already been used in accordance with the purposes that were established – liabilities have been incurred but have not yet been liquidated. She said that in addition, that fund is not providing any net financing to the government to offset general financing needs.

Mr. Steinberg agreed with the point about negative balances, but that he thinks that criteria are needed. He said that evaluating major versus non-major every year could be pretty burdensome and could change from year to year. He said that criteria could include things like the reason for establishing the funds, the major source of revenue, and funding history regarding negative and positive balances.

Mr. Allen asked how that would reduce the 500 funds to a more manageable number of funds without using percentages or some other type of materiality concept.

Mr. Jackson said that you could build a filter if you just took, for example, the Department of Transportation, that he wouldn't be surprised if for major funds like the Highway Trust Fund dedicated collections doesn't constitute 75% of the total revenue. He said that you could set a filter up – for example, one of the filters might be if the dedicated collections revenue stream equals more than 25% of total agency revenue. Also it would need to be externally-generated separate revenue earmarked by statute and exclude general fund revenues.

Mr. Showalter said that there seems to be some confusion between earmarked revenues and earmarked spending. For example, the military retirement fund appears to be funded by appropriations rather than dedicated collections. He asked whether this was the original intent.

Mr. Steinberg said that he was not involved in the development of SFFAS 27, but he believes that the original intent was to focus on dedicated collections that are supposed to be set aside.

Ms. Payne said that the investments of the social insurance funds are large, and that the Comptroller General and others wanted to give some visibility to the intragovernmental debt relating to the social "trust funds." So, after considering many options, the Board borrowed the restricted net asset concept from the non-profit arena and GASB.

Ms. Parlow noted that, to respond to Mr. Showalter's question about internal/external, that the Board's intent was to focus on external funding that was distinct at the time when it came in. She said that page 22 of Attachment 2 has a description of the funding source for the military retirement fund: interest income on fund assets, monthly Department of Defense (DoD) contributions, and contributions from the U.S. Treasury – she said that this appears to be from the general fund. She said that paragraph 14 of SFFAS 27, titled "distinct from the general fund" attempted to make this distinction but it appears that this paragraph has been subject to interpretations that the Board did not anticipate. Mr. Jackson said that he did not agree with the DoD interpretation of SFFAS 27.

Mr. Jackson asked if the principle-based definition could be narrowed by using the term "tax" and exclude "fees." He said that Mr. Dymond might be able to refine this further, so that you don't get into all these ancillary things.

Mr. Dymond said that he wanted to give two examples to show how the distinction between general fund and earmarked funds is very difficult. One is that for the civil service retirement, health care, and life insurance funds - those are jointly funded, partly by the federal employees and partly by the agency, so you've got a mix of funding sources. The other is the Social Security and Medicare funds, which are as a legal matter funded from the general fund, because the Social Security and Medicare taxes are deposited into the general fund, and then the Secretary of the Treasury makes a transfer.

Mr. Jackson disagreed, and said that the latter was just how the funds are routed, and not the source of the funds. He said that if you would focus on a dedicated tax, if you didn't get past that filter, he thought that this would filter out a lot of the miscellaneous funds. For example, he asked about the source of the Department of Commerce's earmarked funds. Ms. Parlow (looking at the Department of Commerce's FY 2009 Note 21 on page 13 of Attachment 2) said that revenues were from sources including Patent and Trademark and other revenues. Mr. Jackson asked if the term "dedicated taxes" might eliminate some of those funds.

Mr. Steinberg noted that one of the funds listed was Recovery Act funding. Ms. Parlow said that the issue of interpreting “earmarked funds” as including Recovery Act funding was not limited to the Department of Commerce, as could be seen in the “Recovery Act” column of the summary in Attachment 1. Ms. Parlow said that the terminology “earmarked funds” appears to be causing some confusion, and that the staff paper includes a proposal to change the term to something more intuitive, such as “dedicated collections” – or perhaps Mr. Jackson’s suggestion of “dedicated taxes.”

Mr. Dacey said that regarding materiality, does SFFAS 27 require reporting of individually immaterial funds, or funds that are immaterial in the aggregate? Mr. Allen said that even among staff there is some disagreement of what SFFAS 27 requires regarding immaterial funds. Ms. Parlow said that Option C could be helpful in this, since it would be clear that only selected funds would be disclosed. She said that splitting out earmarked funds on the face of the balance sheet and statement of changes, agencies such as the Department of Interior with a mixture of material and immaterial funds might interpret the requirement as including all earmarked funds, especially if the aggregate total is material.

Mr. Allen said that he would like the Board to answer some basic questions- first of all, that SFFAS 27 should be amended but not rescinded.

Mr. Jackson said that he believes that the purpose of SFFAS 27 is to segregate major sources of revenues for which many believe that the government has no discretion to use for other purposes (not in terms of temporary IOUs but the ultimate use of the funds). He said that Option C could help with this.

Mr. Allen asked if any Board members have a first choice to rescind SFFAS 27 (Option D). Ms. Fleetwood said that she could consider this option if other members favored it. However, no other members indicated a preference for rescinding SFFAS 27.

Mr. Allen asked if reporting should be limited to only the positive balances. There were no members who favored excluding negative net position funds per se.

Mr. Allen asked if the Board has any additional preferences for development of criteria. Mr. Jackson said that he would like to see the word “tax” as a part of the criteria.

Mr. Steinberg said that some of the funds are funded by fines or penalties rather than taxes. He said it doesn’t need to be 100% funded by dedicated collections, but it should be mostly funded by dedicated collections. Ms. Parlow asked if by “mostly funded” Mr. Steinberg meant a potential rule that a majority of the funding – such as over half – would have to come from dedicated collections. Mr. Steinberg and Mr. Jackson said that they were not sure of the percentage and said that staff should research and make a recommendation. Mr. Allen said that this would not save agencies any burden because if you made that kind of a rule, you would still be making the agencies do all the accounting. Mr. Jackson used the example of the Highway Trust Fund and said that if the dedicated inflows to the Highway Trust Fund were 25% of the agency’s revenues, then that might trigger required reporting.

Mr. Dacey and Mr. Jackson said that staff should research and come up with a proposal for criteria options. Ms. Bond agreed, and said that "earmarked funds" should be renamed to something like "dedicated funds." She said that the Board needs to define "major" programs. Mr. Jackson agreed. Ms. Parlow said that she would develop some options for the next meeting.

Mr. Dacey agreed and said that it might need just a few more filters in addition to what's already in SFFAS 27.

Mr. Allen said that part of the problem might be that agencies are not applying the definition properly, and that renaming the category might help promote a better understanding of the definition. He asked the Board if they agreed that renaming would be helpful. Mr. Dacey asked for clarification if there is still a category of "dedicated collections." Ms. Parlow said that SFFAS 31, *Accounting for Fiduciary Activities*, rescinded the dedicated collections provisions of SFFAS 7. She said that those paragraphs 83-87 of SFFAS 7 had addressed two different categories: earmarked funds, which were addressed by SFFAS 27, and fiduciary activities, which were addressed by SFFAS 31. Accordingly, when SFFAS 27 was issued, paragraphs 83-87 of SFFAS 7 were retained to cover fiduciary activities until SFFAS 31 was issued, and when SFFAS 31 was issued, paragraphs 83-87 of SFFAS 7 were rescinded.

Mr. Dacey said that he favored the term "dedicated collections" because it is intuitive and he does not recall any problem with people understanding it.

Ms. Parlow asked if the members wanted to discuss Option C of the staff paper (requiring reporting in a note only and not on the face of the financial statements), or whether members would prefer to wait until making decisions about additional 'filters." Mr. Allen said that he would prefer to wait. However, he said that he does not see any difference between reporting on the face of the financial statements or in a note because both are at the same level relative to GAAP[5] and the auditor and preparer have to do the same amount of work. Ms. Parlow said that eliminations[6] would be necessary in order to split out earmarked funds on the face of the financial statements. Mr. Allen said that he would still prefer to wait until additional "filters" could be identified. He said that if we end up with just half a dozen funds this would not be much of an issue.

Mr. Steinberg agreed that the Board should discuss additional filtering options. However, he noted that reporting on the face of the financial statements adds complexity by making a distinction that most people do not understand.

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[5] Generally accepted accounting principles. Financial statements and notes are both "basic information" subject to the highest level of audit scrutiny. For additional background on GAAP see http://www.fasab.gov/accepted.html.

[6] "Eliminations" refers to eliminating the effect of transactions within earmarked funds and between earmarked funds and other funds.

Mr. Jackson said that with fewer funds, there might be fewer elements of data that would need to be disclosed.

Ms. Parlow said that it appears that the Board has rejected Option A, which would have been to exclude all but certain specific social insurance funds, such as those identified in SFFAS 17, *Accounting for Social Insurance*,[7] from earmarked funds reporting. The members indicated agreement.

CONCLUSIONS:

1. Staff will develop options for criteria that will limit the reporting of earmarked funds to major funds so that future reporting will not include over 500 funds government-wide, as is currently the case. However, the reporting will include more than just the social insurance funds.

2. The term "earmarked funds" can cause confusion – for example, confusion between earmarked collections and earmarked spending. Potential amendments to SFFAS 27 will include a proposal to rename "earmarked funds" with a more intuitively understandable term, such as a term that includes the word "dedicated collections." The Board will consider specific options for terminology at a future meeting, after making some decisions about additional criteria.

- **Deferred Maintenance and Asset Impairment**

Mr. Savini began the presentation with an overview of the TAB D materials which included (1) a corrected page 19 to attachment 2 highlighting the strike-out for the word "repairs" on line 29 to correctly strikeout the entire phrase "normal repairs", (2) a brief review of attachment 1 which discusses the current issues being addressed by the task force and (3) a request to approve the draft exposure draft document contained as attachment 2. Staff then invited questions from the Board.

Mr. Allen began by noting the two proposed changes in attachment 2 (draft Exposure Draft document) which staff was proposing to the Board and asked staff to address and review each one.

Staff noted that a total of six questions were being asked. The first question asks the community whether or not they agree with the redefined maintenance definition. Then, questions two through six address the discreet changes made to the overall definition. Mr. Savini noted that preliminary feedback from the Board via electronic mail has suggested that we reconsider the need for question one since we are basically asking for concurrence in questions two through six.

[7] See SFFAS 17, paragraph 14.

Mr. Allen then noted that in essence we could delete question one and reorder questions two through six accordingly.

Mr. Dacey suggested that we add a comment or question at the very end asking if there any other considerations, changes or points that the respondents would like to offer the Board.

Mr. Showalter suggested that an alternative might be to lead or begin with the proposed definition so that the respondents could read it (i.e. see the changes) all at one time and then begin asking the ensuing questions. In this way, only question one would be deleted while the proposed definition stays in place and there would be no need to re-quote portions of the definition within each subsequent question.

At this point Mr. Granof raised a concern with question two. As it now reads, it seems that we are saying that maintenance and repairs are separate and distinct terms. If this is true, this does not follow the logic within our accounting statement since we treat maintenance and repairs for accounting purposes in the same manner. Since we link repairs and maintenance together in the proposed definition, they are not separate and distinct accounting terms. Mr. Granof agreed with the proposed definition noting that as it is written, it does not distinguish between maintenance and repairs and this is appropriate from an accounting perspective. However, in the basis of conclusions staff had made the point that maintenance and repairs are separate and distinct terms.

Staff indicated that in the original definition, repairs were considered a subset of maintenance and not specifically delineated within the definition. This has led to confusion since in the second sentence of the original definition we introduce the term "normal repairs" and as a result, repairs not deemed normal were excluded from accounting and reporting. Staff noted that in the functional community, maintenance and repairs are not the same and they are in fact treated differently. Specifically, the task force has noted that maintenance activities usually retain function whereas repair activities usually restore function.

While noting the importance of the functional community's point of view, Mr. Jackson asked that we temporarily put aside their views for the sake of this discussion. He noted that the draft Exposure Draft document states that the Board proposes that we treat maintenance and repairs as separate and distinct terms. However, he did not see this identified in the proposed language while also noting that the proposed definition reads that "maintenance and repairs are activities directed towards keeping fixed assets in an acceptable condition", while emphasizing the phrase, …"maintenance and repairs are activities…." This first sentence clearly treats these two terms identically. Mr. Jackson concurred with Mr. Granof that from an accounting point of view, these terms should not be treated as separate and distinct terms. As currently written, staff's proposed question is not reflective of the actual intentions of the Board.

Staff then asked if a distinction should be made concerning the activities as opposed to the terms to which Mr. Jackson replied in the negative while noting that the proposed definition was fine as written. The problem is with the way the question is currently worded. He suggested deleting question two and possibly some of the other questions that might conflict with the proposed definition.

Mr. Granof noted that page 19, paragraph A-13, line 9 would also require a change. Concurring with Messrs Granof and Jackson, Mr. Steinberg observed that paragraph A13 which states that "repairs and maintenance should be treated as separate and distinct terms to mirror the activities in practice", is in fact problematic since both maintenance and repairs are placed together in the definition. Mr. Steinberg noted that it would be fine to state that the functional community treats these items separately but for accounting purposes, we need to make clear that they are not.

Both Messrs Jackson and Granof agreed that we could elect to reword question two along those lines and then ask the respondents whether or not they agree.

At this point Mr. Steinberg asked a broader question concerning whether it was sensible to issue a standard in order to just change a definition. Although he agreed that the definition should mirror what the users are doing in practice, he questioned whether it would be more prudent to wait until the end of the project and issue one complete exposure draft package. Mr. Steinberg went on to state that since deferred maintenance is Required Supplementary Information and does not get the same audit scrutiny as basic information, nor does it always get similar attention from a preparer's point of view, it seemed to him that the definition is not nearly as important as the issue of determining what additional guidance the Board should be providing in the area of acceptable condition (i.e. criteria). He went on to propose issuing one standard (amendment) that addresses condition assessment and the definition aspects as well as anything else the Board thought important. This he concluded would be the best use of the Board's time.

Staff acknowledged that Mr. Steinberg raised a valid point. Staff reminded the Board of three considerations to keep in mind, (1) GAO issued a report dated October, 2008 that asked FASAB and OMB to work together in an attempt to help establish a common definition (for use in developing a uniform reporting requirement) for deferred maintenance, (2) the Board itself has said that it wanted to revisit this issue of deferred maintenance, and (3) the Federal Facilities Council (FFC) has critiqued SFFAS 6 and specifically, the existing definition and has proposed changes which we have yet to address. As a result, staff advised that it would be prudent for the Board to show some results at this point and proceed with exposing the exposure draft.

Staff further noted that the functional community is waiting for clarification since there is a significant amount of confusion with the existing definition of maintenance. Lastly, staff is of the opinion that before the Board can address the measurement and reporting implications of deferred maintenance, it needs to establish an understanding with the community as to what "maintenance" definition is generally accepted and understood. Staff went on to note that seeking consultation from the community-at-large would allow the Board to get feedback and then recalibrate accordingly as opposed to waiting until the end of the process. Staff noted concerns that should the Board elect to wait, it could run the risk of being overtaken by unknown conditions or events.

Mr. Jackson stated that while he does not disagree with the revised definition, he did not see how changing the definition alone would move the federal government towards better accounting and reporting for deferred maintenance. With that being said, what Mr. Jackson found useful was the information included in attachment one. Specifically, this information gives the Board some sense of what experts are using to measure things such as asset condition, calculating excess capacity and notably, deferred maintenance. Mr. Jackson concluded the Board should ask itself, what will change by virtue of our changing only a definition?

Staff replied to Mr. Jackson's comments by pointing to an example given to the task force by an agency representative concerning the benefit of making changes to the maintenance definition as it currently stands in SFFAS 6. Specifically, the standard in the second sentence addresses "normal repairs" and as such, excludes repairs brought about by disaster or casualty. As a result, such repairs are then excluded from the calculation of deferred maintenance thus adversely impacting both measurement and reporting. Additionally, staff noted that the Federal Real Property Council (FRPC) canvassed their constituents via their inventory committee and although the overwhelming majority of their constituents indicated that they complied with SFFAS 6, they did in fact indicate that a major problem existed with the way "repairs" were being defined.

Mr. Jackson then stated that based upon the above example and understanding that the current definition might be allowing the exclusion of important pieces of deferred maintenance information from being reported, this would in fact suggest that the definitional improvements may in fact have a positive impact.

Mr. Allen stated that as it was explained to him, if the Board decided to wait until the end of the project to address all three project components (i.e. definition, measurement and reporting), the Board could very well find itself having extensive dialogue over definitional issues while not making significant headway on the measurement and reporting matters.

At this point Mr. Granof stated that staff had persuaded him concerning the importance of this definitional change. However, he noted that those unfamiliar with the history and complexities of this matter who subsequently read this pronouncement may ask the question as to what was this Board's rationale in issuing an amendment that only addressed a change in definition. Mr. Granof went on to ask if it was procedurally possible for the Board to do something other than issue a standard; i.e. technical interpretation or technical bulletin.

Ms. Payne replied by stating that although that would have been the preferred approach to take, it might be viewed as an insufficient response to the community's concerns. In her opinion, a short exposure period should not consume a significant amount of resources. She further noted that another reason to give this matter due attention at this time and why she asked staff to separate the definitional piece from the measurement and reporting pieces is due to (1) the amount of congressional interest in the area of deferred maintenance and (2) the fact that the FRPC is also addressing the deferred maintenance definition for database reporting purposes.

Ms. Payne additionally noted that the FRPC agreed to defer their efforts in defining deferred maintenance to FASAB. As such, she advised that since there are some time sensitivities, she would like for the Board to be viewed responsive and timely. Furthermore, she did not think the Board should underestimate the potential interest in this topic and resultant responses since there is an opportunity to eliminate differences. Although we have organizations with the same goal, Ms Payne reminded the Board that we are each defining and measuring things differently. In her opinion, she does not believe much is lost by doing a standard as opposed to an interpretation in this regard. However, greater efforts at outreach and communication should be explored in explaining why we have chosen this particular path.

Mr. Allen agreed with Ms. Payne noting that the Board should make clear that this is a preliminary but all-important step going forward in this broad project.

Along the lines greater communication and outreach, Mr. Dacey proposed that if the Board believed this issue to be time sensitive, the exposure draft should better characterize this in the purpose section on page 11. He suggested stating the reasons why the Board desires to get this definition piece out to the community now in order to let the readers know that this is in fact a first step in the project.

Mr. Steinberg noted that several issues were raised regarding why the Board should proceed with the exposure draft at this time as opposed to waiting. First, concerning the demonstration of progress on this issue, Mr. Steinberg stated that the mere fact that the Board has taken this project on shows that it is making progress. Assuming that communication is taking place with key constituents, having deferred maintenance as an active agenda item and project clearly documents that the Board is proceeding ahead. Second, the concern that the FRPC or General Services Administration might come out with a different definition can be addressed by advising both groups informally that we have a definition or interpretation that will be issued at the end of the project. In this way, it stands to reason that any resultant definition or interpretation they might develop will probably not be that different from our own, especially when one considers we have obtained input from their constituents. Third, the issue of being broadsided or not being made aware of circumstances or events can happen at any time not just at the end of the project. It seems that a FASAB interpretation would best address the issue of repairs in a procedurally straightforward manner. Proceeding as staff suggests would place a significant demand on resources since the Board would need to expend time and energy on reviewing comments on two exposure drafts as opposed to just one.

Mr. Allen then turning to staff asked if since the project plan distinguishes the definition, measurement and reporting as three distinct phases does this necessarily mean that there will be three distinct exposure drafts? Staff replied in the negative, noting that both the measurement and reporting aspects of the project seem to be working hand-in-hand and dovetailing quite well together. Staff only envisions issuing two exposure drafts, the definition exposure draft and then later, the measurement and reporting exposure draft.

At this juncture, staff addressed several Board comments noting that although there could be ways in dealing with staff concerns, staff noted that since the functional community is comprised of vast and differing opinions, despite staff's best efforts in trying to get an adequate representation or reflection of those views, the task force may not necessarily represent the consensus that might in fact exist in the functional community. Although staff believes that the Board should clearly articulate what it believes maintenance means in an accounting sense, it should do so in consultation with the broader community. Staff further noted that the Board is in the position to facilitate communication among and between the primary stakeholders whether they be, the Federal Real Property Council, the Federal Facilities Council, or Federal agencies. As one task force member stated to staff early on in the project, s/he welcomes FASAB's work in this regard because the Board is seen as an independent entity. In closing, staff stated that it believed the Board would be acting prudently and consistent with its decision in December 2009 to move ahead incrementally by issuing the exposure draft on the definition piece at this time.

Further exploring the possibility of an alternative method, Mr. Jackson asked if the Board went ahead instead with an interpretive release to clarify the confusion surrounding "normal repairs" as an example, would a technical release be sufficient to clarify the Board's intentions. In other words, what language would be used to bring about such clarification in a technical release?

Staff replied by stating that if the issues were confined to solely clarifying what constitutes repairs, that strategy might in fact work. However, the Board has decided to make other changes. For example, the Board eliminated references to "acceptable services" and "achieving the expected life" and it changed (in the exclusion sentence) references to original intentions to current use. As such, it seems that the changes would not lend themselves to a technical interpretation since they are substantive in nature.

Mr. Allen stated that normally the Board would not issue interpretations to make the type of changes that the Board is proposing in this draft exposure draft.

Ms. Payne also noted that the Board should keep in mind that what is not included in an interpretation or definition is just as important as what is. For example, some of the task force participants wanted future capital needs to be included in deferred maintenance and since the Board considered that issue and decided against such inclusion, this draft exposure draft documents that proposal and may generate relevant comments.

At this time Mr. Allen polled the Board for final thoughts and comments concerning this issue. Beginning with Mr. Granof:

Mr. Granof: Noting that this appears to be (more of) a political issue, defers to the staff recommendation.

Mr. Showalter: Supported the staff recommendation.

Mr. Schumacher: Supported the staff recommendation.

Ms. Bond: Supported the staff recommendation.

Mr. Dacey: supported the staff recommendation

Mr. Allen: Supported the staff recommendation.

Ms. Fleetwood: Supported the staff recommendation.

Mr. Steinberg: Dissented from the staff recommendation.

Mr. Jackson: Supported the staff recommendation as long as the aforementioned changes in the wording to the questions are made.

Immediately following the poll, Mr. Allen then asked the Board to review the questions contained in the draft exposure draft document.

Mr. Showalter in referring to the basis for conclusions paragraph A-14, asked if staff was proposing to add the term “repair(s)” to the glossary. This was noted since he did not see the proposed definition on page 26 (Appendix C Glossary) of the draft exposure draft. Also, in paragraph A-7 it states that management should establish and report its policies regarding acceptable condition criteria. Since this assertion is only mentioned in the basis for conclusions no requirement is in fact established. As such, will the Board be stipulating this requirement in forthcoming guidance apart from this draft exposure draft?

Ms. Payne replied that in regards to the first question, the page 26 appendix C omission was an oversight. Concerning Mr. Showalter’s second question, Ms. Payne noted that he was partially correct inasmuch as there is a requirement to stipulate acceptable condition reporting when management elects to use the condition assessment survey method. This requirement does not exist when management elects to use the less popular lifecycle method.

Mr. Allen in referring to the basis for conclusions paragraph A-7, line 6 on page 17, noted that to avoid any confusion that FASAB was referring to two additional exposure drafts, that staff strike-out the “s” from phrases changing it to singular.

Mr. Granof stated that he was still concerned by the definition for repairs since he did not see how the term repair is distinguished from maintenance in our literature. For example, he noted that the draft exposure draft states that repairs are generally directed towards putting fixed assets back into an acceptable condition; i.e. restoration of function. In illustrating his point, Mr. Granof took a tire example and asked if replacing a worn out tire is a repair or a maintenance activity? He went on further to ask, is replacing a tire that was punctured or blown-out repair or maintenance? Mr. Granof noted that there are other definitions for repair that the Board can refer to such as

Kohler's accountant's dictionary or the American Heritage dictionary. In the case of the American Heritage definition, it defines repair as something which arises from damage or injury; a distinction he does not see noted. Mr. Granof noted that in the future, those who will be reading this accounting standard will not necessarily view this as a functional term but rather, will see it as an accounting term.

Staff replied to Mr. Granof's concerns by advising the Board that when the task force took up the issue of repairs, it broke up into a smaller subgroup that studied the different definitions deemed to be eligible candidates for the more universal "repair" definition. For example, a Federal statute impacts one agency's definition of repair and as a result, the task force needed to find a definition that did not put the agency at odds with the Federal statute. The workgroup was able to narrow down alternatives to 5 suitable definitions and through a voting process the definition as contained in the draft exposure document was chosen. Staff noted that this is an example of why the exposure draft should be put forward now since there are going to be numerous views and interpretations and differences among the functional community and the sooner we identify those differences the sooner we can address them. Concerning future interpretations of this definition, all the task force has tried to do is to define repair in its current and most common use in the Federal environment.

Mr. Jackson then asked why the Board even needs a separate definition for the term repair. Since the Board has established that it views maintenance and repairs not to be different terms, why would it want to attempt to define repair? Mr. Jackson further noted that no distinction needs to be made when one does not exist. Furthermore, since we do not define maintenance (separately) in this document other than in the definition, we should not treat (define) repairs any differently.

Mr. Dacey in response to Messrs Granof and Jackson asked whether or not the Board believed the term repair should be defined so that it would be properly used in practice. Since there are some in the community who view maintenance and repairs as separate types of activities, Mr. Dacey saw no harm in trying to define the term. Mr. Dacey pointed to paragraph A-14 where the language defines repair; "It is the Board's opinion that maintenance activities retain an asset's functionality whereas repair activities restore an asset's functionality."

Staff noted that since representatives from both the FFC and the FRPC have advised that defining repairs is in fact difficult to do, staff thought it would be an improvement to try and move the definition further along by making the distinction that maintenance retains functionality whereas repairs restore functionality.

Mr. Steinberg reminded the Board that the earlier discussion concluded that the Board would not separately define repair and indicate that although the functional community may view maintenance and repairs as different components or activities, for accounting purposes we view them as being one in the same. Staff, in an attempt to recognize that the functional community views these terms as being separate, has chosen to highlight this fact by defining repairs.

Mr. Granof responded by stating that it did not seem appropriate to have repairs defined in the glossary and not maintenance. He again asked, why are we defining repairs? If it is an attempt to recognize that the functional community views these terms as being separate, we clearly make this distinction in paragraph A-14; retention versus restoration of function.

Mr. Jackson agreed with Mr. Steinberg's summation and statement that the Board need not include either term (maintenance or repair) in the glossary. Furthermore, Mr. Jackson proposed eliminating the sentence on page 19 beginning on line 18 through line 21 of paragraph A-14 which begins with "accordingly" and ends with "reference." He believes that the standard itself clearly defines how the Board views maintenance and repairs and could in fact stand alone.

Ms. Bond in referring to the issues identified in attachment one, acceptable condition and critical versus non-critical, suggested that the task force consider blending these two issues together if at all possible. In so doing, she believes it would provide for more meaningful decision making results. For example, when looking at the (satisfactory condition) spectrum and ascertaining whether an asset should be in an "as-new" or at some lesser state of condition, is in essence answering the critical versus not critical question since programmatic considerations would seem to be inherent in that judgment.

Mr. Allen then asked Ms. Payne if the changes discussed by the Board could be handled via e-mail correspondence.

Ms. Payne replied in the affirmative.

Mr. Allen then concluded this portion of the meeting by summarizing that although the Board agreed to issue the draft exposure draft, the document would need to be re-worked taking into consideration the points raised by the various Board members. The Chair then thanked staff and Board members for the discussion.

> **CONCLUSIONS:** Staff will revise the exposure draft and circulate it for comment shortly after the meeting.

- **Managerial Cost Accounting – Federal Reporting Model**

Staff member Julia Ranagan briefly introduced the briefing materials and explained that the draft cost accounting and reporting questionnaire was meant to serve as a comprehensive tool to gather information on what agencies have done to implement Statement of Federal Financial Accounting Standards 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, since it was issued. Ms. Ranagan noted that staff also hoped to use the information gathered to provide a list of best practices to the federal community.

Mr. Jackson stated that the term "entity or entities" needs to be more broadly defined or at least footnoted to include programs and activities. Staff responded that they would work with staff on the Federal Entity project to ensure that the term entity or entities was properly defined.

Mr. Jackson further stated that it troubles him that agencies would be allocating costs from the Office of the Secretary down to the lowest level of activities within a bureau.

Ms. Fleetwood responded that the Financial Management Service at Treasury drove the costs of the Commissioner's office to their cost objects and it was not a big deal; it was not troublesome coming up with a methodology or burdensome to do it and if they had left management out, then they would not have gotten full costs. She said that she finds cost objects to be more meaningful than activities with respect to management decisions (e.g., how much does it cost to make an electronic payment vs. a paper payment).

Mr. Jackson responded that he just does not want to see anything in the standards that would require driving the Office of the Secretary costs to the costs of acquiring a capital asset down at the lowest level of an agency.

Mr. Jackson also said he did not see anything in the questionnaire on what measurement metrics an agency uses to assess its cost effectiveness. Ms. Ranagan responded that the section on uses of cost accounting information was hoping to solicit that type of information without staff actually having to use and define the term "metrics."

Ms. Fleetwood commented that some agencies do very well at cost accounting while other agencies fail at it. She said it seems to her that the ones that fail are the ones that try to account for every little detail of their operations while the ones that succeed pick major things that they want to drive costs to. She said in some instances, employees would track their time, but in most cases, they would do a survey that asked for the average percentage of time spent on certain activities. Ms. Fleetwood said she does not know how standards-setters could help with such things but she has certainly seen things that work and do not work in the area of cost accounting.

Ms. Fleetwood said she would be interested in whether agencies are driving costs to activities or cost objects and how many things they are driving costs to (i.e., is it just a handful of the most significant objects or activities or a whole slew of things).

Mr. Granof said it is not clear to him what the objective of the cost accounting project is. He said that before staff sends out a survey, staff should clearly define the objective of the project and exactly what type of information they want to gather from the survey, the objective of every single question in the survey, and what staff is going to do with the data they collect.

Mr. Granof also said that all terms should be defined, such as activity-based costing, so that respondents understand exactly what is being asked. Staff suggested including a glossary to the questionnaire instead of having a large number of footnoted terms.

Ms. Bond said that the survey seemed thorough and well-compiled but is very lengthy; she is concerned that CFOs will not have the time to respond to such a lengthy survey. She directed staff to look at all of the questions and exactly what information is needed and try to hone it a little bit more. She also noted that some of the language is not as neutral as it needs to be. Staff indicated that they would work on the neutrality of the language and shortening the survey.

Mr. Allen would like to ensure that staff seeks the views of external users as well, such as OMB, GAO, and Congress. Ms. Ranagan responded that a separate questionnaire would be developed to solicit the views of external users since the majority of the current questionnaire would be inapplicable to external users.

Mr. Steinberg asked how the questionnaire would be distributed. Ms. Ranagan responded that FASAB staff maintains a list of current CFOs and OIGs that they email requests to. In addition, OMB has forwarded requests to the Chief Financial Officer's Council. Staff also distributes requests through groups they belong to, such as the Financial Statement Audit Network group, as well as the FASAB Listserv.

Mr. Steinberg asked how staff would determine who was qualified to fill out the questionnaire versus those that are just checking boxes and have no direct knowledge of the agency's cost accounting efforts. Ms. Ranagan responded that the questionnaire asks for the name and title of the person so staff can gauge the potential level of knowledge. Staff can also gauge the level of knowledge based on the quality of the responses received.

Ms. Fleetwood said staff might want to consider a two-step approach to the survey, meaning send out a brief survey to gauge use of cost accounting and get contact information and then a second, more detailed survey for just those that have been doing cost accounting to get more information.

Mr. Jackson summarized that the first questionnaire could be a one-page filter to get at which agencies or activities within the organization are actively involved in cost accounting and then get the name of the principal person involved in cost accounting for each agency. Then staff could send the more detailed questionnaire to the principal people identified and would probably get a much better response.

Mr. Dacey asked if staff was just interested in looking at actual cost accounting systems or whatever is used to provide cost information and help management make decisions. Ms. Ranagan responded that it was not limited to looking only at actual cost accounting systems and would make that clear in the revised questionnaire.

> **CONCLUSIONS / NEXT STEPS:** The board approved the use of a questionnaire to solicit information on agencies' successes and challenges in implementing SFFAS 4, *Managerial Cost Accounting Concepts and Standards in the Federal Government*, as amended and supplemented. However, the board suggested that staff might have more success using a two-step approach to sending out the questionnaire: (1) send a brief one-

page questionnaire to agency management to gauge the use of cost accounting within an agency and solicit contact information for the principal people involved in implementing SFFAS 4, and (2) send a more detailed questionnaire to those principal contacts identified in the first step.

- **Federal Reporting Model**

Mr. Simms began the discussion on the federal financial reporting model and stated that staff conducted a survey of the financial reporting practices and experiences of other countries to help the Board determine which country or countries to study in more detail. Staff provided survey questionnaires to Organization for Economic Co-operation Development (OECD) member countries and to representatives who responded to an International Public Sector Accounting Standards Board (IPSASB) Long-Term Fiscal Sustainability Reporting questionnaire. Mr. Simms noted that staff received responses from 10 countries (Australia, Austria, Canada, France, Italy, New Zealand, Norway, Portugal, Sweden, and United Kingdom).[8] The following is a brief overview of the survey results:

- All the respondents indicated that they make their government-wide financial report available on the internet.
- Many of the countries indicated similar financial statement users as the U.S. For example, all the respondents noted that legislative bodies (parliament) and citizens or the public were considered users. In addition to parliament, some countries (Australia, Austria, Canada, Italy, and Portugal) noted other internal users such as those within ministries or departments.
- Financial statements were used for various purposes, including budget decisions (Australia, Italy, New Zealand, Norway, Portugal, Sweden, and United Kingdom), demonstrating stewardship over assets or asset management (Australia, France, and United Kingdom), monitoring efficiency (Australia, New Zealand, and United Kingdom), and accountability and decision-making in general (Australia, Canada, and Sweden).
- Among OECD member countries, there is a major trend toward using accruals in financial management.[9] Many of the survey respondents (Australia, Canada, France, New Zealand, Portugal, Sweden, and United Kingdom) indicated use of accrual accounting and some countries (Australia, New Zealand, and United Kingdom) consider private sector accounting standards in preparing their financial reports. Interestingly, although Australia considered both external and internal groups (parliament, ministers, and

[8] Staff received responses from Austria and France after staff prepared TAB-F, Federal Reporting Model. Also, Canada provided additional responses after staff prepared TAB F.
[9] Jon Blondal, "Budget Reform in OECD Member Countries: Common Trends," *OECD Journal on Budgeting*, vol. 2, no. 4, (2003).

employees) as financial statement users, they prepare their financial statements in conformity with accounting standards intended for businesses.

- Respondents generally used the same basis for budgeting and accounting and some countries (Australia, Canada, New Zealand, Sweden, and United Kingdom) indicated the use of accrual budgeting and accounting. One survey respondent, Austria, noted that they planned to move to accrual budgeting and accounting in 2013 because the accrual information was not receiving the level of attention that it should receive.[10] Instead, the cash-based budget was the focus. Also, separate from their survey response, Sweden noted concerns about the level of attention accrual information had received in relation to a partly cash based budget[11] and France considered that the amount of resources needed to replace their cash basis budget with an accrual basis budget would have been extensive.[12]

Members discussed what accrual budgeting means and how it is actually applied. Mr. Jackson noted that he would like to learn more about how accrual budgeting works: are pension costs recognized when incurred and if so, would a revenue stream need to be built to fund the costs; and does accrual budgeting contemplate depreciation and amortization rather than the recognition of the capital cost or does it contemplate a capital budget that may be separate and apart from the operating budget. Members briefly discussed New Zealand's and Australia's accrual budgeting approach and Mr. Showalter pointed out that countries' survey responses provide details on their approach which in some cases did not involve accrual appropriations, although they stated they followed accrual budgeting. Mr. Dacey noted that the Government Accountability Office conducted a study on the accrual budgeting practices of several countries and noted that there were some benefits and challenges to accrual budgeting.[13]

Mr. Allen noted that although the Board will not be making recommendations regarding accrual budgeting, it is valuable to know what information is being sought by countries that use accrual budgeting and financial reporting and why they believe the budget and financial reports need to be on the same basis. The Board is looking to make the U.S. federal government's financial statements more useful and the Board needs to find a way to link the financial statements to the budget information. It would be important to know the crosswalk between how we report budget information or how we report the

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[10] The respondent noted, "If accrual accounting is to become a management instrument rather than a mere pool of information, it has to be combined with accrual budgeting instead of purely cash-based budgeting."
[11] ESV, *Accrual Accounting in Swedish Central Government*, (2001).
[12] International Federation of Accountants, The Modernization of Government Accounting in France: The Current Situation, The Issues, The Outlook, (New York, New York: January 2003).
[13] See GAO, *Budget Issues: Accrual Budgeting Useful in Certain Areas but Does not Provide Sufficient Information for Reporting on Our Longer-Term Fiscal Challenge*, GAO-08-206 (Washington , D.C.:December 2007).

differences between the budget and financial statements prepared in conformity with generally accepted accounting principles (GAAP).

Mr. Dacey noted that the International Public Sector Accounting Standards Board (IPSASB) has a standard related to reporting the formulated budget to the actual budget. That is one significant difference between the U.S. and the international community. Mr. Jackson noted that it would be difficult to show a budget and actual comparison for the federal government because in some cases the outlay period for an appropriation can involve several years. The only time a meaningful comparison could be prepared is at the end of that continuum. Mr. Dacey acknowledged that a budget and actual comparison statement in the federal government might be difficult.

Ms. Bond noted that she would like to know whether countries indicated that their model drove policy decisions. Staff would follow-up on this issue and Mr. Allen noted that most people say that financial reports come out after year-end and they do not use them to manage. Instead, they use the information derived from the financial systems. Members also asked other questions regarding other countries' practices. Ms. Bond asked whether countries other than France discussed the issue of cost and Mr. Schumacher asked whether countries prepare condensed reports to help citizens understand financial information, similar to our citizens' guides. Mr. Simms indicated that he was not aware of other discussions on the cost to implement models, but Canada prepared a summary report and countries like United Kingdom place financial data on their websites.

Ms. Fleetwood noted that countries are interested in citizens guides and placing information on their websites. A lot of countries are looking to provide more useful information. Ms. Fleetwood suggested attending the October 2010 meeting in Boston where various countries come together to discuss some best practices.

Mr. Allen noted that it appeared that members were more interested in learning about functional areas rather than studying particular countries in more depth.

Mr. Steinberg noted that the Board's objective is to develop a model that will be useful. Based on the survey of other countries, Mr. Steinberg noted that in order to get the legislature to use the financial statements, the financial statements must harmonize with the budget. Given that the U.S. legislature is not considering changing to accrual budgeting, the challenge that the Board faces is devising a format that is useful to both budget developers and persons concerned with the accrual basis results. Mr. Robert Reid (a former FASAB member) suggested a format before he retired. The format involved the following four columns: (1) initial budget, (2) final budget; (3) obligations; and (4) accrual-basis expenditures.

Mr. Showalter noted that as part of the reporting model project the Board may need to revisit its concepts statements that discuss who are the financial statement users. Part of the Board's challenge is trying to satisfy too many users and in trying to satisfy so many users, we end up with something that satisfies none of the users. The financial reports of other countries are primarily directed to parliament and citizens rather than managers. They are primarily a report to citizens. We need to limit the number of financial statement users to be successful.

Ms. Payne noted that the concepts state that the consolidated financial report is intended for citizens and citizen intermediaries (media, public interest and advocacy groups, analysts from corporations, etc.). Also, from the staff perspective, we have not so much focused on departmental reports being citizen focused. Departmental reports included more disaggregation and notes to support an assessment of management that would be performed by an executive or legislator. In addition, the systems (infrastructure and internal controls) support the program manager's information needs. The Chief Financial Officer's (CFO) Act envisioned that there would be good internal systems.

Ms. Bond noted that if the Board revisits who are the users, a good place to start is the CFO Act, which has the objective of obtaining good financial information to drive decision-making. Mr. Allen noted that we may not need to revisit users. Instead, we could do a better job of communicating that the CFO Act was not designed to say a manager would use financial statements, but information from the systems.

Mr. Jackson noted that when the CFO Act started, it was clear that obligation information was not reliable. Now, the information is reliable and that is due to the audit of the statement of budgetary resources. Also, information on capital assets, cost of assets, net book value, receivables, and budgetary information is now more reliable. Financial reports inform users whether financial information is reliable and internal controls are adequate to ensure the reliability of information.

Going forward with the reporting model project, Mr. Allen suggested that staff could focus on following up on areas such as what does accrual budgeting mean rather than focusing on particular countries. Mr. Steinberg stated that we should start to develop a framework for a model. He noted that other countries use an accrual basis model, yet the Board is accused of requiring business type financial statements.

Ms. Fleetwood stated that executives do use financial reports to manage. They consider what resources do I have available and how much do I need to spend. This project should explore what would be useful for executives. We need to get to the people that the CFOs are trying to service.

Mr. Granof stated that we should think beyond the paper report. We can take advantage of the capabilities of computers. This does not necessarily mean new information, but information that is already available.

Ms. Bond noted that a CFO Council task force is considering reporting model issues and plans to be able to discuss them with the Board in April.

Mr. Steinberg suggested a survey of agency heads and executives asking them what information they need and use and in what format to manage their agency and ensure that program objectives are achieved within the available resources. Another survey would be directed to CFOs to ask them what information they need and use and in what format to: support program heads and agency managers; and ensure that the agency uses its resources efficiently and effectively and in compliance with laws. Also, Mr. Allen would ask what information is needed to answer Congress and others' questions. Mr. Dacey noted that it would be good to know specifics on what is being used and needed rather than generalities. Mr. Jackson noted that it would be good to know from operating units that handle a significant amount of the budget what information they use.

Mr. Showalter noted that the survey of other countries indicated that financial statements were being read by legislators. However, there is no indication that Congress reviews the federal government's financial statements. Also, the Board is competing against "bandwith." Various groups produce their own financial information . Somehow, we need to become the primary source for information, perhaps through better format, timeliness, or other attributes. It would be interesting to know whether financial statements are considered the primary source of financial information in other countries.

Mr. Simms noted that last year, staff surveyed congressional staff but did not receive enough responses to provide the Board with meaningful results. Only three congressional staff members responded and they all indicated that they used agency Performance and Accountability Reports. The reports assisted them in learning about the agency's programs. Also, staff is in the process of conducting interviews with executives and managers to determine their financial information needs. A research firm is assisting staff in conducting the interviews.

Mr. Allen asked members to identify and inform staff of functional areas or countries that would like follow-up. Mr. Allen noted that the reason why countries seek to align budgeting and financial reporting is one area of interest.

> **CONCLUSIONS:** Staff will conduct research on executives and managers and follow-up on functional areas of interest to members.

Adjournment

The Board meeting adjourned for the day at 5:00 PM.

- **Steering Committee Meeting**

The Steering Committee discussed the recommendations made by the AICPA's Rule 203 review panel. Recommendations to improve policies and procedures for the Steering Committee and the Appointments Panel were approved. The remaining recommendations—to establish a Federal Review Panel and explore alternative funding sources—would require consultation among the sponsors and could not be addressed timely. It was agreed that a response from the chairman suggesting alternative means of resolving the related concerns would be considered.

Thursday, February 25, 2010

Agenda Topics

- **Review Technical Agenda**

Ms. Payne introduced the technical agenda by noting that by the end of the year, staff would be prepared to begin a new project. She sought members' input regarding their priorities. Specifically, if continuing to evaluate existing standards is the priority, she asked which standards members prioritized most highly? Alternatively, she asked if members had other issues that they believed should be pursued.

Mr. Allen noted that the reporting model project remains his top priority. Any evaluation of existing standards should not interfere with progress on the model. However, he acknowledged that you can only have so many people working an issue and there are currently two staff members assigned.

Mr. Showalter noted that disclosures would be an area to explore because all regulators receive feedback about the existence of an overload of disclosures . He asked how staff would pursue that. Ms. Payne responded that she would use the inventory of disclosures in the Financial Audit Manual (FAM) and work to evaluate the usefulness of each relative to its cost.

Mr. Steinberg noted that there are many disclosures related to budget reporting – he believes they all arise from A-136 requirements. He wonders if people who say the reports are not useful are addressing those disclosures.

Ms. Kearney noted that in developing A-136, the participants noted that having detailed requirements in A-136 (rules-based guidance) helped during the audit. She also noted that discussions revealed that the specific budgetary disclosures were relied upon by users. That said, she thought reviewing the disclosures would be helpful; specifically, she recalled that inventory disclosures might be overly detailed.

Mr. Jackson asked if there is still a lengthy credit reform disclosure. Mr. Steinberg responded that there was but that he found it useful – the information reveals the subsidy. Further, he noted that if the budget disclosures are useful, perhaps that means we need to work into the model more of how the information relates to the budget process itself.

Mr. Dacey noted that there is a community of users on the budget side. He asked if we are providing all the information needed by the budget community. The credit reform disclosure is an example of details that are there for budget purposes. He suggested we needed to confirm that it is still useful.

Mr. Allen asked what the best way is to get the information to them, do they appreciate the value of the audit or would they prefer a more timely source. He thought that would be important to know.

Mr. Dacey noted that the SF-133 link to the audit (that is, the audit of the statement of budgetary resources) has identified areas that were problematic in budgetary reporting. These areas have been cleaned up as a result of the audit; therefore, there is a connection between the annual audit process and improved quality of unaudited reports. The audit has improved the quality of reporting to OMB and it is the validation after the fact that led to that improvement.

Mr. Allen noted that in the private sector community, the SEC has indicated that the audit verification is a critical component but the investor community needs more timely reporting. They required interim reporting. They also have an auditor association that is less than an audit; it is an auditor review. This discussion is linked back to the reporting model and the question that is always there is whether there is a more effective way to obtain the benefits seen to date.

Ms. Fleetwood has wondered whether the public wants to see the information differently. We focus so much on a paper report, but the public is not likely to access the information that way. She wondered if there is a role for a standard setter in addressing such issues.

Mr. Allen indicated that GASB and FASB both have projects on the long-term agenda regarding electronic reporting.

Ms. Fleetwood noted that USAspending had pulled data from procurement systems and found it to be unreliable. She thought standards could have helped avoid that problem.

Mr. Dacey noted that in a perfect world, you identify your requirements up front. If you do not, then it becomes impossible to reconcile data from one source to another. One of the challenges is figuring out what the relevant information is in aggregate before the systems are built. It is critical to be comprehensive as we consider what information we really need so we can consider what the best way is to collect the information at the source and aggregate it properly and at the right level of detail.

Mr. Steinberg asked why the Recovery Act called for data from the procurement system. Ms. Fleetwood did not know, but she has always wondered why they did not draw the data from the accounting systems.

Mr. Steinberg noted that what seems to be the most requested information comes from less reliable systems—we should make sure we cover it in the reporting model. Mr. Jackson noted that it is fine to say that you will publish all the transactions of the government but that it has little managerial value. Mr. Dacey noted that even the financial systems may be driven off the procurement systems – there are many legacy systems and they are often linked together (even if manually). Even with ERP, a lot of the initial transaction recording occurs in legacy systems. Ideally, the information for USAspending.gov, managerial purposes, and financial statements would come from the same databases so that there is a common source.

Mr. Dymond explained that the Federal Funding Accountability and Transparency Act of 2006, the mandate for USAspending.gov, included a provision that says OMB can use the national procurement data system (NPDS) but noted that the data could not be exclusively from that system. Congress included that provision because it knew the NPDS was not reliable.

Mr. Steinberg wondered why Congress did not have the confidence to specify the financial system as the source. Mr. Dymond did not believe NPDS is a financial system—it may be entered manually and may not be strongly linked to the general ledger. Mr. Dacey indicated that some of the data used to post to the NPDS ledger may be used in financial systems.

Mr. Allen said we ought to figure out who our users are and what information they need. He said GASB held user focus groups – they asked what information from a list of disclosures they wanted. The longer the list, they more they wanted. So, they changed to asking about the decisions they wanted to make. By knowing more about the decisions, GASB was able to streamline the notes to align with their decisions. If we had that capability, it would be helpful. He wonders what it is people are gleaning from USAspending.gov that is useful. You need to know more than the number of hits – you need to know how the information is being used.

Mr. Dacey noted that we need to understand all these information needs to determine what should be in general purpose financial statements. Also, we may be able to build a bridge from general purpose financial statements to the Recovery.gov type data. In the end, the community at large needs to figure out the breadth of information needs and which part is financial statement need, and which part is not. We need to figure out the right level of assurance on each part of the data. You can not get assurance on transaction level detail. You need to decide ahead of time what subtotals would be reported. If we wish to get to transaction level detail, we need assurance on controls. He gave the example of vendor name – the audit does not get to whether a vendor name is accurate for every transaction.

Mr. Jackson asked about OMB plans for internal control over USAspending.gov data. There would be a re-shifting of the focus of circular A-123 to data quality in these websites. Ms. Kearney noted that she was not sure that A-123 would be the vehicle for those control changes but there was a lot of discussion of data quality.

Mr. Dacey asked whether the board had a role in data quality. He noted that what is not readily available is guidance around controls of information such as USAspending.gov and criteria to assess and express an opinion on such controls. He does not believe it is complete or comprehensive – further, he was unsure of the role of the board in that area.

Mr. Jackson indicated that there needs to be a structure—you need to see what kind of infrastructure and system is needed to report reliable information. By the time all that is finished, the Recovery Act will be over. He believed you needed an orderly process to establish the control structure needed, whether you need an opinion on the controls, and how to get an opinion.

Mr. Dacey noted that you need criteria and structure even if you did not get an opinion; if you wanted management's assertions on controls you still need these things.

Mr. Showalter noted there will always be special events needing specific information and he prefers to focus on disclosure needs of special events, such as the Recovery Act. Mr. Jackson thought OMB and GAO should think this through now so that there would be a framework for Congress to consider once it decides to pass legislation. OMB and GAO should be prepared to present a framework.

Mr. Steinberg noted that you could argue that if more people are interested in individual transactions rather than the overall picture—perhaps we should consider standards that focus on the reliability of individual transaction data. If you can not report on the accuracy of the numbers, then you should report on the controls. We could require a report on the controls over the data, the quality that users should expect from the data, and include that in a report.

Mr. Allen followed up by asking how that builds to whatever an agency publishes—our role, while it takes into account controls and budgetary information, generally relates to financial statement reporting that is published and verified. Mr. Steinberg noted that we can not require reporting but we can say if you report – here is what you must include. If OMB decides that transaction level details are to be reported, FASAB could say for an agency to report the data we want an auditor's opinion on the reliability of the system.

Ms. Payne noted that Mr. Allen also conveyed that the context is important – that the transaction level details are part of the whole. They need to know how the transactions relate to the cost of the program, the resources of the program and the non-financial performance of the program.

Mr. Allen indicated that it must fairly present—you must build up to fair presentation. Mr. Steinberg noted that it should build up to retail data. Mr. Jackson noted all that detail data is linked into the financial system in some way of another. All the transactions are linked into the accounting system. If you want to bust the data out of the system – all the data is there and the controls are there for material transaction classes. If people are not using that as the data source – it's unfortunate. But if there is data they want that is not flowing through that system, he'd like to know about it and see if we can address it.

Mr. Dacey indicated that you must audit both the system and the data – one supports the other. But you must decide how much disaggregation you want. That's a decision you must make to determine what level you should audit to. He agreed that during the audit process you verify transactions but there are many data points that you do not care about; these may become important in a system like USAspending.gov.

Mr. Jackson indicated that there are laws and regulations that must be compliance tested for audit purpose. There may be areas that are not covered by the audit – those types of things can be prescribed so that your opinion can reach to them.

Mr. Steinberg noted that if the data are coming from the procurement system rather than the financial system, that is the problem.

Ms. Fleetwood noted that there are discussions about Treasury providing the payment information. She asked what the role of this group would be—what would we need to say if we wanted to use an online system. Maybe if FASAB said you should use the accounting system for online reporting, people would not go to the procurement system first. She thought some guidelines about how to gather such data would be beneficial– what thought process one might use in developing linkages for such a system.

Mr. Allen described that as an educational role. He thought that was the biggest difference he found when he came here – in every other arena (state government or private sector), people went to the accounting systems first because they are tested and reliable. That doesn't mean you don't get data elsewhere to fill voids.

Ms. Fleetwood noted that Treasury makes all the payments, but does not keep the full information. Much of the data sits in other systems. If you had controls that would be the key to ensure you were not out of balance. Procurement systems do not have controls such as needing to balance.

Mr. Jackson noted that there is more to it than just the transactions. There are requirements for sub-recipient reporting on such things as employment statistics and contracts awarded. There are few controls over this data that is put into the online system by down stream recipients. The only information that you can rely on is the payment that left the government. After that, there is little to verify the accuracy of the information from the recipients and sub-recipients. There are no control mechanisms. It is a much bigger problem.

Mr. Allen asked if all of this discussion was related to disclosures. Are there other things besides disclosures that were of interest in the arena of traditional standard setting? He would follow that with the question of how members would approach the non-traditional standards discussed today. Mr. Steinberg and Ms. Fleetwood thought the discussion was bigger than disclosures.

Mr. Granof noted that people seem interested in the bailouts, the ownership of Fannie Mae and Freddie Mac, relationships with GM and Citibank. These can be part of the reporting model or the entity model. He believes they should be addressed as high priorities. He noted we will discuss the Smithsonian and he did not recall seeing that in the press recently. He does see the GSEs in the press. He believes the bailout activities are pressing issues and we will lose credibility by not addressing them. Mr. Allen asked if he would suggest adding resources to these two projects or starting another project. Mr. Granof said if these are part of the existing projects – it is a question of priority within the project and how to address these swiftly.

Mr. Steinberg agreed regarding the bailout, but noted that the report by the Office of Financial Stability—it is fascinating and they did a great job. He believes the information is all out there. Mr. Granof indicated that some suggest (e.g., Elizabeth Warren, head of the Congressional Oversight Panel) that the information is not all out there.

Mr. Jackson does not believe these two things are mutually exclusive. He agrees with Mr. Granof. However, it brings to bear the importance of the government's role in the economy and that we ought to consider how the entities that were previously viewed as not having a federal guarantee should be reported on in federal reports. Our past thinking – that there was no guarantee – was incorrect. We ought to think about how information on these companies ought to be displayed in the financial report. In the past we chose not to include these – and for good reason – but now we ought to discuss what could be included in federal financial reports. He indicated that he agreed with Mr. Granof; particularly regarding the time devoted to the Smithsonian.

Mr. Allen noted that the standards dealt with concepts rather than specific entities. Further, he indicated that there may be requirements around risk from such entities.

Mr. Dacey indicated that it would be challenging to identify in advance the types of entities that might receive federal support in the future. Five years ago he could not have identified many of the entities that are today receiving support. He's open to considering it though. He explained that today the federal balance sheet includes many types of assets and liabilities that did not exist two years ago. Primarily, these are investments in non-federal securities but also agreements to support non-federal entities. He wondered if we should consider standards for investments in non-federal entities. It is another project to consider.

Mr. Allen asked OMB, GAO and Treasury to alert us to areas where our standards are not as clear as they ought to be. This was asked a year ago and the answer so far has been that they are adequate. Mr. Dacey responded that the GAAP hierarchy had been used to fill voids. Currently, many investments are valued based on FASB standards and even after some of the unwinding of investments; we will still have some investments for some time.

Ms. Fleetwood noted that Treasury continues to have an issue with entities that don't follow FASAB standards. Mr. Dacey noted that a temporary provision was made and over time the assessment needs to be made whether there are user needs that are better met by FASB standards. Some of the issues relating to consolidation can be addressed by getting more information from the entities.

Mr. Allen asked if we had addressed the information needs. Ms. Kearney responded that the information was required in SFFAS 34. Mr. Allen asked where we were with the project and Ms. Payne explained that it is staffed as a secondary project.

Mr. Allen asked Mr. Steinberg's thoughts on the non-traditional standards discussed earlier – as in, how can we describe that project. Mr. Showalter indicated that his notion of a disclosures project was a more traditional review of existing disclosures. This morning's discussion focused on non-traditional or special purpose needs of users and how those needs could be met. Mr. Allen asked if this was a good split between the types of disclosures discussed. There was agreement. He asked Ms. Payne to segregate those two areas.

Mr. Dacey noted that "special-purpose" may not be an adequate term and asked Ms. Payne to consider options.

Mr. Jackson noted that the issue of SFFAS 10, internal use software, is one he hears sometimes. He indicated that the process of software development is an ongoing process rather than fitting these phases. Ms. Payne noted that some agencies are in the business of developing software continuously. Mr. Dacey agreed and indicated that the phases may need clarification. Mr. Jackson asked if there is continuous development, should anything be capitalized – the expenditures may be a good proxy for depreciation. Mr. Allen agreed – he noted that used to be the view and he has sympathy with it. Mr. Dacey noted that some large systems are continuously modified. Mr. Allen asked if there was a need to clarify or modify standards. If we have progressed and it is impossible to segregate by phase, do we need to modify the standards. Mr. Jackson thought it deserved some time to assess whether there is such a need. Mr. Dacey does not believe it is an audit issue but agreed that it is becoming more complex. He thought information gathering was in order. Ms. Payne committed to researching the issue further.

Ms. Payne indicated that no decision is needed today and that staff will come back with a suite of project plans for consideration.

- **Federal Entity**

Staff member Ms. Loughan led the Federal Entity discussion. Staff explained the primary objective for the February Board meeting was to discuss issue areas related to the federal entity conclusive principle and staff recommendations. Staff explained once these issues have been addressed, the conclusive principle portion of the proposed standard will be near final. Staff noted the issue paper provided the following specific issues for discussion:

- *Issue 1: Conclusive really just means in the Budget*
- *Issue 2: Exceptions when applying the conclusive principle*
- *Issue 3: Entities partially on budget*
- *Issue 4: Basis for Conclusions language related to the Conclusive Principle*

Staff directed the Board to the first issue--*Conclusive really just means in the Budget*. Staff explained the proposal removed the discussion of “directly financially accountable for.” Staff also removed all language related to “ownership;” as a result, the notion of ownership will be included in the indicative principles.

Staff also explained that certain language was moved to the Basis for Conclusions. Staff stated the revisions result in a much more concise Conclusive Principle and requested feed back from the Board. The Board didn’t have any comments on the revisions.

Staff directed the Board to the second issue--*Exceptions when applying the conclusive principle*. Staff explained that as drafted, if an entity meets the conclusive principle, no further assessment is required; and the entity is considered within the boundaries of the federal reporting entity (U.S. Government Reporting Entity and the component reporting entity with which it appears in the budget).

Staff explained the principle as written is definitive and does not provide for exceptions. The question is if the standard should provide for instances where an entity meeting the conclusive principle should not be included in the component reporting entity with which it appears in the budget. An example is the Office of Management and Budget (OMB) has granted the U.S. Department of Labor (DOL) a waiver from consolidating the Pension Benefit Guaranty Corporation (PBGC) although PBGC is listed under DOL in the budget. Staff explained the waiver was granted because the PBGC and DOL had an established practice of issuing separate financial statements for over 10 years and both provide necessary information for the government-wide financial report.

Staff noted the issue paper provided for the following language to be included in the proposal:

> An entity may be excluded from the component reporting entity with which it might otherwise appear in the extreme and rare circumstance when inclusion of the entity would not result in fair presentation. [FN1] However, the entity should be assessed against

> the indicative principles to ensure all factors have been considered and to determine if other reporting or disclosures are required. Such an entity must provide the necessary information for inclusion in the government-wide financial report.
>
> FN 1 For example, the Office of Management and Budget (OMB) granted the U.S. Department of Labor (DOL) a waiver from consolidating the Pension Benefit Guaranty Corporation (PBGC). PBGC prepares stand-alone financial statements and provides the necessary information for the government-wide financial report.

Staff suggested that after further research and Board member comments, the footnote reference to PBGC be eliminated from the proposed language. Staff explained removing the reference doesn't change the proposal; it would still be up to DOL to provide justification for the exclusion.

Staff requested the Board's input on issue 2. Mr. Steinberg explained that the Board is aware of at least one instance where an exception may be necessary and there may be others. Therefore, he explained the draft should allow for an exception, and criteria should be developed for when exceptions can occur.

Mr. Allen explained he struggled with whether there is a conceptual exception that can be articulated that covers instances where the auditor and preparer agree it wouldn't result in fair presentation. He explained that auditing standards and GAAP provide that the burden rests with the preparer and auditor to agree if GAAP principles are not followed. He added that it is not typically addressed explicitly in accounting literature, yet it resides in audit literature that one can depart but you must explain the reasons for such. Mr. Allen explained that he believes the standard could be silent since the preparer and auditor already have the ability to depart from any standard if they agree it results in fair presentation and they are required to disclose those departures. Mr. Showalter agreed but explained that it is a huge hurdle for that to happen in practice. Mr. Allen explained that he believed as worded, the exception would be a huge hurdle as well. Mr. Jackson explained that it is very similar and perhaps silence would accomplish the same thing.

Staff explained the language also directs the preparer to assess the organization against the indicative criteria. Mr. Showalter explained he liked how the language directed the preparer but it still appears to condone or endorse exceptions. Mr. Steinberg stated that it appears the DOL waiver applies across the board as it explicitly states it doesn't have to be included, so applying the indicative criteria probably wouldn't change the outcome in that situation.

FASAB Counsel Mr. Dymond explained that by law PBGC is administratively housed within the DOL.

Ms. Bond suggested that the proposal maintain something similar to the provision in footnote 4 of SFFAC 2 which states "Any uncertainty as to what to consider as a reporting entity would be resolved by OMB in consultation with the appropriate Congressional committees."

Mr. Steinberg suggested there should be criteria for the exceptions. Mr. Allen asked if he had any examples of criteria in mind. Mr. Steinberg explained two could be Board membership or appointments are ceremonial and the relationship is limited to administrative matters. Mr. Allen noted there may be an issue when considering administrative matters, because one must ask who is ultimately responsible and accountable. Staff asked if it would be fair to say the criteria could be for instances where the relationship doesn't meet the indicative criteria. Mr. Steinberg agreed that may be a way to approach. Mr. Allen explained that it would still need to be framed in the rare or unusual circumstance that an entity meeting the conclusive would not meet the indicative principles.

Mr. Jackson explained that the question doesn't relate to the overall government-wide report, because PBGC is included there. He explained this deals with if an entity should be included in a component reporting entity or should PBGC be a stand-alone reporting entity. Mr. Jackson explained he is less interested in whether DOL has PBGC included, as long as PBGC is in the government-wide report.

Mr. Dacey explained that the Board should separate what is the federal entity from what is the reporting entity because they really are different issues. He explained that putting them together may cause confusion.

Ms. Payne recognized developing the structure of the document was a struggle, but the importance of the component reporting can't be minimized when you consider issues such as FFRDCs. Mr. Dacey agreed, but stated it was a separate decision process to go through.

Ms. Payne referenced the indicative criteria and directed the board to review the language specific to control. She explained this offers more in the assessment of relationships and who is accountable. Ms. Payne suggested if the Board agreed that presentation in the budget doesn't necessarily provide who is responsible, perhaps the conclusive principle isn't necessary. Mr. Dacey agreed. He explained that when assessing the component reporting entity, appearance in the budget may not result in a meaningful presentation.

Mr. Allen explained the primary concern is the integrity of the federal entity as a whole, the government-wide financial report.

FASAB Counsel, Mr. Dymond stated that the principles used by OMB in determining what is in the budget are very similar to the indicative principles included in the proposal.

Mr. Jackson suggested that one approach may be to have the conclusive principle (in the budget) be applicable for the government-wide reporting entity, but it would not apply at the component level. Instead, entities listed in the budget would be an indicative criterion (therefore, there wouldn't be a conclusive principle for component reporting entities). He explained this would get the ultimate objective of ensuring everything is in the government-wide reporting entity while allowing flexibility at the component level.

Ms. Fleetwood agreed with the fact that there are examples when organizations are included under other organizations in the budget for administrative purposes, and if that is the case, it shouldn't be automatically brought in. It should be included in the government-wide but not the component.

Mr. Steinberg explained in writing SFFAC 2, the conclusive criterion was put in to be an easy first test, i.e., so one wouldn't have to go through all the indicative criteria. He added one could accomplish the same thing by making it one of the indicative criteria.

Mr. Dacey explained the importance of defining the federal entity as that question drives if FASAB GAAP applies and that is the first decision that needs to be made. He added the second question--working on the particulars of the various reporting entities answers what information is necessary for a complete set of financial statements. Mr. Jackson added that once the decision is made regarding what is in the federal entity, you've automatically reached out and defined who is subject to our standards.

Mr. Steinberg explained that he likes the idea of making it a two step process of defining the federal entity, then the component reporting entity. He asked if it would be the same criteria for both. Mr. Dacey explained that perhaps the indicative criteria would be the same for both, but that remains to be determined if it is appropriate. The main difference is that you wouldn't use the conclusive at the component level. Instead it may be called budgetary reporting as an indicative criterion.

Mr. Jackson summarized that if you are in the budget, you are in the federal entity. However, if you are in the budget of a component, then you might be considered part of the component as you consider it with the other indicative criteria.

Mr. Steinberg explained that there are other entities that aren't in the budget that might be considered in the federal entity, and that's why the indicative criteria apply to both.

Mr. Allen called for a vote on the two tier approach as it appeared. Several members were in agreement. Ms. Bond agreed with the approach but added there shouldn't be a bright line even with the indicative criteria. Mr. Steinberg summarized the two tier approach being the first tier is defining the federal entity which includes both the conclusive and indicative principles and the second tier includes defining component reporting entities which only includes indicative criteria (inclusion in the budget would be an indicative criterion at the component reporting entity level.) Mr. Steinberg agreed with the approach. All other Board members agreed.

Ms. Bond asked if using the title of the schedule *Federal Programs by Agency and Account* included financing accounts, such as federal credit reform financing accounts, because they may not be listed there. Staff noted that was not the intent. Staff agreed to ensure financing accounts were not excluded by using this particular schedule from the budget. Mr. Steinberg suggested it might have to explicitly say that if the organizational unit controls the financing account, then the financing accounts should be included as well.

Mr. Jackson explained he had a question on par 4. of the draft language that stated

> An appropriation to a federal reporting entity that finances a subsidy to a separate entity would not alone necessitate inclusion of the recipient subsidized entity. Instead, the recipient entity should be assessed against the indicative principles of this standard to determine if it is within the boundaries of the federal reporting entity.

Mr. Jackson asked if the term subsidy needed to be defined somewhere. He asked if a grant constitutes a subsidy. Mr. Steinberg explained the similar language in SFFAC 2 was included to ensure entities like Howard University and Gallaudet University weren't included. For example, the Department of Education might have a large grant for Gallaudet University and it may be listed specifically under that appropriation in the budget.

Mr. Dacey suggested the proposal should be clarified to explain what is meant. Mr. Steinberg stated other grants may be listed through programs, but this is trying to recognize the fact that sometimes the organization is listed. Mr. Dacey recommended the language focus on the entity receiving the funds and whether or not it is a federal entity. He explained the language as proposed crosses both, but he believes the focus should be on the receiving entity.

Ms. Payne recognized that this is another area staff has struggled with providing clarity. Ms. Payne explained the indicative criteria are used when there are close relationships to determine if the organization is part of the federal entity. As for defining subsidy, she stated that normally we try to avoid defining terms that have a dictionary meaning. Mr. Jackson suggested that we could make a statement that a subsidy exclude federal financial assistance as defined by the Single Audit Act Amendments of 1996. The language of that statute boxes out contracts, grants, and other assistance subject to the Single Audit Act. However, payments to organizations like Amtrak would not be covered in that box. Ms. Payne noted that some targeted tax breaks might be considered subsidies.

Mr. Allen directed the Board to discuss the third issue--*Entities partially on budget*. Ms. Loughan explained certain entities (such as the Smithsonian Institute) are partially in budget--meaning a substantial portion of their funding is from federal appropriations included in the budget and the entity receives private support (such as donations) not included in the budget. Currently, these entities present the budgeted portion as 'federal' or 'appropriated funds' and present the other funding as 'private,' 'non-appropriated,' or 'trust funds' in their stand-alone reports. However, only the budgeted or federal portion is included in the US Government-wide financial statements.

Staff explained the issue should be clarified--Is it the Board's intent that portions of entities--only the budgeted portion of these types of entities--should be included in the US Government-wide financial statements? Ms. Loughan requested Board member feedback on the issue.

Mr. Jackson explained there is an interesting observation; he explained that he doesn't believe the debate is whether the Smithsonian is a federal entity. He noted that in years past, the Smithsonian expressed concern with using the FASAB reporting model and they wanted to use FASB's model because of the principal users of their financial statements. He believes the bigger issue with these types of entities is the model they should use for financial reporting. He said if they are allowed to continue reporting under the FASB, does that present a problem for Treasury. Mr. Allen noted that same issue (using a different basis of GAAP) applies to many other entities.

Mr. Dacey questioned if there was a basis to separate the federal and non-federal portions of the entity.

Ms. Fleetwood explained Treasury includes the federal portion of the Smithsonian and it is based on a closing package that is prepared; however this can't be tied back to their financial statements because it is on a different basis of accounting and timeline. Ms. Fleetwood stated this does cause problems. She added that she is not sure that any of the options presented will address her concerns.

Ms. Payne stated the use of the different basis of GAAP is not the primary concern in the project. The focus should be on the conceptual question of whether the entity is part of the federal government-- does the entity have assets that are available to the federal government? Are the trust fund assets available for federal government use? Should the federal government be accountable for those assets just as other assets? Ms. Payne noted the Smithsonian culture is built on the fact there is a public trust. From that perspective, it would be akin to saying that because the special trustees manage the Indian Trust fund, we should consolidate them as well. She noted there may be some legal differences, but this is the argument.

Ms. Bond explained there are areas within an organization such as the Smithsonian, where the federal government does not have control. She added that we can't spend those funds for government purposes. However, we as public servants should be good stewards of those funds and assets. Ms. Bond explained she supported the Alternative Approach proposed by staff which would be to provide certain disclosures for these types of entities.

Mr. Allen explained he has a hard time splitting the baby, or dividing the entity. What is the federal government's ultimate responsibility, whether it is legal or not. He suggested that the federal government has an ongoing relationship that may mean it should be responsible for the organization as whole. He explained the entire organization should be included, although how it is included—consolidated, disclosed, separate column—may need to be determined.

Mr. Showalter agreed that he doesn't like to split the baby as well. He said the issue is more about display and disclosure, not whether the whole organization should be included. Mr. Allen agreed that there are two questions--what should be in the federal entity and how it should be presented.

Mr. Dacey explained he was closer to option 3 in the staff paper. He explained that if there are federal funds, they should be included but there needs to be some judgment involved regarding the other. He said one question may be if there are fiduciary responsibilities over the trust funds that should be included with the fiduciary note. He explained that a bright line may not work as well as having criteria that could be applied along with judgment in the assessment.

Mr. Showalter reiterated that the whole organization should be included, although a determination may be made that only the federal funds are consolidated while the trust fund information is disclosed by other means.

Mr. Granof stated the federal government has some responsibility for the organization and the funds, the question is how best to present it.

Ms. Fleetwood explained that she agreed that the information for the entity as a whole should be presented; otherwise it would be distorted to show a portion of the entity in the CFR.

Mr. Allen suggested that perhaps one can't simply look at the conclusive principle for the dollar amount to include, but one must look at the relationship with the organization. Mr. Jackson stated that would be changing the conclusive principle, that as it is now, if you are listed you are included. Ms. Fleetwood suggested that if an organization is partially included in the budget, then one would have to go to the indicative criteria for further assessment. Staff noted this was along the lines of option 3 presented in the issue paper.

Mr. Steinberg explained he didn't want to split the organization either. However, Mr. Steinberg explained that we appoint the majority of the Board at the Smithsonian and there is some control and continued involvement. He noted that when issues come up, GAO is called in to audit. Mr. Steinberg explained that he sees this as a special class of eleemosynary (dependent on or supported by charity, such as 501c (3) organizations) organizations that should be addressed with special reporting. He explained that he didn't believe they should be consolidated, but instead provide a note disclosure of the existence, relationship, and certain financial amounts. Staff noted this would be along the lines of the Alternative Approach. Ms. Payne asked if he suggested the appropriation would be shown as a subsidy, then the total for the Smithsonian be included in an abbreviated footnote.

Mr. Allen explained we should try to identify a conceptual approach that would hopefully be applicable to similar type organizations.

FASAB Counsel, Mr. Dymond suggested looking at it based on conclusions reached earlier. The first question—is the Smithsonian Institution a federal entity? Based on the proposal, it is. However, do the Smithson endowment trust funds and the appropriations made to the Smithsonian constitute separate "entities?" If not, then the issue is how to report on things within the control of the Smithsonian, such as the trust funds.

Ms. Payne explained that to a certain extent, one can answer the next series of questions by looking at existing asset and liability standards—do the trust funds qualify as assets and liabilities of the federal government. She stated that as you work through this analysis, you may already have the answer.

Mr. Allen suggested that the Board vote on what should be included (all or just federal portion), then it will discuss how it should be reported. Mr. Steinberg explained that it would be difficult to separate those two questions. Mr. Allen noted a different or third question is what GAAP the entity should follow, but that is a separate question. For example, non-profits follow FASB standards, but are still included in GASB statements.

Mr. Allen explained that perhaps for the partial entities, an assessment should be made against the indicative criteria to determine how it should be reported. Staff noted that is how staff approached it and it is similar to option 3 proposed in the staff paper. Mr. Showalter noted that all entities would have to go through the indicative assessment per the proposal, so how is this different.

Mr. Dacey suggested that it would be helpful for the staff to synthesize what was discussed and come back with suggestions. Mr. Allen agreed that would be a better way to handle this issue. Ms. Payne suggested staff would bring options for display versus just the question if it should be included which may lead one to believe the only option is consolidation.

Mr. Allen asked if the Alternative Approach could be explored further or if this was part of the reporting model project? Mr. Allen asked the Board if there were other display options (besides consolidation and disclosure) that could be considered in this project. He explained that there are certain entities where it may be misleading to include but also misleading to exclude so there should be some option in between, and note disclosure may not be sufficient. He explained that similar to GASB, there may be these unique relationships that need to be displayed or presented in a unique way. The Board agreed that they are open to alternative presentation options.

Mr. Jackson explained that the focus should be first on what we are including. He fears stirring the pot with the how, may confuse the issues and delay progress.

CONCLUSION: Staff will restructure the proposal to incorporate a two tier approach. The two tier approach defines the federal entity (government-wide entity) as the first tier which includes both the conclusive and indicative principles. The second tier defines component reporting entities which only include indicative principles (inclusion in the budget would be an indicative criterion at the component reporting entity level.)

Adjournment

The meeting adjourned at 1:30 PM.

Attachment to Minutes: Handout for Earmarked Funds Agenda Session.

Handout for February-2010 Board Meeting- Earmarked Funds
Summary of Major* Federal Agency Earmarked Funds Disclosures

Table A: Limited to: Funds with Positive Net Positions and Maximum of 5 Funds per Agency

(Dollars in Millions)

Reporting Entity	Number of Earmarked Funds*	ARRA Net Position Reported as Earmarked Funds	FY 2009 Total* Earmarked Funds: Unexpended Appropriations	FY 2009 Total* Earmarked Results of Operations	FY 2009 Total* Earmarked Net Position	# Funds (Limited to 5)	FY 2009 Total* Earmarked Net Position - Top 5
DOC	15	4,886	4,890.4	10,155.0	15,045.4	5	14,915.4
EPA	9	0	0	7,086	7,086	3	7,084.6
FCC	1	0	0	6,051	6,051	1	6,051.0
HHS	4	0	3,492	336,811	340,303	4	340,303
DHS	30	0	0	4,881	4,881	3	1,921.0
HUD	5	12,093	11,720	14,634	26,354	5	26,354
DOI	119	921	448	54,126	54,574	5	40,566.1
DOJ	5	0	22	5,754	5,754	5	5,753.8
DOL **	5	0	0	10,882.9	10,882.9	4	10,882.9
RRB	7	0	1	24,019	24,024	5	24,022.7
SEC	1	0	0	6,058	6,058	1	6,058.0
SSA	4	0	58	2,456,852	2,456,910	4	2,456,910
DOT	22	0	1,213	22,482	23,695	3	14,908.9
Treasury	28	0	200	41,653	41,653	2	46,112.0
Totals*	255	17,900	22,044.4	3,001,444.6	3,023,271.0	**50**	**3,001,843.4**

*** This table only displays major agencies whose total earmarked funds have a positive net position of over one billion dollars.**
** The DOL has 5 funds but only reports on two funds individually. One of which has a negatvie balance.

Conclusion: If the above agencies were limited to the largest 5 earmarked funds with positive net postions, the net position of the top 50 funds would account for 99.3% of the above 255 earmarked funds.

Table B: Limited to: Funds with Positive Net Positions and Maximum of 3 Funds per Agency

(Dollars in Millions)

Reporting Entity	Number of Earmarked Funds*	ARRA Net Position Reported as Earmarked Funds	FY 2009 Total* Earmarked Funds: Unexpended Appropriations	FY 2009 Total* Earmarked Results of Operations	FY 2009 Total* Earmarked Net Position	# Funds (Limited to 3)	FY 2009 Total* Earmarked Net Position - Top 3 Funds
DOC	15	4,886	4,890.4	10,155.0	15,045.4	3	14,650.4
EPA	9	0	0	7,086	7,086	3	7,084.6
FCC	1	0	0	6,051	6,051	1	6,051.0
HHS	4	0	3,492	336,811	340,303	1	336,342
DHS	30	0	0	4,881	4,881	3	1,921.0
HUD	5	12,093	11,720	14,634	26,354	3	26,345
DOI	119	921	448	54,126	54,574	3	34,489.0
DOJ	5	0	22	5,754	5,754	3	5,654.9
DOL **	5	0	0	10,882.9	10,882.9	1	10,538.9
RRB	7	0	1	24,019	24,024	3	24,009.9
SEC	1	0	0	6,058	6,058	1	6,058.0
SSA	4	0	58	2,456,852	2,456,910	2	2,456,816
DOT	22	0	1,213	22,482	23,695	3	14,908.9
Treasury	28	0	200	41,653	41,653	2	46,112.0
Totals*	255	17,900	22,044.4	3,001,444.6	3,023,271.0	**32**	**2,990,981.6**

*** This table only displays major agencies whose total earmarked funds have a positive net position of over one billion dollars.**
** The DOL has 5 funds but only reports on two funds individually. One of which has a negatvie balance.

Conclusion: If the above agencies were limited to the largest 3 earmarked funds with positive net postions, the net position of the top 32 funds would account for 98.9% of the above 255 earmarked funds.