FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
February 24-25, 2016
Room 7C13
441 G Street, NW
Washington, D.C. 20548

Wednesday, February 24, 2016

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or “the Board”) members were present throughout the meeting: Mr. Showalter, Ms. Bronner, Messrs. Dacey (with a brief absence on the afternoon of the 24th during which Mr. Engel represented him) and Granof, Ms. Ho, Messrs. McCall, Reger, Scott, and Smith. The executive director, Ms. Payne, and general counsel, Mr. Marchand, were also present throughout the meeting.

Administrative Matters

- **Approval of Minutes**

The Board approved the December meeting minutes prior to the meeting.

- **Member News, Updates, and Clippings**

Mr. Showalter publically recognized the service of Mr. Allen, former FASAB chairman, and Mr. Steinberg, former FASAB Board member. He introduced the two new members, Ms. Gila Bronner and Mr. George Scott. He also recognized the service of Mr. Charles Jackson, administrative staff, who retired in late 2015.

The Association of Government Accountants (AGA) recognized Mr. Dacey with the Elmer B. Staats Award. Members congratulated Mr. Dacey on his well-deserved award.

Mr. Granof presented a brief update on the Governmental Accounting Standards Board (GASB)'s activities. He noted that GASB had issued the lease exposure draft (ED). The principal project the Board currently is working on is the financial reporting model. The forthcoming invitation to comment likely will propose two alternatives for recognition of governmental funds. GASB had also issued guidance for irrevocable trusts. The organization has also commenced a project on debt extinguishments to address refundings using existing resources.

Mr. Dacey provided an update on the activities of the International Public Sector Accounting Standards Board (IPSASB). The organization is working on public sector combinations, with an ED out for comment. This proposal addresses amalgamation (pooling) and acquisition treatment for acquisitions. IPSASB continues to work on public sector financial instruments, which includes accounting for currency and coinage and International Monetary Fund special drawing rights. Other projects under discussion are updates to cash-basis standards, revenue and nonexchange expenses, emission trading schemes, and heritage assets.

Agenda Topics

- **Tax Expenditures**

Mr. R. Alan Perry, of the Government Accountability Office, and the following members of the task force joined the Board to discuss the tax expenditures project:

John McClelland	Department of the Treasury, Office of Tax Analysis, Special Assistant to the Director
Dan Murrin	Ernst & Young, Partner/Greater Washington Society of CPAs; Federal Issues & Standards Committee, Member
MaryLynn Sergent	Government Accountability Office, Strategic Issues,

	Assistant Director
Jamie Taber	Office of Management and Budget, Economist
Robin Valentine	KPMG, Partner

The Board considered a draft introduction section of the tax expenditures ED. Mr. Showalter alerted members that to stay on schedule, he anticipated a pre-ballot of the ED available for discussion at the April meeting.

Mr. Perry noted that the discussion would focus on the three questions in the briefing memorandum, an additional question raised in advance of the meeting, general comments on the draft, and suggested questions for respondents.

Question 1 addressed approaches to update the use of the term *other accompanying information* (OAI) to the current term used in auditing literature—*other information* (OI). This would apply to this ED and to various existing statements. In response to a question about the process, Ms. Payne noted there are six authoritative sections in the standards where the term appears, all of which could be conformingly amended through a single technical amendment.

Some Board members preferred to conform all FASAB language; some did not think it necessary to continually change FASAB language when the auditing literature changes, but believe it might be appropriate in this particular instance. One member noted that OI and GASB's term *required supplementary information* (RSI) more clearly expresses that the information in question accompanies or supplements the required information. Members confirmed that they did not wish to establish a precedent that a change is necessary each time another body makes a change.

One member noted that the terms are used in both the financial report and the auditor's report. This may be confusing to readers. Some members agreed that common terms would be beneficial to readers. The Board generally agreed to make conforming changes in the ED and in other FASAB literature (option B).

Question 2 related to the language regarding hyperlinks. Mr. Perry explained that one member suggested it should be changed from permissive—"may use" —to encouragement—"is encouraged to use hyperlinks."

Mr. Dacey noted the challenge of differentiating the mandatory provisions within the accounting standards from encouragement. He found it problematic to encourage information within the RSI section of a financial report. He suggested the Board consider the implications the precedent would set with this sentence. If there were another way to accomplish the objective—for example, through the basis for conclusions—he would support such an approach.

Ms. Ho questioned whether the guidance in this proposal would accomplish the high-level objectives set out in the document and whether it is appropriate for the consolidated financial report of the U.S. Government (CFR) to include this type of information. The linkage between the high-level objectives and the requirements may need to be strengthened.

Ms. Ho raised further concerns regarding the Board's expression of intent to develop more requirements relating to tax expenditures in the future. She noted that some of the requirements are redundant, as they refer to information already available outside the financial report. She was not concerned about the hyperlink issue but was concerned about presenting information available elsewhere. Educational information about tax expenditures is relevant, but she questioned whether the encouragement to include specific estimates of tax expenditures in OI was appropriate. Furthermore, she questioned whether the document should state so strongly that, in the future, the Board will consider additional requirements related to tax expenditures.

Mr. Perry and Ms. Payne agreed that the linkage between the proposal and the reporting objectives presented in the executive summary could be clarified. In addition, the discussion of future efforts could be clarified as a matter to be decided in the future.

Board members discussed these concerns. Some agreed there may be a lack of clarity in some areas, such as tax expenditure requirements in the management's discussion and analysis section. Mr. Perry expressed his belief that management should be provided some discretion in this section and that the presentation may evolve from year-to-year depending on the circumstances. He noted that the flexibility in the proposed standard was intentional, and that the proposed management discussion and analysis section requirements can be implemented and satisfied in a concise manner that blends well with existing language, as reflected in the illustrations. Mr. Reger suggested that having more clarity about this information would be helpful. In particular, he thought it would be challenging to distinguish between useful information in the budget process and useful information in a financial report.

Mr. Granof noted that the proposal is important because it will result in new information that people find interesting. He indicated that financial statements have many estimates, and he would like to require that these estimates be included because redundancy is not a concern and is actually quite common. For example, GASB requires information on pension plans that is available elsewhere. Regarding the hyperlink discussion, Mr. Granof preferred requiring the hyperlink.

Mr. Dacey clarified that he was not concerned about presentation of a hyperlink; he was simply concerned about the phrasing and placement of the Board's statement regarding a hyperlink. He thought the key was to require information about how to access the other report. If too much detail is required, it may imply the report is incorporated by reference. Therefore, he preferred to discuss hyperlinks in the basis for conclusions and not in the standards section.

Mr. Reger emphasized the difference of opinion regarding the assumptions and that subjecting the estimates to audit scrutiny would not resolve these issues. Members briefly discussed actions that auditors and preparers might take to avoid unintended audit coverage.

Mr. Scott suggested deleting paragraph 18 regarding the hyperlink, as it could be discussed in the basis for conclusions. He agreed that preparers and auditors could address the inclusion of hyperlinks, but did not believe the Board should include the suggestion in the standards.

Mr. Reger emphasized that the Office of Management and Budget (OMB) does not object to including information about tax expenditures in the financial report. In fact, it may further OMB's interest in transparency. He thought the illustrations would help with the ambiguity he sees in the proposed standards. However, he was still concerned about the broad and ambitious goals set forth in the executive summary and the proposed standards, in contrast to the more specific illustrations.

Ms. Bronner asked if Ms. Ho was concerned about placement of the information as well as redundancy. In response, Ms. Ho referenced page 30, appendix C—a table presenting individual tax expenditures and estimates. She thought this table would be redundant because the information is included elsewhere as a matter of policy. Including the same information in an audited financial statement, even as OI, may create audit issues, especially given the variety of opinions on assumptions about policy decisions. She asked how auditors might evaluate such assumptions, and she thought the policy makers already have the purview to make them.

Mr. Smith noted that the proposal would accomplish the objectives of this project. While the Board was not prepared to establish requirements for specific information, it chose to use information that already exists. Presenting the information as OI was a compromise to avoid the audit implications of a requirement. This allowed the Board to get information in the report without the audit consequences.

Mr. McCall expressed that he preferred to require the information, noting that the Department of the Treasury (Treasury) has been working on these estimates for more than 40years. He emphasized that the table on page 30 allows readers to immediately understand that tax expenditures do not necessarily have a negative connotation. This would be conveyed when they see that the first expenditure listed is exclusion of employer-provided health insurance.

Mr. Showalter asked members for their views—would it be appropriate to include existing tax expenditure estimates in the CFR along with narrative educational information?

Ms. Ho emphasized her support for educating readers about tax expenditures through the financial report. However, she objected to including any actual estimates in OI due to the availability of these estimates elsewhere and additional information surrounding such estimates.

Mr. McClelland reminded members that the definition of tax expenditures has existed for over 40 years, noting that what is undefined is the base against which tax expenditures are identified. That base can and does change in response to changing views among policy makers. Therefore, tax expenditure estimates are not as stable as they may appear. This is primarily due to instability in the base selected by policy makers against which tax expenditures are identified.

Members Granof, McCall, Scott, Showalter, Reger, Smith, and Bronner supported including both estimates and narrative. Mr. Dacey indicated that he was generally comfortable with the wording of the proposed standards (with minor edits). Ms. Ho supported narrative only.

Ms. Payne asked for resolution of the hyperlink question before moving on to the section regarding encouragement of OI. Members agreed that the best way to direct readers to the report is through a hyperlink and that preparers and auditors could avoid unintended audit coverage. Because there is a requirement for information about how to get the report, a majority of members agreed that paragraphs 18 and 22 should be removed from the proposed standards and the discussion added to the basis for conclusions.

In discussing the section encouraging OI, Ms. Ho asked why OI would be needed if a hyperlink to the comprehensive report were included. Ms. Taber—in response to a question about the task force views—indicated that the table provides more visibility to the information. Others indicated that use of the hyperlink may be minimal in comparison to reference to a table included in the report. Some argued that this information is relevant and favored strengthening the language from *encouraging* to *requiring* references to information outside the CFR.

There was a discussion of the specific source of the estimates and whether the standards should be so prescriptive about the source and form of the presentation. There are at least two sources of tax expenditure estimates—Treasury and the Joint Committee on Taxation—and the standards could call more broadly for a discussion of estimates. Mr. McClelland explained that the many differences—including differences between the specific tax expenditures identified and estimates associated with common tax expenditures—between the two official sources would be very challenging to explain to readers. To give a clear message, the task force thought one source should be chosen and that it seemed logical to select the executive branch. Mr. Perry echoed these concerns, noting that measurement baselines differ across sources which could lead to confusion.

Members decided that the guidance should be more generic, rather than cite only Treasury as a source. For example, the guidance could require text that states the following: "*A statement regarding the availability of public information on tax expenditures such as the Office of Tax Policy…*" The source of the estimates should be reported. The staff may need to make conforming changes throughout the document.

The Board then moved on to discuss question 3 regarding the appropriate context for tax expenditures. Mr. Dacey noted that attachment 2 illustrates the context he believes should be required. This would inform readers of the many factors that affect tax collections. While the information is in other places, it should be presented together in relation to tax expenditures. He indicated that if members support requiring such context, he would work with FASAB staff to develop the wording of the requirement but tentatively suggested the following language:

The following provides information about other factors that may affect tax collections, which is needed to place tax expenditures in an appropriate context.

Mr. McClelland added that it is important to understand that a change in policy regarding one tax expenditure also affects the estimates of other tax expenditures. For example, a change in the tax rate will change the amounts of many other tax expenditures. He thought this context would be important as well. Mr. Dacey agreed and hoped that contextual information was in the larger report. Mr. McClelland indicated it is, and the task force debated how much of the larger report should be brought over to the financial report.

Mr. Smith suggested that, in the long term, the narrative would evolve to better explain tax expenditures. Hearing no objections to the suggestion, Mr. Showalter indicated that the change Mr. Dacey proposed should be included.

The Board suggested other changes to improve the document, including edits to the executive summary.

Mr. Perry requested that Board members provide suggestions for questions to respondents and for items that should be discussed in the basis for conclusions.

> **Conclusions:** Staff will make the agreed-upon changes and work with members on editorial matters. Members are asked to share their suggestions for the basis for conclusions and questions for respondents. The next step will be to review a preballot draft at the next meeting.

- **Educational Session—Cents of Mission**

Dr. Dale Geiger presented an educational session on cost accounting. His presentation comprised eight major components:

- There are two types of cost accounting—financial costing for use in external reporting and managerial costing to support internal needs and to aid in control of operations and decision support.

- *Cost war* is the struggle to accomplish the mission in an environment of constrained fiscal resources. In response to constrained resources, an organization can increase its budget, get rid of force structure, or become more efficient.

- Examples of cost improvements and efficiencies at Fort Huachuca Garrison include military manpower management, nondeployables management, Navy research and development, and the Bureau of Engraving and Printing. Dr. Geiger classified the types of improvements as organization-based, role-based, or output-based.

- After-action reviews are important in managing costs.

- There is an eight-step methodology for cost-benefit analysis used by the U.S. Army.

- Cost management can utilize battlefield command and control.

- The keys to cost management and control include leadership, staff, after-action review, and cost intelligence.

- There are various helpful maxims in cost accounting.

Members expressed their appreciation for Dr. Geiger's excellent presentation.

The meeting adjourned for lunch.

- **Department of Defense Request**

Mr. Showalter informed the Board that the next agenda item would be the Department of Defense (DoD) request for guidance, managed by FASAB Assistant Director Melissa Batchelor. Mr. Showalter pointed out that Ms. Batchelor had summarized the milestones in the staff memorandum, but that it may be helpful for the Board members to review it before the discussion began. He explained that to ensure milestones are met, the Board would need to review a preballot draft at the April 2016 meeting and to approve a ballot draft shortly after the April meeting. Therefore, it would be important to bring up any items that the Board should discuss today in order to resolve any issues at this meeting.

Ms. Batchelor explained that the Board received two briefing packages. The first package contained the individual comment letters in response to the ED *Establishing Opening Balances for General Property, Plant, and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*, as well as the summary the staff wrote to support the consideration of the comments. The staff summary included a tally of responses by questions and a table of responses by question. Ms. Batchelor stated that FASAB had issued the ED on December 22, 2015, with comments requested by February 4, 2016. FASAB received 21 responses in total.

Ms. Batchelor said the majority of respondents agreed with the proposals to

- permit opening balances of general property, plant, and equipment (PP&E) to be valued based on deemed cost and to require the related disclosures;

- allow a reporting entity to choose among alternatives in establishing an opening balance for internal use software (IUS) and to require the related disclosures; and

- rescind SFFAS 35 and to permit reasonable estimates in the preparation of financial statements, with or without the existence of SFFAS 35.

One area in which respondents disagreed with the proposal was land value. Based on the comments, the majority of respondents disagreed with the proposal to allow exclusion of land from the opening balances of general PP&E. Ms. Batchelor explained the second briefing package included the staff analysis, recommendations, and the draft Statement with changes. She added that this would be the focus of the Board's discussion, unless there were questions regarding the comment letters or the staff summary. Ms. Batchelor expounded that staff would proceed by reviewing each topic presented in the staff memorandum. Although the land topic was listed first, it would be discussed last because one Board member was not present that had expressed concern in this area.

Mr. Showalter suggested that he believed it would be more efficient if after Ms. Batchelor explained the issue, the floor would be open for discussion and then he would ask if there were any objections to the staff recommendation. Absent any objections, the staff recommendation would be considered approved. If an area appears to be more controversial and a different approach is needed, then it will be discussed further and voted upon. The Board agreed with this approach.

Ms. Batchelor led the Board to issue #2—disclosure requirements—on page seven of the staff memorandum. She explained that the majority of respondents agreed with the related disclosures for establishing opening balances for general PP&E as provided in the proposed standards. However, certain respondents that agreed with the related disclosures provided comments for consideration (that are detailed in the memorandum) and which staff considered. Ms. Batchelor believed the first suggestion regarding consistency in accounting treatment and the combination of alternatives for complex reporting entities warranted further elaboration in the basis for conclusions. Staff proposed additional language for the basis for conclusions that would be included in the section for *Amendments to SFFAS 10, Accounting for Internal Use Software*. Authoritative guidance—if needed—could be provided through the Accounting and Auditing Policy Committee or staff implementation guidance. Ms. Batchelor explained that she did not believe the other suggestions regarding disclosures required further action.

Mr. Showalter asked Board members if there were any objections to the staff recommendation to address the concerns regarding disclosures. He also asked if the Board had any comments on the proposed language for the basis for conclusions. There were no objections by the Board members.

Ms. Batchelor explained that issue #3, SFFAS 35 rescission, began on page 11 of the staff memorandum. She explained the majority of respondents agreed with the proposal to rescind SFFAS 35 and to permit reasonable estimates in the preparation of financial statements, with or without the existence of SFFAS 35. While there was agreement, there were common suggestions provided by several respondents, including those that agreed or partially agreed with the proposal to rescind SFFAS 35. Based on these comments, Ms. Batchelor recommended incorporating the provisions of paragraph 19 of the ED in the amended text of SFFASs 6 and 10. This will address the primary concerns of most respondents and staff believes it can be accomplished while remaining consistent with the Board's intent. Staff also suggested certain language be added to the basis of conclusions to elaborate that concerns expressed by respondents are addressed through existing guidance.

Mr. Reger asked what the new language would provide. Ms. Batchelor explained that the new language added to SFFAS 6 and 10 would address the concerns raised by respondents that the guidance regarding reasonable estimates should reside in the main part of SFFAS 6 and 10 and not strictly the portion applicable to opening balances. Specifically, paragraph 26 of SFFAS 6 is amended by adding the following second sentence: "Although the measurement basis for valuing G-PP&E remains historical cost, reasonable estimates may be used to establish the historical cost of G-PP&E, in accordance with the asset recognition and measurement provisions herein." Paragraph 16 of SFFAS 10 is amended by adding the following first sentence: "Although the measurement basis remains historical cost, reasonable estimates may be used to establish the capitalized cost of internally developed software, in accordance with the asset recognition and measurement provisions herein."

Mr. Showalter asked Board members if there were any objections to the staff recommendation to address the concerns regarding SFFAS 35's rescission. He also asked if the Board had any comments on the language for the basis for conclusions or the proposed amended text of SFFASs 6 and 10. There were no objections by the Board members.

With regard to issue #4, IUS, Ms. Batchelor explained the majority of respondents agreed with the proposal to allow a reporting entity to choose among alternatives in establishing an opening balance for IUS. However, of the respondents that partially agreed, four respondents noted disagreement or concern with prospective capitalization of IUS, but agreed with deemed cost as an alternative method for IUS. In addition, one respondent (U.S. Army) believed prospective capitalization of IUS should be the only option. Ms. Batchelor explained that staff had summarized respondents' comments in the memorandum. She expounded that while she understands the views submitted by respondents, she believes these were considered during the Board deliberations related to this topic. For example, the Board initially agreed to only allow for prospective treatment of IUS. However, based on additional research and discussions with DoD, it was determined that it would be best to provide optimum flexibility within the proposed language. Ms. Batchelor recommended adding language to the basis for conclusions to acknowledge the concerns raised by respondents and to elaborate why the Board believes allowing a reporting entity to choose among alternatives in establishing an opening balance for IUS remains the best option and that concerns regarding inconsistencies will resolve quickly due to the short useful life of IUS.

Mr. Showalter asked Board members if there were any objections to the staff recommendation to address the concerns regarding IUS. He also asked if the Board had any comments on the language for the basis for conclusions. There were no objections by the Board members.

Ms. Batchelor explained that issue #5—line item—related to comments regarding what the term *line item* means. Specifically, respondents suggested that the definition of a *line item* was not clear. For example, respondents questioned whether the standard may apply to the individual line items (but not all line items) as presented in the PP&E notes to the financial statements. If the standard may apply for each item separately (as presented in the notes), then this should be made clearer in the standard.

Ms. Batchelor noted that staff had mentioned the issue briefly in the basis for conclusions of the ED, but suggested additional language to recognize the concerns of respondents and to clarify the matter. Mr. Showalter suggested that the language be clarified further because, based on his reading of the document, he concluded it was unclear that the Board intended either the face or the footnote. He requested that staff review the two areas to ensure they are consistent and clear that the Board means both are acceptable—the face and the footnote. He noted that the next to the last sentence in the new paragraph did not seem consistent. Staff asked for the Board's clarification about whether it wants deemed cost to be shown as a line item or if it is sufficient that it be shown as a disclosure in a footnote. The Board confirmed that it felt comfortable with the information being provided in either, and that it was acceptable for preparers to provide it in the footnote. Ms. Batchelor ensured the Board that staff would make this point clear.

Mr. Showalter asked Board members if there were any objections to the staff recommendation (with the additional clarification discussed) to address *line item*. There were no objections by the Board members.

Ms. Batchelor explained issue #6—scope—addresses various comments relative to scope that respondents raised. She explained that she believes the Statement addresses most of the respondents' issues to the point appropriate for a principle-based standard. However, one respondent asked for clarification that the standards apply to both the component reporting entities and the government-wide reporting entity. She believed this would require elaboration in the basis for conclusions and suggested that language be added to say it is the intention of the Board that all standards apply to any entity—component or government-wide unless otherwise stated. Specifically, SFFAS 24, *Selected Standards for the Consolidated Financial Report of the United States Government* states that SFFASs "apply to all federal entities, that is, to the Government as a whole and to component entities … unless provision is made for different accounting treatment in a current or subsequent SFFAS."

Ms. Batchelor explained that when reflecting on this issue, she considered whether the CFR contained an unreserved assertion and reviewed the language in Note 1. Note 1 of the CFR provides, "These financial statements were prepared using U.S. GAAP [generally accepted accounting principles], primarily based on Statement of Federal Financial Accounting Standards (SFFAS). Under these principles…" Ms. Batchelor explained it is not clear whether an assertion has or has not been made. The wording is different in component reports, as they do not use the word *primarily*. Some may interpret a reservation from the use of this term. This raises the question of whether the relevant assertion is the summary of significant accounting policies (Note 1) or the management representation letter provided to auditors.

Ms. Batchelor requested the Board's feedback on this matter. She recommended expanding the language regarding applicability to the government-wide report in the basis for conclusions. However, staff would need to expand the basis for conclusions even further if the Board believes that the factual question of whether the CFR has previously presented an unreserved assertion should be addressed in the Statement.

Mr. Reger asked how the language in SFFAS 24 affects those entities that apply Financial Accounting Standards Board (FASB)'s standards. Would the standards not apply to government corporations that apply FASB? Ms. Payne explained that SFFAS 24 provides a provision to apply other standards. Therefore, those entities are still applying the standards because there are provisions that allow them to apply FASB standards.

Although Mr. Dacey was not present, Ms. Payne shared that she had discussed with him this issue, and he had stated that he was comfortable because the management representation letter has the appropriate language. However, she noted that the management representation letter is not a public document. She expounded that the language in Note 1 is not clear as to whether an unreserved assertion is being made. The proposed Statement does not state where the unreserved assertion must be, and FASAB does not prescribe what has to be in Note 1.

Staff requested the Board's input on how to proceed with this issue. Mr. Showalter suggested that the discussion surrounding the question of what the management representation letter means and conveys is between the auditor and the issuer and outside the authority of FASAB.

Mr. Scott noted that if the assertions are not proper or it is material, auditors will mention it in the auditor's report.

Ms. Payne suggested that currently the Board is dealing with DoD, which is material to the government-wide. However, there is a chance there could be new reporting entities transitioning to the government in the future. She explained that there could be another category or condition; the government-wide could consolidate new reporting entities as they are asserted or identified. Ms. Payne opined that she was more sympathetic to the comment questioning what an unreserved assertion means based on the government-wide example. She explained that perhaps staff could work on language to address consolidating reporting entities at the government-wide level.

Mr. Smith noted that he did not see a problem and viewed this as a practical issue. He explained that when a reporting entity is consolidated for the first time, it is not possible to have known about it to have made the assertion to include it under FASAB the previous year.

Mr. Smith explained that as the assertion relates to DoD or the government-wide, he does not believe it has to be made public. He explained that it is fact based and substance over form. He does not believe an assertion could have been made based on the facts as presented; he does not believe this particular issue is a problem.

Mr. Showalter asked for any other member views, but no other members commented. Mr. Showalter noted that Mr. Dacey also did not see this as an area of concern. Mr. Showalter explained that based on that, it appears the Board is comfortable with the staff recommendation to address the concerns regarding the scope and no additional language needs to be added regarding the CFR assertion. He also asked if the Board had any comments on the language for the basis for conclusions. There were no objections by the Board members.

Ms. Batchelor explained that issue #7—in-service dates—related to comments regarding *in-service dates* as provided in paragraph 40.12.f. She explained that, based on the comments, there may be some misinterpretation that the material improvements have to be treated as if they were placed in service at the date the base unit was placed in service. Therefore, a paragraph in the basis for conclusions may be helpful to clarify that the standard is permissive. Ms. Batchelor also recommended a small change to the standard language by incorporating a footnote.

Mr. Reger asked how many years a reporting entity needs to consider when general PP&E was placed in service. Ms. Batchelor explained that this guidance is in the opening balance portion of SFFAS 6. Mr. Reger thought this might cause more problems. Ms. Batchelor explained that it is permissive language, and one of the main reasons for the language was for the material improvements that could not be separately identified. Mr. Showalter added that it was meant to be an aid for establishing opening balances.

Mr. Showalter asked Board members if there were any objections to the staff recommendation to address the concerns regarding in-service dates. He also asked if the Board had any comments on the language for the basis for conclusions. There were no objections by the Board members.

Ms. Batchelor explained that issue #8 in the staff memorandum discussed several areas identified as requiring no further action. Ms. Batchelor explained these areas included unreserved assertion, plant replacement value (PRV), accumulated depreciation, accounting for parent-child allocation transfers, and other issues—interim reporting & correction of errors. Ms. Batchelor explained that, as stated in the staff memorandum, these areas did not require further action because (1) the Board had deliberated the issue and/or the basis for conclusions addressed the issue adequately, (2) existing standards already addressed the issue, or (3) this Statement was not the venue to address the issue.

Mr. Reger confirmed that collectively all the topics detailed in issue #8 have been adequately resolved. Mr. Showalter asked if DoD was comfortable with the conclusion reached about how to report PRV. Ms. Batchelor explained that she had spoken with

DoD regarding the PRV issue (the day before the Board meeting during a conference call) and had also discussed this topic with DoD before the Board meeting. Ms. Batchelor explained that staff and DoD plan to discuss the issue further, and there may be additional language added to the basis for conclusions to clarify issues and to address DoD’s concerns.

Mr. Showalter asked Board members if there were any objections to the staff recommendation that no further action is required in these areas. There were no objections by the Board members.

Ms. Batchelor asked if any Board members had any questions on the changes to the Statement or any other matters before moving back to the land issue. No members had any questions about the document.

Mr. Reger noted that he would like to ask DoD if there are any other areas with which the agency needs assistance related to this document. He explained that the Board is addressing a lot of topics to assist DoD in making progress, so if there are issues that the Board needs to consider before voting on a ballot document, it would be helpful for DoD to alert the Board to those issues now.

Ms. Alaleh Jenkins, DoD assistant deputy chief financial officer, joined the Board table and responded that she is very appreciative of the assistance provided by FASAB staff to get to this point. She noted that FASAB staff was working on clarifying language related to PRV that she believes will be helpful going forward. Ms. Jenkins explained that additional language would ensure the policy and the standards are consistent. She transitioned by stating that DoD also has work that remains in the estimated useful life area and would like to discuss that further with FASAB staff.

Ms. Jenkins explained the last issue the Board planned to discuss—land—is also an area of concern for DoD, noting the responses to the ED were from reporting entities that do not own as much land. She expounded that DoD owns a lot of land but does not have the supporting documentation for the historical cost. These figures cannot be based on information that is readily available or on information that is used for another management purpose. Ms. Jenkins expounded that it would cost a lot of resources to either return to courthouses to collect the land documentation or to appraise the land to determine the valuation.

Ms. Jenkins elaborated that the respondents to the ED stated the Board should wait until the land project is complete to make any changes. She noted that she cannot wait, because she needs to provide the guidance for balances that are not correct and are not auditable. Ms. Jenkins understands some respondents want consistency, but she can only speak for DoD. She would like to see land reported similarly to stewardship land, with units such as acres reported with no value.

Ms. Payne explained that respondents noted that it might be more expensive for DoD to report acreage now and (if at the later juncture the Board requires valuation) then be required to report a valuation later. Ms. Jenkins stated that she did not believe it would necessarily be more expensive—it relates more to the level of effort. Further, the acreage information is something that DoD is currently in the process of working on as part of land existence and completeness. She explained that she views this as getting the advantage of not putting the valuation of land now, simply because it has not depreciated and it does not affect the current costs. She does not see the value in spending the taxpayer resources in doing this exercise, and she hopes the Board will come to this same conclusion.

Ms. Batchelor noted that it is important to consider the responses: 10 disagreed, six agreed, and several did not offer a response. In essence, roughly just over one-third of respondents agreed with the proposal. The respondents' reasons for disagreeing related to consistency and wanting to wait until the land project was complete. However, staff does not believe consistency to be a strong argument considering the inconsistency currently in the standards. In reference to the argument to wait until the land project is complete, it appears that feedback from DoD and its components (the reporting entities that would likely elect to use the proposed standard) should hold more weight, as they would be the reporting entities that would implement.

Mr. Granof explained that he did not see a difference in valuing a military base compared to a national park. More importantly, he did not see the value of that information or what the difference would be if a zero were placed on the balance sheet instead of another assigned value. He reiterated that DoD management does not use the information for anything.

Mr. Showalter asked about the Department's progress collecting acreage information and if it expects to be ready for audit. Ms. Jenkins responded that she believed so and that the Department has accountability requirements that depend on that information. She noted the Department is working through some issues, such as digitizing the records and mapping out land to the parcel level.

Mr. Dacey noted that one concern was consistency across the government, and the Board should be concerned about that. Specifically, he noted that for the government-wide financial report, there was a question of whether land should be expressed in different denominations. He noted that the Department of the Interior (DOI) had previously expressed a concern with reporting land in acres. Ms. Payne explained that in developing the implementation guide for SFFAS 29, *Heritage Assets and Stewardship Land*, the Board discussed this topic. SFFAS 29 only provides for physical units to be disclosed. DOI was adamant that the standards and guidance not require acres, square miles, or any other unit of measurement because it could be a unit that auditors would then have to audit. Ms. Payne explained that DOI provides the number of parks in its stewardship reporting and clearly provides the number of acres in the Secretary's Message. Therefore, it truly was a matter of not requiring the number of acres to be subject to audit.

Mr. Smith explained he was still concerned about consistency. He believed that if the Board had accepted the concept of deemed cost, then it should be acceptable to apply some alternative to the number of acres. Alternatively, if the Board has determined that land does not need to be valued, then why should the other reporting entities keep it on the balance sheet? Mr. Smith stated that the Board should be consistent. If the decision has been made, it should be dealt with globally, and there is not a need for the land project.

Mr. McCall explained that, as accountants, most believe the value of land should be recorded on the balance sheet. However, he does not believe this addresses accountability and how well we protect and maintain the land. He does not see the merit in valuing the land—especially considering the cost of retroactively recording and having a value going forward that may not be efficient or effective. Mr. McCall added that the responding agencies that have been diligent in the past view the option to record zero as too easy. Therefore, he believes the land project may enable them to come to the same conclusion and buy into this concept over time. Mr. McCall explained that in his view, he did not believe the land project would differ from the conclusion to allow land to be valued at zero with disclosure of acres. Ultimately, there is no value in recording land values. He explained that there is no land value today that will have significance in 200 years for purposes of management's decision making, just as the value of land from 200 years ago has no bearing on this process today.

Mr. Dacey explained his concern is that if the Board takes approximately $10 billion of land off the government-wide financial statements and $10 billion of land remains on the government-wide financial statements, what does the remaining balance represent? He notes that there is an issue of faithful representation.

Mr. Scott asked if there was a possibility of presenting something separate, similar to stewardship land (such as military land or defense stewardship land), that could be presented with the acreage information disclosed.

Ms. Ho explained that she is comfortable with the zero value because there is no future economic benefit. She does not believe it makes sense to spend the resources on something that does not have management benefit. Ms. Ho agreed with Mr. Smith that she did not see the benefit of completing the land project if the Board has already made these decisions.

Mr. Reger explained that he supported the zero value and whatever information was necessary for tracking purposes—if acres are appropriate, he is comfortable with that.

Mr. Dacey explained that his view, from the long-term perspective, is that there should be accountability for land. He supports the land project because he is concerned about differentiating between what is reported between agencies. He has concerns about not reporting land, but believes FASAB staff needs to research it further as part of the land project to determine how it should be reported consistently.

Mr. Smith explained he is supportive of valuing land at zero if the Board defines it differently, and it is applied to all reporting entities.

Ms. Bronner explained that she believes land should be on the face of the balance sheet, and there should be accountability. She elaborated that she could support a zero balance as long as there is accountability, and she is open to how one demonstrates that accountability (whether it is though the additional disclosures that would allow readers to understand the magnitude or some other method). She added that she believes there is some future economic benefit, should the federal government decide that it wants to sell the land. Therefore, she believes the Board has to be careful and to consider all the scenarios.

Mr. Granof explained that one of the key purposes of the external reports is that they enforce accountability. Therefore, there is value in providing accountability information such as acreage, but he does not see value in providing valuation when it is not used for management purposes.

Mr. McCall reiterated his previous comments that he does not see anything to be gained by recording a value other than zero. He believed the work involved to value the land—especially considering the cost of recording going back—may not be efficient or effective.

Mr. Scott explained that he supports the land project but reiterated his earlier comment that in the interim he would support allowing DoD to disclose information regarding its land in a unique category, such as defense stewardship land.

Ms. Batchelor explained that as a follow-up to Ms. Bronner's point, the draft as exposed did provide for a reference on the face of the balance sheet to the disclosures. Staff also believes that, listening to most of the Board members, the provisions provided for in the ED as exposed may still be in line with the Board members' current thoughts. Therefore, clarifying these issues would be helpful for staff. For example—if a reporting entity does exclude land balances, do members want them to exclude future acquisitions? The Board agreed that future acquisitions should be excluded.

Staff also asked if the Board wanted to name DoD or to specify conditions that would make the exclusion applicable to DoD. Staff noted that this topic had not been exposed and that there could be new reporting entities that may need to apply such provisions prior to the Board completing the land project. Instead, it may be more appropriate for FASAB to direct at the government-wide level that departments that report zero for the balance of land should be identified so the government-wide is clear regarding this inconsistency. Therefore, the Board did not believe it appropriate to make the opportunity for exclusion only applicable to DoD or DoD-type land.

Mr. Reger asked Ms. Jenkins if these decisions would assist DoD in its efforts. She said they would because the standards would provide that DoD may exclude valuation amounts for land and this would enable DoD to provide the necessary guidance to move forward. Mr. Showalter explained that, in the spirit of transparency, it should be noted that decisions made at this point are subject to change in the land project and the Board could determine that valuation is necessary as a result of that project. Ms. Jenkins explained that she understood. The Board members discussed that if different decisions are made as a result of the land project, DoD would be provided the necessary implementation time for proposed changes.

Mr. Dacey reiterated his concern with inconsistency, but he was unsure what more could be done. Ms. Payne noted that reporting entities had problems with the implementation of SFFAS 6. She added that DoD is the first agency to implement with the magnitude of general PP&E, including land. She explained that the nature of DoD's holdings may be why the Board is just addressing the cost-benefit aspect of the project.

Ms. Batchelor asked for the Board's confirmation that it agrees to maintain the allowance for the exclusion for land as proposed in the ED, as well as to exclude future acquisitions and the required disclosures. Ms. Batchelor also asked the Board to confirm that staff should add language regarding the consolidated government-wide financial statements and that disclosures should list the reporting entities that elected to exclude land. Mr. Dacey explained that it is important to provide some context about what is being reported, especially when one considers the different types of reporting. He explained that some are reporting disclosures with national parks for stewardship information, and then some will be reporting acres for land information. Staff explained that they would add a section for the government-wide disclosures that should explain this in detail.

Mr. Showalter asked the Board if it was supportive of continuing with the provisions provided for in the ED but also adding the disclosure for the government-wide narrative for land.

Mr. Reger agreed with the approach but explained that the ED may require some additional wording.

Mr. Dacey noted that he understood Mr. Reger's point but was hesitant to proceed without knowing what would result from the land project discussion. He added that if the land project were to move relatively quickly, he would be less hesitant. Mr. Reger responded that he believes we have to continue with the land project because the Board is dealing with inconsistency.

Mr. Smith explained he was willing to proceed but not supportive of the approach.

Ms. Ho asked if we approve this and DoD moves toward auditability, then what would happen if the Board changes the standard to require valuation? How might that affect DoD's auditability? Mr. Showalter responded that, for this reason, he explained to DoD that the decision is subject to change. However, the Board would provide ample implementation time for those changes. Ms. Ho agreed with the approach.

The remaining Board members (Ms. Bronner, Messrs. Granof, McCall, Scott, and Showalter) indicated they were supportive of the approach.

Based on the votes, the Board agreed the approach for land was consistent with the provisions provided for in the ED and that additional language would be added to address disclosure at the government-wide.

Mr. Dacey explained that he believes it important that the Board's rationale for maintaining the ED position be included in the basis for conclusions. As part of due process, it would be prudent to include the respondents' feedback, the Board's reasoning, and perhaps some discussion of the land project.

Mr. Dacey also noted that he had one question on an area that the Board had already discussed. He asked if the Technical Releases (TRs) or other GAAP guidance that references SFFAS 35 would be amended because the Statement is being rescinded. Ms. Payne explained that staff reviewed the matter and did not believe it was necessary because none of the references were to a specific portion of SFFAS 35. However, if Mr. Dacey felt strongly about amending the documents, then staff could do so as an administrative update. Mr. Dacey explained that he believed it would be helpful, based on the comments, because users appear to use the guidance. Ms. Payne explained that this process could be done, but it would be accomplished through an amended TR (not as part of this Statement).

> **Conclusions:** After considering comment letters, summary of issues and staff recommendations, proposed changes, and a draft Statement *Establishing Opening Balances for General Property, Plant, and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35,* the Board approved staff recommendations, with the exception of land. On this topic, the Board agreed to an approach consistent with the provisions provided for in the ED, as exposed.
>
> In addition, the Board also requested that staff make the following changes to the ED:

- Government-wide disclosures regarding land should be added to provide for a narrative discussion listing consolidated entities that opted to exclude land.
- The basis for conclusions should be updated to include the Board's reasoning for maintaining the ED's position regarding land.
- TRs that reference SFFAS 35 should be amended to reflect the rescission of SFFAS 35. (This will be accomplished as part of an administrative update through an amended TR.)
- The Statement should be reviewed to ensure the language regarding *line item* is consistent so that it may be on the face of the financial statement or in a note disclosure.

The Board agreed to proceed to a preballot draft of the Statement at the April 2016 meeting and further due process to issue the document. The Board expects to vote on the Statement at the April meeting or shortly thereafter.

- **Project Plan—Land**

During the three-year plan review and pursuant to earlier project discussions, members approved the proposed project plan at Tab D entitled *Accounting and Reporting of Government Land*. The Board agreed that the project, managed by FASAB Assistant Director Domenic Savini, should address implementation issues that have arisen pursuant to SFFAS 6, *Accounting for Property, Plant, and Equipment* and SFFAS 29, *Heritage Assets and Stewardship Land*.

Although the Board generally agreed with the proposed project plan's goal (to determine how best to account for and to report land) and project details, members asked staff to specifically address the following matters:

- **Land rights and land improvements**—Assessing land rights and land improvements will require a comprehensive revisit into both topics, specifically ensuring that FASAB clearly distinguishes land rights from those rights which are addressed by SFFAS 38, *Accounting for Federal Oil and Gas Resources*.

- **Fair value**—Assessing fair value entails the application of *highest and best use* and if the resulting appraised value is dependent on whether an entity is disposing or acquiring land. Staff will also consider whether impairments should apply to land that is fair valued.

- **Consistency**—Assessing consistency will involve the extent to which changes in predominant use or managerial intent could lead to accounting or reporting inconsistencies between reporting periods.

- **Management information needs and constraints**—Assessing management information needs and constraints will involve measuring the utility of the project to the agencies in managing mission and program requirements. Staff will also consider the extent to which guidance should afford flexibility relative to the different agency land portfolios and resource/capacity constraints.

- **Communication of guidance**—Assessing how best to communicate this guidance will involve deciding whether SFFAS 6 and SSFAS 29 require amendments or rescission.

Members also discussed the importance of materiality assessments, including qualitative judgments and appropriate accountability to the public for all the land the government owns or manages.

Adjournment

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

Thursday, February 25, 2016

Agenda Topics

- **Reporting Model**

Overview

The Board, along with FASAB Assistant Director Ross Simms, reviewed key terms in the draft ED Concepts Statement. The ED proposes concepts regarding the government-wide and component reporting entity reporting models, and the Board sought to clarify these intended concepts. The Board discussed the definition of GAAP and its role within performance and budgetary information. The Board agreed that federal GAAP includes both basic financial statements and RSI, and GAAP directly affects performance information and budgetary results. Although the Board does not determine the performance measures, performance information should be included in financial reports to help users assess the results of using budgetary resources. In addition, given the various aspects of budgeting and the variety of terms used to describe it, staff will review the budgetary terms written in the ED and make it clear the budgetary information that users need.

In addition, the Board discussed the definition of general purpose federal financial reports (GPFFRs). The ED proposes that the government-wide and component reporting entity financial reports are types of GPFFRs. While the reports are intended to be comprehensive, they may not be a *single* source of information. Also, constituents and other standards-setters may use the term GPFFR differently from the approach taken in the ED. Consequently, staff will research the use of the term and revisit its use in the document.

The ED proposes that component reporting entities provide program-level information to show users the amounts expended on programs of interest. The Board determined that this approach needed explanation, given the different perspectives on the term *program*. Thus, staff will develop language to explain the intent of the proposal.

The Board discussed other changes to enhance the intent of the proposed guidance, and staff will present revisions at the April 2016 meeting. Additional details of the Board discussion are presented below.

GAAP with Respect to Performance Information

Board members agreed that GAAP directly affects performance information, and the first sentence of paragraph 8 should be revised accordingly. The sentence did not include performance information and stated, “With respect to FASAB’s focus, the Board develops GAAP for reporting on the results of operations, financial position, and financial condition of the federal government and its component reporting entities.”

Board members discussed the importance of presenting performance information in government-wide and component entity financial reports and stated that GAAP for federal financial reporting entities is broader than GAAP for private sector companies. Users need performance information for federal financial reporting to assess the results of the resources used. The concepts should note this difference and be clear that federal GAAP includes basic financial statements and RSI. The Board also asserted that it is not the role of GAAP to establish performance measures; that is the role of the agencies.

However, performance information should be included in the government-wide report as the information becomes available. Mr. Dacey explained that the challenge is determining which performance measures should be presented in the government-wide report. The premise has thus far been that the government-wide report would provide summary information while the component reports would provide details. The ED could set the expectation that the government-wide report would eventually present national performance indicators, in the event they are developed.

<u>GAAP with Respect to Budgetary Information</u>

The Board agreed that GAAP facilitates reporting on budget results and emphasized that paragraph 8 and other proposals in the ED should be clear about what budget information should be presented. Mr. Reger noted that agencies are experimenting with a schedule of spending, and some agencies, such as the Department of Health and Human Services, are starting to subject the schedule to audit procedures. This may provide a place to compare audited financial activity and spending. Mr. Dacey added that the ED should indicate that reporting on budgetary status and activity would be appropriate.

<u>General Purpose Federal Financial Reports</u>

Staff will research how the ED should define a GPFFR. Some members believed that the GPFFR would be a comprehensive document where users might start their review. However, if users were primarily interested in budgetary information, they would likely go to the President’s Budget. The President’s Budget is intended for a general audience, rather than a specific group of users, and could be considered a GPFFR. Other standards-setters use the term GPFFR differently from the definition used in the draft Concepts Statement.

<u>Program-Level Information</u>

Paragraph 46 of the ED proposes that component reporting entities provide program-level information. However, the Board agreed that the proposal is not clear because there are several possible definitions of the term *program*. Mr. McCall noted that paragraph 17 of the ED states, "FASAB develops GAAP for federal entities using an open and deliberative process that facilitates agreement on criteria." The paragraph also states, "[G]eneral purpose federal financial reports are based on a common understanding of terms and elements as well as the relationships to the concepts." Mr. Dacey suggested that staff determine characteristics of the information needed, and the Board may decide to refer to this level of disaggregation as a *program*.

Paragraph 37 of the ED

Paragraph 37 of the ED discusses useful information for demonstrating accountability and decision making at the government-wide reporting level. Members were concerned that the items listed may overlap. For instance, tax expenditures could be part of the revenue category, and expenditures and budgetary legislation are listed separately but may involve the same information. Staff will review the list and propose changes.

Comprehensiveness: Whether the Proposed Concepts Should Incorporate Statements of Federal Financial Accounting Concepts (SFFACs) 5 and 7

The Board agreed that the Concepts Statement would not incorporate Statement of Federal Financial Accounting Concepts (SFFAC) 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements* or SFFAC 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*.

Guidance for How to Disaggregate Costs and Budgetary Information

The Board agreed that the ED should note that more disaggregated data can provide additional information that may be useful to users. However, guidance for how to disaggregate data can be addressed in the standards.

Financial Position and Financial Condition

The Board agreed that the ED should include a high-level discussion about financial position and financial condition. The current concepts include a discussion on the relationship between sustainability and financial condition.

Plain Language Summary

The Board discussed that the proposed concepts should be easily understandable to ED respondents, and the ED should include summarized headings and diagrams where appropriate.

> **Conclusion**: Staff will provide a revised draft ED at the April 2016 Board meeting.

- **Leases**

FASAB Assistant Director Monica Valentine presented to the Board a draft ED of the proposed standards on non-intragovernmental lease accounting. The Board had previously directed staff to use GASB's proposal on leases as a platform for developing the federal standards on non-intragovernmental leases. The GASB ED was released for comment in January 2016. Staff made several revisions to the language contained in the GASB proposal to reflect differences at the federal level, any conflicts with existing FASAB standards, and any changes to which the Board had previously agreed. In addition, staff also posed 23 questions to the Board related to the draft. The questions highlight areas where the FASAB proposal deviates from the GASB proposal, areas where the task force has raised questions, and areas where overall general questions on the proposal were appropriate.

Mr. Showalter opened the discussion by asking staff to highlight only the areas in which Board members had additional questions, as well as the areas in which staff would like further direction from the Board, due to the number of questions put forth by the staff.

<u>Capitalization Thresholds</u>

Ms. Valentine stated that because SFFAS 6, *Accounting for Property, Plant, and Equipment* (PP&E) specifically addresses capitalization thresholds, a task force member questioned whether the lease standards would allow federal entities to establish capitalization thresholds for lease assets. Ms. Valentine also noted that GASB does not address the issue of capitalization thresholds in the standards sections of the lease ED, but in the basis for conclusions.

Staff proposed that FASAB also address the issue of capitalization thresholds for lease assets similarly to how it addressed them in SFFAS 6. Staff proposed language be added to the introduction section of the lease proposal.

Mr. Granof suggested that the Board require entities to use the same capitalization threshold that they use for similar assets.

Mr. Showalter asked if it is possible to have a situation where the asset is below the threshold, and the related liability is material to the financial statements. He also asked if the threshold should be applied to the lease liability as opposed to the lease asset because the focus is on the liability.

Mr. Smith suggested that the Board not specifically address capitalization thresholds in the standard but allow preparers and auditors to determine the materiality of the transaction as it relates to the application of the lease standard.

Mr. Reger noted that the absence of guidance in not addressing the issue of capitalization thresholds could be problematic.

Mr. Dacey agreed with Mr. Smith's point.

The Board agreed to not specifically address capitalization thresholds in the lease proposal but to discuss overall materiality in the application of the standard, which would then apply to the materiality of the related lease liability and lease asset.

Service Concession Agreements (SCAs)

Ms. Valentine noted that GASB's lease ED specifically excludes "[Lease] contracts that meet the definition of a service concession arrangement in Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements (SCAs)." Currently, FASAB standards are silent on SCAs. Staff is concerned that the proposed definition of *lease* could inadvertently sweep in SCAs. Because the current FASAB standards are silent on SCAs, it would not be prudent to simply exclude SCAs without providing direction on how to account for them.

Staff suggested that further analysis be done to explore possible options for the accounting of federal SCAs, including the development of a definition for the term and the possibility of using GASB No. 60 as a basis for any future FASAB guidance.

Mr. Dacey noted that some SCAs would be covered by the lease standard.

Ms. Payne stated that staff is not fully prepared to discuss the options for SCAs and would like time to further research possible options.

The Board agreed with staff's suggestion to further explore possible options for the accounting of federal SCAs.

Probability Threshold

Ms. Valentine noted that GASB and FASAB's definitions of *probable* are different because GASB's threshold is higher than FASAB's. GASB's *probable* definition equates to *likely to occur*. FASAB's *probable* definition equates to *more likely than not* (>50% probability). FASAB had previously agreed not to change its definition of *probable* to be a higher threshold with respect to when certain lease payments should be included in the measurement of the lease.

Since the previous FASAB decision, GASB has changed its proposal from *probable* to *reasonably certain* with respect to when certain lease payments should be included in the measurement of the lease liability. The phrase *reasonably certain* has an even higher threshold than *probable*.

Staff once again recommended staying with FASAB's definition of *probable*, simply because there seemed to be no compelling reason to introduce a new term for the sake of a higher threshold.

Mr. Granof agreed with using FASAB's definition of *probable* because it is clear that the probability threshold is greater than 50%—more likely than not.

Mr. Showalter stated that GASB's use of a higher threshold would shrink the pool of leases available for consideration and therefore affect the liability and asset recognition. It also may decrease the level of effort on the part of preparers because the threshold is so high.

Mr. Dacey noted that he would like to be able to assess the cost-benefit factors of a higher-probability threshold versus a lower-probability threshold. He suggested reaching out to the General Services Administration (GSA) and other non-intragovernmental lessees to discuss those cost-benefit factors.

Staff agreed to discuss the cost-benefit factors of a higher-probability threshold versus a lower-probability threshold with GSA and other non-intragovernmental lessees.

Lease Asset Classification

Ms. Valentine noted that the GASB ED specifically identifies the right-to-use lease asset as an intangible asset. She also noted that SFFAS 6, *Accounting for PP&E* currently classifies capital leases as a PP&E asset. Although the GASB ED proposes that the underlying asset be recognized as an intangible asset, FASAB standards do not specifically require assets to be classified as tangible or intangible, and there are currently no FASAB standards on intangibles. Because the proposal includes both PP&E assets and intangible assets as lease assets, staff proposes that the lease asset not be classified as either an intangible or a PP&E asset but as a nonclassified asset.

Ms. Valentine stated that there was some confusion about what staff meant by a *nonclassified asset*. She clarified that staff's proposal is that the *lease asset* not be specifically classified as a PP&E asset or an intangible asset on the balance sheet, but would have its own line item on the balance sheet if considered material.

Mr. Dacey suggested that the classification align with the asset's nature and characteristics. He added that software is also an intangible asset that is classified as PP&E.

Ms. Payne noted that all leases may not be restricted to just PP&E assets but are still being defined as *nonfinancial assets*.

Staff suggested discussing the issue further with the task force and coming back to the Board with members' views.

Mr. Showalter also suggested adding a question to the ED.

The Board did not object to staff's suggestion to get the views of the task force on the classification and to add a question to the ED.

Lessee Incremental Borrowing Rate

Ms. Valentine noted that GASB proposes use of the incremental borrowing rate if the actual or implicit rate charged by the lessor cannot be readily determined. This is consistent with current FASAB standards. However, the incremental rate for federal borrowers is the Treasury rate—a risk-free rate.

Mr. Smith asked if there was a better rate available that could be used in place of the Treasury rate.

Mr. Dacey agreed with using the Treasury rate.

Ms. Payne noted that the risk-free rate is not reflective of the lessor's implicit rate, and the risk-free rate would understate the interest expense. She also suggested that the language in paragraph 20 be modified from "If the rate cannot be readily determined…" to "If the rate cannot be reasonably estimated by the lessee, the lessee's incremental borrowing rate (the estimated rate that would be charged for borrowing the lease payment amounts for the lease term) should be used."

The Board agreed with the revised language.

<u>Lease Liability Remeasurement—Due to a Change in an Index or Rate</u>

Ms. Valentine noted that GASB proposes that the lease asset be adjusted when the corresponding lease liability is remeasured. GASB also proposes that the effects of a lease liability remeasurement, due to a change in an index or rate used to determine variable payments, be recognized the same way as the effects of remeasurement for other reasons. This would be an adjustment to the lease asset, rather than recognition in the flows statement (as proposed in the Preliminary Views). GASB proposed the change primarily due to cost-benefit concerns.

FASAB staff recommended that the effects of a lease liability remeasurement, due to a change in an index or rate used to determine variable payments, be recognized (the portion attributable to the index or rate change, if it is attributable to the current period) as a period cost that would go to the flows statement.

Mr. Granof stated that he disagreed that the lease asset should be adjusted when the corresponding lease liability is remeasured. There is neither a conceptual nor a practical reason for adjusting the asset. In fact, adjusting the asset undermines the very rationale of the standard—that a lease is, in essence, a financing arrangement.

Mr. Smith noted that the lease asset amount does not reflect the actual asset value but the right to use the asset. This is derived from the liability calculation, and any changes to the liability should not be reflected as a period cost (but over the life of the asset).

Mr. Dacey stated that these are prospective changes in payments and should not be recognized as period costs. The asset should be adjusted to stay consistent with the original recognition of the lease.

The Board agreed to remain consistent with GASB's approach that the lease asset be adjusted when the corresponding lease liability is remeasured in all instances.

Lease Asset Meets the Definition of an Investment

Mr. Showalter suggested that the term *investment* be defined because the proposal states, “If the underlying asset in a lease meets the definition of an investment, the lessor should account for that asset as an investment and should not apply the recognition and measurement provisions of this Statement.”

Staff noted that FASAB does not currently have a definition for the term *investment*.

Mr. Dacey asked staff to discuss with the task force whether this specific guidance is needed in the federal arena—situations that would be equivalent to what the proposal relates to.

Ms. Payne suggested staff research definitions and make a proposal to the Board.

Staff agreed to discuss the issue with the task force and to research other options for definitions.

Insignificant Lease Components

Ms. Valentine noted that the Board had previously agreed that the guidance should exempt leases with multiple insignificant and unpriced components from applying methods to disaggregate the components.

The draft language would read, “If a contract/agreement does not include prices for individual components, or if those prices are not reasonable based on other observable stand-alone prices, lessors and lessees should do the following, unless the components as a whole are not considered significant.”

The Board had no objections to the edit.

Rent Holidays

Ms. Valentine noted that GASB proposes to not straight-line rent holidays. However, FASAB had previously agreed to recognize rent holidays on a straight-line basis over the lease term.

Mr. Dacey asked staff to assess the cost-effectiveness of straight-line rent holidays versus payments as they are made/received.

Mr. Showalter suggested that a question be added to the ED.

Staff agreed to discuss the issue with the task force and to add a question to the ED.

Mr. Granof asked if the issue of bargain purchase options should be specifically addressed by the Board. Members supported the current proposal—to treat the bargain purchase options in the same manner as other options contained in the lease—but to discuss this in the basis for conclusions.

- **Project Plan—Reconciling Budget and Accrual**

During the three-year plan review and pursuant to earlier project discussions, members approved the proposed project plan at Tab I entitled *Reconciling Budget and Accrual Project Plan*. The Board agreed that the project, managed by FASAB Project Manager Grace Wu, should address implementation issues that have arisen as a result of SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.* FASAB has identified the following areas as topics which need to be addressed:

- The current Statement of Financing note—while supporting reporting objectives—has been criticized as too complex and not useful.
- The project will enhance the understandability of the note by considering ways to more directly relate budgetary data and accrual data, so that a less complex presentation is available.
- The project will improve the usefulness of the note by ensuring that it supports the Government-Wide Accounting (GWA) Reconciliation Statement. The project is limited to component reporting entity requirements and will not consider changes to the GWA Reconciliation Statement.

The Board also agreed on the primary objectives of this project:

- Staff will research the component reporting entity accrual and budgetary reconciliation to identify ways to improve the understanding of the relationship between the use of budgetary resources and the costs of program operations. This includes ways to provide a direct reconciliation from the net cost to the budget outlay at a component reporting entity level.
- Staff will research and recommend alternative component-level reconciliation presentations that may include alternatives for supporting the GWA reconciliation and disaggregated information.
- Staff will evaluate current FASAB guidance, especially SFFAS 7, for potential amendments related to component reporting entity requirements.

Conclusion: The Board approved the general project timeline and discussed the possibility of Treasury implementing the changes related to this project in fiscal year 2018.

- **Three-Year Plan**

FASAB Executive Director Wendy Payne referred members to the comments received on the Three-Year Plan. She noted that outreach had been comparable to prior years.

One change was the addition of a second independent public accounting (IPA) firm roundtable. Because of the success of these IPA roundtables, she indicated that FASAB had planned roundtables for the preparer community for the fiscal year 2017 – 2020 plan.

Members had earlier provided their top three selections from among the potential projects. The most significant result was that seven members ranked one or more potential projects related to performance reporting (Financial Performance Reporting, Financial/Economic Condition Reporting, Performance Reporting, and Cost Accounting) in their top three priorities.

Potential Projects Rated as Top 3	**# of Members**
Projects Relating to Performance	
Financial Performance Reporting	3
Financial/Economic Condition Reporting	2
Performance Reporting	2
Cost Accounting	2
What is meant by performance statements as part of RSI in reporting model	1
Defining programs & activities so that cost can be reported	1
Performance Measurement	1
Subtotal of Top 3 rankings	**12**
Electronic	3
Summary or Popular Reporting	2
Land	2
Asset Retirement Obligations	2
Public-Private Partnerships—Phase 2	1
GAAP Hierarchy	1
Sustainability	1
"Budget" to Actual	1
Liability for civilian and military pensions is growing	1
Improve clarity regarding intragovernmental debt	1
Risk Assumed	1

During the discussion, the Board and staff raised the following matters:

- Categories and projects seem to overlap and shift. For example, previously electronic reporting seemed to address how to display information electronically, but that topic is being overtaken by the Digital

Accountability and Transparency (DATA) Act and technology initiatives. In addition, cost accounting is defined differently by different people, and the project goals therefore change over time. This makes it hard to understand the Board's role within these topics.

- Members agreed that the land and public-private partnerships projects are scheduled and should proceed as planned.

- The "budget" to actual project may not be feasible, given the nature of the budget (appropriations are provided in many ways and outlays occur over several years following the budget year) and that there is not actually a singular budget. However, one member hopes that it is possible to report on the original appropriations and what is actually spent. One example discussed was the supplemental appropriations made to support war fighting. While the funds are provided through a separate bill, the budget authority and status are reported in much the same manner as other appropriations—through the statement of budgetary resources—and are included in the calculation of the deficit. Whether readers understand this information is another matter. In addition to the CFR, members noted there is a statutory requirement for Treasury to report. Understanding the obligation process and how that relates to outlays and the budget deficit is challenging. Further, the President's Budget is provided, but the actual final appropriations do not appear as an adopted "budget" in the same manner. One member noted that the budget information for an agency is highly aggregated and one would not actually see evidence of an Antideficiency Act violation directly on the statements (the notes provide greater detail though). However, the auditor would report such findings. The Board member clarified that he did not expect this project to address the compliance issue. Rather, he hoped readers could see the original estimate against the actual results, although it is unclear what the source for the original estimate would be. In addition to the spending requests, the receipt estimates and mandatory spending are challenging.

- Members discussed the role of reporting information by program. Some noted that there is a great deal of information about resources budgeted and their status, but it is aggregated by fund and agency. To implement the Data Act, all that information—the outlay and obligation at the appropriation account level and then another summary by object class and program activity—will be available. The information would then be linked to award-level information. Ultimately, it should be presented in a way that is relatable to the public. Allowing the public to drill down into this information is probably the best way for people to explore and to improve their understanding of the budget and budget execution.

- One member noted that the electronic reporting project started as a project relating to links, but that the Board must now consider the DATA

Act. However, there are no rules currently around DATA Act style reporting. Such electronic approaches open a world of potential reporting.

- Some noted that there is an intersection among the projects to define programs, cost accounting, and electronic reporting. Recent AGA research addresses middle-level financial information and notes it should be further defined and developed. Such data consists of all information that is “higher level than transactional but less aggregated than the current presentation. This information may be the most beneficial for internal and external agency decision-makers, including Congress.” That effort would be an intersection of electronic cost accounting and financial performance reporting. Some members agreed that one cannot achieve these goals without defining the term *program*. One member noted that you could still do product and process pricing. In response to a question about the need for rules around pricing, a member asked how that relates to financial reporting.

- Regarding summary reporting, federal agencies currently provide a summary of performance and financial reporting, but some are not readily digestible. The summary is the document most likely to be read, so improving the summary provides an excellent opportunity to reach users. Clear guidance regarding good, effective communication is needed, but it would not necessarily be in a standard. There are existing resources in other domains (such as FASB and GASB literature), so the Board would not need to do a great deal of original work.

- One member suggested caution on the cost accounting project. The concept of cost accounting is reasonably well understood and SFFAS 4 provides guidance in two areas—how costs are allocated to a statement of net cost (and that is subject to audit) and the underlying information needed for management. The challenge is motivating the agencies. Giving them more how-to-guidance is unlikely to be effective. Other than agencies charging fees or having a cost champion, it is unclear whether agencies have real cost accounting systems. Whether more guidance would produce change is also unclear.

- One member noted the challenge for citizens to understand intragovernmental debt. He drew the analogy to a bank. Money is deposited to cover future needs, such as Social Security or employee pensions, but is spent on other priorities. He indicated that the federal government may have good reasons for this. However, he does not believe the current financial reports accurately present these amounts as receivables from people who received benefits but have not yet paid taxes or as payables to people who paid taxes but have not yet received benefits. He referred to articles, as in the clippings provided, entitled *Has Social Security’s Trust Fund Been Robbed?* and stated that there is a lot of misunderstanding. We need clarity in this area.

- One member expressed concern about the growing liability for civilian and military pensions. If the military and civilian pension payments from the employees were put into a pot and the federal government matched this amount to pay benefits like one sees in state and local governments, it would be sensible. However, there is very little cash at the federal government level compared to the total one might expect because the government has intragovernmental receivables and payables that do not show up on the government-wide financial statements. The question is if military and civilian pensions represent a sustainability issue. Members noted that the government presents note disclosures, recognizes the full civilian and military pensions and other post-employment benefits, separately displays dedicated collections on the face of the statements, and provides fiscal sustainability information. The fact that intragovernmental debt will need to be funded in much the same way that debt with the public is funded appears in the notes as well. The member raising the concern noted the need for an entry such as “amounts due from future generations” to bring attention to the issue. Such an entry may not be politically acceptable but would highlight the sacrifices needed today to prevent future generations from being burdened.

- A member suggested that the American public should be more aware of financial reports and the work of the Board. It would be helpful to identify projects that have a broad impact and would bring attention to federal financial reports. Members generally agreed and some thought the tax expenditures project fit that description.

Members and staff shared the following thoughts regarding the process of setting priorities:

- Priority projects are usually identified in April so that staff is able to research as time permits, given the active project activities.

- Specific timelines are difficult to set because of the nature of identifying options and developing the written documents. Members are mindful of timelines, while seeking to clearly express not only the guidance but also the rationale to support the guidance.

Conclusions: Members will finalize priorities at the April meeting.

Adjournment

The meeting adjourned at 2:45 p.m.