FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
April 24, 2013
Room 7C13
441 G Street NW
Washington, DC 20548

Wednesday, April 24, 2013

Administrative Matters

- **Attendance**

The following members were present throughout the meeting: Chairman Allen, Messrs. Dacey, Dong, Granof, McCall, Reger, Showalter, Smith, and Steinberg. The executive director, Ms. Payne, and general counsel, Ms. Hamilton, were present throughout the meeting.

- **Approval of Minutes**

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

- **News Items from Members**

Mr. McCall recently retired from his position as city auditor in Tallahassee, Florida, and is now the chief audit officer at Florida State University. Members and staff congratulated Mr. McCall on his new position.

Mr. Reger reported on the OECD Public Sector Accruals Symposium held in March in Paris. There is a recommendation by the Eurostat that governmental standards for the

European Union be developed. He was not sure if the focus of this recommendation is to develop a different set of standards from those of the International Public Sector Accounting Standards Board (IPSASB) or to adapt IPSASB standards. Mr. Dacey clarified that the recommendation was to build on the IPSASB standards, and develop EU standards so there would be greater comparability among EU governments financial information. [Note the full report is available at http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/1_EN_ACT_part1_v5.pdf (last accessed May 3, 2013).]

Agenda Topics

- **Update on Office of Financial Innovation and Transformation (FIT) and Treasury Government-wide Accounting Initiatives**

Adam Goldberg, Executive Architect from the Treasury Department FIT, provided the Board with an update regarding the goals and activities of FIT. He noted the long-standing challenges of getting systems tools installed in the federal agencies at the right cost, on time, and really delivering the functionality sought. FIT serves an incubator for financial management technology with the goal of achieving greater success with new systems installed at agencies. The electronic invoicing (accounts payable) system is an example of one system agencies are encouraged to adopt and which has shown great success. They also are conducting a pilot of a centralized receivables service, which involves having a third party manage the collections. The pilot is demonstrating success in overcoming some of the challenges inherent in the receivables process. The price per collection has declined significantly while the collection rate has risen.

Mr. Goldberg indicated that another challenge FIT has taken on is improving the matching of intragovernmental amounts. He explained that agencies are often unable to reconcile balances related to intragovernmental transactions. FIT is exploring how to use existing tools such as electronic invoicing to aid the reconciliation process. A scorecard for agencies has also been developed.

Mr. Goldberg noted the cultural and technical challenges of implementing new systems at agencies. Agencies needing new systems are now being required to first consider a provider—a shared service provider (SSP). These SSP's may be federal, internal, or a third-party. The SSP model is working well for small agencies and larger agencies are now required to consider SSPs. Some larger agencies may find it efficient to set up an internal provider for their own components. If they are unable to use an SSP, a system may be acquired or developed but under stricter controls.

Members inquired about the ability to evaluate SSP efficiency. Mr. Goldberg and members from OMB and Treasury acknowledged that a direct comparison with the private sector would be difficult. Nonetheless, some activities can be compared and comparisons between federal SSPs are useful. It was also noted that (1) incentives must be preserved for the private sector to develop new offerings and (2) agencies must be willing to change their processes.

Mr. Allen asked whether these systems provide solely information for financial reporting or whether they also meet management needs for real-time data. Mr. Reger indicated that that is the goal. Mr. Goldberg noted that SSPs can develop internal reports but there will be fees associated with the effort. Overall, better managing data is the goal.

Christina Ho, Assistant Commissioner of Government-wide Accounting (GWA), discussed activities in her office. GWA prepares the consolidated financial report and is developing ways to remediate the material weaknesses that result in the disclaimer of opinion on the consolidated financial report. Ms. Ho focused on two material weaknesses - intergovernmental differences and the general fund—and the effort to implement the Government Treasury Account Symbol Adjusted Trial Balance System (GTAS).

To address the intergovernmental differences, GWA has created scorecards for each agency. The scorecards identify agency contributions to the overall intergovernmental difference and also motivate the agency to improve. The effort also involves the audit community by seeking improved guidance on intergovernmental balances. Other efforts include consideration of a unique identifier to support matching of amounts between partners and possible use of the new electronic invoicing system. Some are piloting use of the electronic invoicing system (IPP) but others prefer the existing intragovernmental system (IPAC). To improve IPAC, some of the features of IPP are being added.

One of the biggest sources of differences is the use of the general fund as the trading partner (counterparty agency). There are two efforts - one is to produce the scheduled General Fund authority which includes the warrant issue, all the disbursements at the agency level, collections and even the financing activities on the scheduled General Fund. At this point, GWA can produce a schedule of General Fund authority. Two is for the general fund to become a non-reporting entity which would submit the financial statement to GFRS so that eliminations can be processed against it.

Another initiative at GWA is the GTAS, which replaces four legacy systems. It is live now and being tested and will allow for better edit checks and analytics. Both budgetary and proprietary data will be in GTAS. This will give OMB better access to data, support the matching of intergovernmental balances, and improve the quality of data.

Members expressed their appreciation to Mr. Goldberg and Ms. Ho. A great deal of information was shared which will be beneficial as the Board considers issues.

- **Educational Session – FASB Insurance Contracts Projects**

Ms. Valentine began the discussion by reminding the Board that at the last meeting the Board agreed to a phased-approach for the Risk Assumed project that would begin with federal insurance and guarantee programs. As a part of the research phase, staff thought it would be beneficial to get a good understanding of the new measurement approaches being proposed by the Financial Accounting Standards Board (FASB) in its soon to be released exposure draft (ED) on insurance contracts. Chairman Allen also noted that since FASAB's current standards on insurance and guarantee were primarily based on the existing FASB standards, the Board will need to address the FASAB insurance and guarantee standards.

Ms. Valentine introduced the FASB presenter, Ms. Jennifer Weiner, FASB Senior Practice Fellow. Ms. Weiner noted that her presentation would give an overview of the current FASB proposal on insurance contracts and that she will focus on the measurement approaches being proposed. Mr. Reger asked Ms. Weiner if she could specifically point out the changes in the FASB standards as she goes through her presentation. Ms. Weiner pointed out that she has provided the members an appendix to her presentation that is a comparison of existing FASB guidance and the guidance in the proposal.

Ms. Weiner noted that she has been involved in insurance accounting standards for over twenty years. She began her presentation by addressing the question – "why is the FASB issuing a proposed accounting standard update on insurance?" She pointed out that the existing guidance is based on Financial Accounting Standard (FAS) No. 60(1982), which is essentially a comprehensive endorsement of AICPA guidance and a patchwork of other insurance-related guidance. The FASB also found that some inconsistencies existed among the various GAAP guidance.

Ms. Weiner emphasized that a comprehensive approach is the objective for the proposed guidance, as well as the convergence efforts with the International Accounting Standards Board (IASB). The IASB issued a discussion paper in 2007 on their approach to insurance contracts. In 2010 FASB "wrapped" the IASB discussion paper into a preliminary views discussion paper and received about 50 comment letters and there was overwhelming support for FASB developing a comprehensive set of insurance standards in conjunction with the IASB. Respondents to the FASB 2010 discussion paper also suggested several areas of improvements to the existing insurance standards. She also noted that FASB and IASB are not completely converged on their insurance contracts proposals.

Ms. Weiner noted that the project's objective is to increase the decision usefulness of the information about an entity's insurance liabilities, including the nature, amount, timing, and disclosures necessary for the financial statement users (i.e., the public, investors, regulators, etc.). Comparability of entities is also an important factor in developing the insurance standards – products with similar risk, similar cash flows, similar attributes, etc. She noted that one significant change from the existing guidance is accounting for risk products as opposed to simply insurance entities.

Ms. Weiner continued her presentation highlighting the measurement model key features:

- Updated estimates and assumptions
- Current measurement of risk

- Reflect time value of money
- Market consistent estimate

The FASB proposal includes a definition of an insurance contract – “A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.” The proposal is not entity specific, but focuses on risks and guarantees.

Mr. Granof asked Ms. Weiner if credit default swaps would be within the scope of the proposal. Ms. Weiner stated that they would not be included because with a credit default swap, the policyholder does not necessarily sustain a loss but is more in the nature of speculative investing.

Mr. Showalter asked if the FASB definition implies that a literal contract is in place, because in the federal environment an explicit contract may not exist. Ms. Weiner responded that the FASB definition does imply the existence of a literal contract, therefore for FASAB’s purposes the definition may need to be modified. Mr. Showalter gave the example of the Federal Deposit Insurance Corporation (FDIC), where the agreement is between the FDIC and the institution not the FDIC and the depositor. Mr. Granof asked if loan guarantees were within the scope of the FASB definition. Ms. Weiner noted that there are some guarantee exclusions included in the proposal; however, she noted that mortgage loan guarantees would be within the scope of the standards.

Mr. Reger asked Ms. Weiner for clarification on the insurance contract definition slide that states, “Significant insurance risk cannot exist unless there is at least one commercially substantive scenario in which the present value of net cash outflows can exceed the present value of cash inflows (for example, premiums).” He asked, would significant insurance risk exist at the time of the insurance contract when there is only a possibility of a future risk (i.e., flood insurance). Ms. Weiner responded that type of risk would be within the proposal’s scope.

Mr. Reger also asked if the full amount of the risk would have to be recognized at the time the contract is written. Ms. Weiner referred the Board to the “Recognition” slide, where she pointed out that there are two possible points of recognition – 1) when the contract is written or 2) when the coverage period begins. The FASB is proposing that recognition begin when the coverage period begins. However, in those instances when there is no specific contract, the coverage period would have to be determined.

Ms. Weiner highlighted several instances when components of insurance contracts should be separately accounted for under other guidance. She also explained “contract boundary” as the point at which the entity no longer has a substantive obligation to provide the policyholder with coverage.

Ms. Weiner next focused the discussion on the proposed measurement models – the premium allocation approach (PAA) and the building block approach (BBA). The PAA would be applied to insurance contracts with a coverage period of one year or less (e.g., property, casualty, and short-term health insurance contracts) or if it is unlikely that during the period before a claim is incurred, there will be significant variability in the expected cash flows. The BBA approach would be used for insurance contracts not meeting the PAA criteria, which are usually the long-duration contracts (e.g., life, long-term health insurance, and annuity insurance contracts) when the likelihood of a claim normally increases over time.

Ms. Weiner explained that the BBA measurement model has two elements – the fulfillment cash flows and the margin/profit. The fulfillment cash flows is the expected cash outflows less expected cash inflows based on specific assumptions. In addition to the expected claim amount, the cash outflows include all other costs associated with fulfilling the claim using a probability-weighted estimate. Assumptions, including the discount rate, are to be updated each reporting period and changes are recognized in net income. The discount rate should reflect the characteristics of the liability.

Mr. Granof asked Ms. Weiner if “characteristics” refers to contract duration and the associated risk. Ms. Weiner agreed with his assessment of “characteristics.” She further noted that the proposal does allow entities to use comparable investment rates if the necessary adjustments are made (such as, default rates and duration differences). Mr. Granof commented that each entity would have to determine their own discount rate – Ms. Weiner confirmed his understanding. Chairman Allen asked what information is the proposal requiring to be disclosed. Ms. Weiner stated that entities would disclose in a table the expected cash flows and the yield over future periods.

Mr. Reger asked for clarification on how and when the changes to the discount rate would be reported. Ms. Weiner stated that the changes in the discount rate would be reflected in other comprehensive income (OCI). One reason the FASB decided to recognize the discount rate changes in OCI is because most of the investments associated with this liability are also reported as fair value for which changes are reported in OCI. Mr. Showalter commented that in the case of federal insurance products, assets may not be specifically set aside for future claims and therefore the change in the discount rate will not have an offset of changes in the investment fair value.

Ms. Weiner explained that the BBA margin is measured as the excess of the expected cash inflows over the expected cash outflows at a level that aggregates insurance contracts into a portfolio of contracts**.** The current standards allow for a net liability, however the current proposal recognizes the expected margin/profit separately and as acquisition costs are “paid” [later clarified by the FASB to be “incurred”] the expected profit will be reduced. However, if the direct acquisition costs that an entity expects to pay exceed the margin on the portfolio, a loss should be immediately recognized. The margin is earned as the entity is released from the risk (i.e., as the uncertainty in the cash flows becomes more certain).

Chairman Allen ask Ms. Weiner if FASB was getting much “push-back” from the community in reference to the complexity and the extensive level of monitoring required to account for these insurance contracts. Ms. Weiner explained that entities would maintain the contracts at a portfolio level and the assumptions would be applied at that level. Mr. Granof asked how would the margin be recognized on “day one” of the contract. She explained that the margin would be recognized as a liability/deferred revenue, however if a contract is determined to be a loss, that loss would be recognized immediately.

Ms. Weiner briefly discussed the recognition of revenue and expenses under the BBA model. She noted that any amounts that would be returned to the policyholder (or beneficiaries) regardless of whether an insured event occurs should be excluded from revenue and expenses for claims and benefits. Mr. Reger asked her how those “deposits” are recognized. Ms. Weiner stated that those amounts would still be reflected as a liability; however the “deposit” portion of the premiums paid would not be recognized as revenue when received. Mr. Granof asked if the same discount rate is used to calculate the liability and to record the premiums. Ms. Weiner responded yes.

She also explained premiums are recognized over the period in which the event is likely to occur, however maintenance related portions of the premium are recognized when the maintenance costs occur.

Ms. Weiner turned her presentation to the proposed PAA measurement model. The PAA model also has two elements – the liability for remaining coverage (i.e., unearned premium reserve) and the liability for incurred claims (i.e., reserves for claims and claim adjustment expenses). She noted that in the proposal the former “unearned premium reserve” is now called the liability for remaining coverage. Under the PAA model, a receivable should be recognized for future premiums that corresponds to the amount of the liability for remaining coverage. The liability and the receivable would accrete interest if significant financing is involved. However, if the time period between the receipt of the premium and corresponding coverage period is less than one year only interest would accrete. Insurance contracts using the PAA model would not be required to update assumptions each reporting period. However, contracts will have to be tested to see if they meet the onerous criteria (i.e., the expected cash inflows is less than the expected cash outflows for fulfillment of the contracts in the portfolio and the expected acquisition costs) and if it is determined there is an onerous contract, an expense and additional liability would be recognized. Revenue is recognized in proportion to the value of coverage.

Ms. Weiner briefly discussed the liability for incurred claims (which includes amounts for incurred but not reported claims). The liability is measured as the present value of the unbiased, probability-weighted estimate (i.e., the mean) of the future cash outflows. She pointed out that the discount rates used in the BBA model would be applied to the liability for incurred claims, however if the effects of discounting are immaterial or when the incurred claims are expected to be paid within one year of the insured event, discounting is not required. Mr. Dacey asked Ms. Weiner how inflation is reflected in the calculations. She noted that inflationary factors should be reflected in the expected cash flow amounts.

Chairman Allen commented that it looks as if FASB is still a few years away from final issuance of the insurance contracts standards. Ms. Weiner stated that the exposure draft is expected to be released sometime during the summer, which would allow for redeliberations during 2014 and expected final issuance in 2015 – although it would not become effective until 2017 or 2018. Chairman Allen thanked Ms. Weiner for her very informative presentation.

Ms. Valentine informed the Board that she would continue her research on existing federal insurance and guarantee programs.

- **Technical Agenda**

Ms. Payne opened the discussion regarding congressional outreach by acknowledging the assistance provided by general counsel, Jacquelyn Hamilton. Specifically, her consideration of how any such efforts relate to the Federal Advisory Committee Act and the fair and open due process the Board relies upon. Ms. Payne emphasized the importance of identifying what we would hope to accomplish from a congressional outreach program before deciding on next steps. She asked for members' input regarding the objectives and referred them to the potential objectives in the briefing memo (see table 1).

Mr. Dacey noted that Congress is considered a user of financial information and that the Board should know what information they use. Hence, he preferred an objective related to determining what they really want to learn from the financial statements, which aligns with objective 4 on the list.

Table 1: Potential outreach objectives include to:

1. Maintain an open dialogue and increase awareness of FASAB and its processes (relationship building)

2. Keep the Board's Congressional constituents informed of developments in federal financial reporting (encouraging participation by sharing knowledge)

3. Obtain their views as users of financial information regarding emerging issues and priorities (explicitly seeking informal input on our technical agenda)

4. Seek their views on the structure and focus of financial reports that would enable them to clearly communicate with their constituents so they may better understand the government's financial position and results of operations (user needs assessment and promote elected officials use of information in constituent outreach)

5. Offer educational resources to members and their staff (educational effort to promote use of information on the Hill)

6. Encourage members of Congress to alert their constituents (or the media) regarding the availability of federal financial reports (educational effort to encourage citizen and citizen intermediary use of information)

7. Build support for improving federal financial reporting (relationship building directed to needed improvements or sustaining present capacity)

Mr. Showalter agreed – he referred to items three and four on the list of potential objectives because their views regarding emerging issues and their information needs would provide practical information for the Board. He would not see educational outreach as useful to the Board. He preferred any outreach to be closely tied to the technical agenda.

Mr. Smith agreed with Mr. Showalter and noted the need to understand one user group's needs. He thought an educational component to explain what the model is now and then have a dialog about how they are using it or might use it in the future.

Mr. Dacey agreed. He preferred to focus on what information would be helpful to Congressional users rather than seeking their preferences among specific alternatives. He also noted, with regard to the question of who to reach out to, that GAO has some contacts and experience in talking to Congressional staff and members. They've also identified some of their interests and have regular communications with certain staff members. In particular, there are hearings annually on the consolidated financial report as well as some specific agencies.

Ms. Kearney agreed. She thought the objective should be to get that stakeholder feedback while recognizing that they're not our only stakeholder. Thus, a high level but targeted approach may be helpful.

Mr. Allen noted his concern that outreach should be non-political. Any discussion of how to convey the financial position of the government to elected official's constituents is likely to be biased by political views and driven by particular issues such as social insurance. He endorsed what was said earlier about keeping outreach at a high level of information and thought a white paper may be helpful. It could relate at a high level the objectives of financial reporting, the financial statements, useful websites, and other resources. By identifying what we hope to accomplish, we might then as if they believe anything is missing. We may also remind them that we are open to their feedback.

Mr. Reger thought it was important, since they are a user group, to make sure they are seeing the statements. The annual hearings reach only a limited number. He questioned how the outreach might be structured. This is one user group but it is a user group that can act quickly to obtain what it wants. He thought it important to recall that Congress is not the only constituent group. He thought it important to guard any impressions regarding the Board's independence.

Mr. Steinberg endorsed the list in Table 1 and thought each one had merit. Recognizing that you can't do everything, he thought the least important was number four. He believed numbers one, two, five, six and seven are the Board delivering something; while three and four is asking Congress to do something. Four I put the least amount to because my experience has been when you go out to people and say what are you looking for, is this the area? They say, I don't know, what are you recommending? And so just in general I don't think that's as useful. I think the main purpose of what we're doing is to have that recognition of it present. So, yeah, you know, if they end up telling us things to do, at least they know we exist now. So I would start with number one. Get that dialog going, increasing awareness or -- on what we're doing, build relationships wherever they can come, and then the other things will flow from that.

Mr. McCall added that if the government-wide financial statements were given to either Congresspersons or their staff they would get lost pretty quickly. He preferred the Citizens Guide; noting it brings everything into one place and helps people focus on the most important items. He also cautioned that what we would be trying to do is provide information for analysis, understanding, transparency, accountability, and we should not be viewed as advocating.

Mr. Granof reminded members that there was a piece in the Wall Street Journal by two Congresspersons who were clearly involved in financial matters and they discussed the flaws of federal accounting which as it is practiced, hides liabilities and hides expenses. They were clearly talking about budgeting and not accounting. And in this article, they made no reference whatsoever to the financial statements that we set standards for. He indicated that many members of Congress have no idea that there is a difference between financial accounting and budget. He advocated making them aware of that difference.

Mr. Steinberg asked if legislators at the state level recognize the difference between the two.

Mr. Allen answered yes because the financial statements are more of driver there, given the decisions needed regarding funding for pensions. He thought there was always a small group that were quite interested in what you do but the majority could care less about financial reporting. He noted the need to get the really important information on page one.

In response to a question about there being more awareness, .he thought they seem to understand the budget versus GAAP difference because that was focused on as the financial statements were released to the media.

Mr. Reger added, from his experience at the state level, the statements mattered a little bit more because states care a whole lot more about debt ratings, bonds outstanding, and marketability of their securities. This is just in early recognition phases in the federal government. The statements at the federal level have not been in the media nearly as much as they have been in state and local for a while.

Mr. McCall agreed with the comments. He added the legislature cares about bond ratings and the liabilities. Legislators and legislative staff don't care much about the details – they want assurance the bond rating is stable and then they turn to the budget. So they're not so interested in financial statements that have just been issued last year because they're dealing with what's going to happen in the coming years. Generally, he thought there was a lack of understanding of the accounting by the budget staff at both state and local levels.

Mr. Granof agreed based on what he hears of the debates on the balanced budget amendment. These indicate a lack of understanding of cash versus accrual as well as a budget and how this capital spending is accounted for in accrual based financial statements.

Mr. Allen noted the first article in clippings is from somebody who has been in two high level administrations and thought the difference between capital investment and consumption spending should be highlighted. He noted that was a perfect time to say we do have financial statements to show the difference between what we spend on capital, and yet that was not even there at all.

Mr. Allen summarized by saying members had offered some cautions, but generally agreed something needed to be done. He suggested that we take time to think about the discussion a little bit more, confer with general counsel, and come back to a more specific proposal at a future meeting. Members suggested the proposal consider (1) the government oversight committees in each house, (2) the various committees interested in programs and budgets, (3) timing (for example, outreach immediately before the debt ceiling limits are reached may be less beneficial and outreach near the report issuance dates may be more beneficial), and (4) Congressperson's expect meetings to be regarding specific requests (pleas) from constituents, so it may be best to begin with staff level meetings.

Mr. Allen suggested moving on to the technical agenda. Ms. Payne noted that the technical agenda discussion generally begins with confirmation that the factors for prioritizing projects are still relevant for members. She asked if members had any concerns to raise regarding the factors and none did.

Mr. Allen suggested members consider whether the current agenda projects are still supported.

Mr. Showalter asked if the investments in non-federal securities project was a priority. He indicated that he has not heard what the issues are that need to be addressed. Mr. Allen noted that the scope of the project was narrow as it related only to intervention activities where the objective is economic stability. Neither Mr. Allen nor Mr. Showalter thought the need for guidance was an immediate priority.

Mr. Dacey agreed, but noted the project received support in prior meetings. He thought it was an important topic but at the same time it has not been suggested that current accounting and reporting is deficient, such that standards are urgently needed.

Ms. Payne agreed that no one had suggested that the current reporting is deficient. She also did not support this being a priority issue. She did note that the preparer staff within Department of Treasury has identified questions about how to deal with some aspects of the transactions. These issues have been worked out between the CFO office and the auditor and there is an opportunity to benefit from the current experiences to establish guidance for the next such event. She also indicated that she would prefer the project to be broader because addressing investments narrowly may omit important issues.

In response to a question from a member about the time already invested in the project, Ms. Payne explained that it was assigned as the next project for a particular staff member. That means research had been done but no briefing materials have been prepared for the Board.

Members agreed to add the investments in non-federal securities project to the list of potential projects so that it could be ranked again.

Mr. Allen asked members to rank projects. Some members asked about the process.

Ms. Payne noted that she would like to know if there are potential projects that you want to consider removing from the list. She also asked for high (5-year horizon) and medium (10-year horizon) priorities.

Mr. Steinberg inquired about adding a project to the list regarding differences in reporting revenue among agencies supported by fees.

Members asked how this differed from the potential project to review revenue standards. Ms. Payne suggested it was broader than that because the key differences seemed to be in how appropriations were reported.

Mr. Steinberg noted that there are five agencies that he looked at that are supported entirely by fees; the Federal Housing Finance Agency, the U.S. PTO, the Federal Trade Commission, the Nuclear Regulatory Commission, and the Securities and Exchange Commission. Now, basically their appropriation acts describe how they are supposed to use their fees. In some instances the fees get reappropriated, and then they can spend or set aside part of the fees to be available the next year. The appropriations laws are different and the financial reporting is different. He believes they were following the appropriations laws. He was reminded that when the state and local government accounting started, different governments would prepare financial statements differently saying that that was in accordance with their laws, and then they said it's in accordance with generally accepted accounting principles. The AICPA came along and said, “hey, state and local governments, there really is only one set of generally accepted accounting principles. While governments can report in accordance with their laws, if they want to say it's in accordance with generally accepted accounting principles, then it should be in accordance with the defined way.” So with that, he wondered, does it make sense that with organizations that are supported entirely by their fees, when they report the fees on the statement of net costs and the statement of changes in their position, which are not budgetary statements, should the reporting be similar so that you can get comparisons among these five organizations; you can actually see to what degree their fees are going up or down and are able to support the level of effort that they're putting into the program.

Mr. Allen asked if this is a standards issue or a compliance issue.

Mr. Steinberg indicated that you can put the statements of budgetary resources side-by-side and work through the comparison but you can not do the same with the accrual basis statements.

Mr. Dacey noted he would like to see the materials. While this is an agency level issue, he did not think it would be significant at the consolidated level.

Mr. Allen thought the issue was a standards issue and perhaps represented a void in the standards. Mr. Dacey suggested implementation guidance might resolve it.

Mr. Allen asked staff to research the issue to see if implementation guidance would achieve consistency.

Mr. Steinberg noted that the staff paper suggested less emphasis on using AAPC to develop implementation guidance due to resource constraints.

Ms. Payne noted that the decline in emphasis means issues will be addressed more slowly; not that no work will be done. She suggested that the budget experts at OMB could be very helpful to us in understanding why there may be differences among the user-fee funded organizations and how those differences impact the accrual statements. That may be a logical first step in considering the need for guidance.

Mr. Allen suggested moving on and asked staff to research the issue.

Mr. Dacey asked if there were any updates on the Department of Defense (DoD) potential proposal regarding accounting for military equipment.

Ms. Payne explained that she spoke with comptroller staff at DoD and there is no set timeline; nor is there a more detailed plan. Based on the uncertainty, she advised that the Board should move ahead with other priorities until DoD provides a proposal.

Mr. Allen indicated that he had a discussion with a DoD staff member who implied the proposal may be changing.

Mr. Dong asked about process. He asked if we are to look at the potential project list on page 17 to determine what would be next in the cue.

Mr. Allen briefly noted the desire to know what projects were high or medium priority as well as any projects that should be removed because they are not likely to be a priority ever. Some members indicated that they had only rated things high and had not yet ranked their high priorities or considered their medium priorities. Mr. Allen suggested that members identify their high priorities and we would defer ranking until another meeting.

Mr. Dong asked about the scope of the public-private partnership (P3) project. He asked if there is any potential overlap with the P3 project in terms of the reporting entity or the risk assumed project.

Ms. Payne responded that there is tremendous overlap. She noted that P3s will involve reporting entity questions, lease questions, and risk assumed questions. The value added from having it as a separate project is that oftentimes these arrangements are very complex and people are having a difficult time, at least from our initial assessment, reaching in and seeing the lease or reaching in and seeing the control of the new entity that was created. So there may be room for implementation guidance there. She explained that staff is spending a lot of time with the task force discussing risk because we believe that would be risk assumed or additional disclosures about P3 in the interim. The risk assumed project is a larger and likely more complex effort and P3s may give us a chance to develop risk related information needs regarding P3s. There are also technical issues such as valuing in-kind exchanges.

Mr. Allen noted that the P3 scope could be evaluated as the project is further developed.

Ms. Payne explained that P3 would be on the June agenda. Questions for the Board will include whether the Board believes it is within the scope to consider risk disclosures about the existence of P3.

Mr. Reger asked about staff recommendations for future projects. Ms. Payne indicated that she would rank tax expenditures, revenue standards, and the recommendations that relate to the consolidated financial report as high priorities. She emphasized reviewing the revenue standards not because she would adjust the recognition guidance but because the presentation of revenue information is disjointed and difficult for the reader to understand. Ms. Payne noted that she would also place a high priority on the work that Association of Government Accountants has done on the government-wide. Any improvements they identified should be considered timely.

Mr. Dacey asked what would happen if the Board reached a consensus on the top three items today; that is, what's the impact in the short-term.

Mr. Allen said there would be a discussion of how those rank against those already on the agenda and I think at some point in time you would have to ask if the new one becomes the next project. He also noted that many projects – to him – relate to the reporting model project and the development of an ideal model. He did not believe those items should be separate projects but that they would come up in an existing project. So, he ranked those as high priorities.

Mr. Reger expressed concern that considering items to be part of large projects may prevent the Board form addressing very high priorities until much later.

Mr. Allen noted that he has ranked such projects highly so you have to consider those items in the broader projects sooner. Other members noted that they did not rank things they thought would be part of existing projects. This raises a concern that the ranking may be difficult to act upon.

Mr. Reger offered to identify his priorities in the interest of moving things along but was unsure what would come next. Mr. Dong asked if there was value in discussing each project so that a common understanding of scope was established. He asked if we had time to do that before a decision was needed.

Mr. Allen said we did. He noted that the goal of this meeting was on an annual basis we consider priorities. From this meeting, we may well come out asking staff to identify which of the highly rated projects are broadly in the scope of the reporting model anyway. So that maybe you could say one would not necessarily need to be a separate project or provide some additional feedback on some of the next tier ones so we can talk about them or understand them. Today we should just get a rough idea of in the next five years what do you see as the higher priority items.

Ms. Payne noted that the recommendations from the 2010 task force on reporting model should be considered and pointed out where she had added them to the list. She reminded members that they had a full list of the recommendations with their handouts. The list provides a draft status report and members are asked to provide comments on the draft following the meeting.

The members offered their individual priorities and explanations. The priorities are presented in Table 2 below and explanations are presented following the table.

Table 2: Summary of Member Priorities

POTENTIAL PROJECT	Number of Members Supporting	Tom Allen	Norman Dong	Bob Dacey	Gray Smith	Scott Showalter	Michael Granof	Sam McCall	Hal Steinberg	Mark Reger
LINKING COST AND PERFORMANCE	**8**	1	1	1	1	1	1	1	1	
INSURANCE	**6**		1	1	1	1			1	1
MANAGERIAL COST ACCOUNTING - WHAT INFO NEEDS ARE AND WHY AND HOW TO USE INFO	**6**	1	1	1				1	1	1
RECONCILING BUDGET AND ACCRUAL INFORMATION	**6**	1			1	1		1	1	1
TAX EXPENDITURES	**6**	1			1	1	1	1		1
FINANCIAL/ECONOMIC CONDITION	**5**				1	1	1	1		1
REVENUE (Exchange and NonExchange)	**4**	1		1	1	1				
ELECTRONIC REPORTING	**3**	1					1		1	
INTERNAL USE SOFTWARE	**2**	1		1						
STATEMENT OF CHANGES IN CASH	**2**	1								1
COST OF CAPITAL	**1**						1			
EVALUATING EXISTING STANDARDS	**1**		1							

Members' comments, if any, are provided below. Most members noted that the projects they listed were not yet in rank order.

Mr. Reger:

1. Financial/economic condition project because there is a need over the longer term to expand on those things that we have now incorporated as nontraditional financial information in our report. He suggested we might want to consider what other things are relevant and should be included there, and that the whole discussion currently existing seems a little one-sided anyway.
2. Insurance--since the presentation by Ms. Weiner had him wondering if the reconciliation of their new standard to federal standards is essential.
3. Managerial cost accounting—because is increasingly important that somebody start taking a look at costs and how we generate cost information and what that cost information represents. He thought we ought to be encouraging people who do cost accounting, product cost accounting or production or process cost accounting -- we don't do it.
4. Reconciling budget and accrual information--resolving more permanently the difference between fiscal gap and budget deficit and figuring out how we deal with that.
5. Statement of changes in cash—it's time to deal with the statement of spending and statement of net cost and the statement of cash. If what we want to do is explain better to the people who seem interested where we have spent our money, then we ought to figure out how to do that in a linked fashion that makes sense of this in total.
6. Tax expenditures—the whole concept of recognition of tax revenue needs some work.

Mr. Showalter:

1. Linking cost to performance
2. Reconciling the budget and accrual information
3. Economic condition
4. Insurance
5. Revenue including Mr. Steinberg's user fee concerns.
6. Tax expenditures because he believes a way to measure them is needed.

Mr. Steinberg:

1. Electronic reporting—because it's happening, and either it's going to happen without Board recognition and then we end up writing standards for what already exists or it happens with Board recognition and pronouncements.
2. Insurance—because that is the liability side of the ballot sheet, and I'm worried about that.
3. Linking cost to performance—because we need cost information in government to know what people are getting for the cost.
4. Managerial cost accounting—which would be part of linking cost to performance

5. Reconciling budget and accrual—reporting the relationship between budget and accrual information.

Mr. Dong:

1. Linking cost and performance
2. Managerial cost accounting—but with a very practical focus
3. Insurance—to ensure we are current on that.
4. Evaluating existing standards—how do we kind of optimize standards?

Mr. Dacey:

1. Since FASB is changing, we need to consciously decide whether to keep what we have or change with them regarding
    a. Insurance, and
    b. Revenue recognition
2. Internal use software—because preparers continue to express concerns but the project never makes it to the top of the priority list. [Members asked if that was a government-wide issue and Ms. Payne responded that it tended to be agencies heavily dependent on up-to-date software to support their missions such as the intelligence community.]
3. Linking cost and performance.
4. Managerial cost accounting—But with a broad focus on meeting agency needs for general management information. It seems now systems are improving, we're moving to the shared services and perhaps we have better data. The Board should consider the kind of management information that would be useful and how it can be used. So, a discussion of management information may be helpful. [Mr. Dong endorsed Mr. Dacey's view of the project.]

Mr. Granof (expressed a general preference for projects that truly advance accounting globally):

1. Linking cost and performance
2. Electronic reporting – while he does not know what specific issues must be addressed, he believes it is time to make some progress in that area.
3. Tax expenditures – while extremely difficult it is extremely important from a policy perspective.
4. Financial/economic condition
5. Cost of capital – with regard to the discount rate

Mr. McCall:

1. Financial economic condition – which he thought could be combined with linking cost and performance and managerial cost accounting
2. Linking cost and performance
3. Managerial cost accounting
4. Reconciling budget and accrual information
5. Tax expenditures
6. Outreach and education – which may have been addressed in the earlier conversation

Mr. Smith:

1. Financial and economic condition
2. Insurance
3. Linking cost and performance
4. Reconciling budget and accrual information
5. Revenue
6. Tax expenditures.

Mr. Allen [noted that four of these projects we were likely to address in the reporting model project and that insurance should be part of the risk assumed project.]:

1. Linking cost and performance
2. Managerial cost accounting
3. Electronic reporting
4. Internal use software
5. Reconciling budget and accrual information
6. Revenue
7. Tax expenditures.
8. Statement of changes in cash

Mr. Showalter asked if there was a codification of FASAB standards (presenting them by topical area as both FASB and GASB do). Ms. Payne responded that there had been a codification but the effort to keep it up to date was too great and it has not been updated in many years. She noted that at least one online accounting research provider includes FASAB GAAP and this provides users with better search capability. She also mentioned that a clarity review of the existing standards could have been but was not on the list of potential projects. She explained that other standards setters have undertaken that effort. She did not include it because she felt it would not be as meaningful given the existing process for implementation guidance which could resolve clarity issues.

Other members also noted that a codification would be very helpful but difficult to develop and maintain. It was reported that GASB had a contractor develop the codification and it required six months work but the material is now kept up to date by including instructions for codifying each new standard as it is issued.

Mr. Allen suggested that sufficient feedback had been obtained for Ms. Payne to develop the priority projects in more detail.

Ms. Payne agreed and indicated she would come back with revised plans including resource needs. She also suggested that for internal use software, she would request assistance from the affected community. If the most vocal supporters of change would develop a detailed proposal for the Board’s consideration progress might be made quickly.

Members also noted that some of the projects overlapped and could be considered together as larger efforts.

- **Reporting Model – Educational Site**

<u>Overview</u>

During the April 2013 meeting, the Board discussed the plans for a web-based educational outreach project. The web-based educational outreach effort would involve developing a website that integrates videos, graphics, and text to guide users in how to find answers to questions they may have about federal department and agency finances. Board members raised concerns about the timing of the project, given the Board's current technical agenda and limited resources and other matters that should be considered, such as the expected outcomes and how the project would relate to existing educational tools. Consequently, staff will continue to focus on the primary project, developing the conceptual reporting model, and will develop additional details for the educational outreach plan. Additional details of the educational website discussion follows.

<u>Discussion</u>

Mr. Allen noted that the educational website should start with the government-wide and discuss what could be learned from that level, then proceed to discuss the component entity level. Mr. Simms agreed and noted that discussing the government-wide would help provide context for the agency level.

Mr. Dacey noted that the Government Accountability Office (GAO) has an educational guide linked on the Department of the Treasury (Treasury) website for the consolidated financial report of the U.S. government (CFR). The guide discusses the CFR financial statements and how they inter-relate . Board members also noted that there are other websites that provide educational materials that assist users in understanding issues such as the difference between cash and accrual accounting.

In response to a question regarding what gap the educational website is intended to fulfill, Mr. Simms noted that the site was focused on the agency level, while the GAO guide focused on the CFR. Ms. Payne also noted that, in focus group discussions, users expressed that they would prefer electronic, Internet-based sources and brief videos to help them learn about the finances of the federal government. Thus, the educational website reformats materials into a medium that citizens would find more accessible.

Mr. Smith noted that he believed that the website would help users understand what information the financial statements are intended to provide, rather than a portal for accessing the various financial statements. Currently, although the statements are not in one place, users can access them.

Mr. Reger noted that the Treasury website has links to the agency financial statements and other information. It would be appropriate if the educational website explained the nature of the statements and generically explained the information included, so that the site would not have to change from year to year. Mr. Reger noted that trying to discuss each specific topic, such as the Troubled Asset Relieve Program (TARP), could be overwhelming. Mr. Simms confirmed that the site was intended to generically discuss the financial statements and, for the most part, the site would be static. Also, the Governmental Accounting Standards Board (GASB) prepared a series of guides to assist users in understanding state and local government financial statements and Mr. Simms noted that he was using the guides as a model. However, the federal guide would be an electronic version rather than a printed document.

Mr. Showalter noted that “how” the information is presented is going to be as important as “what” is presented. Using “plain-English” will be important to helping citizens.

Mr. McCall noted that a citizen would likely want to know:

- What is the difference between total liabilities and our federal debt?
- What are our major liabilities?
    - Military and civilian pensions
    - Debt held by the public
- What is the importance of the Comptroller General’s opinion?
- What entities are required to prepare financial statements and which entities prepare them voluntarily?
- Where would one find information on program sustainability?

Mr. Simms noted that the site would attempt to address questions that users asked during focus group discussions versus simply explaining the financial statements.

Mr. Reger noted that various approaches could be used for the site. The site could address broad questions such as what is the set of financial statements required of federal entities, what is the role of FASAB, and how do the set of financial statements for federal entities differ from those of other organizations citizens may have seen.

Mr. Steinberg expressed concern whether developing the educational website would be the best use of the Board’s resources. He noted that he could not support the Board using resources to develop the website when the Board does not have the resources to develop requested standards. The Reporting Model Task Force provided the Board with some specific areas where standards are needed and the Board does not know what the website could cost. Also, educating the public on financial management is really the responsibility of the Board’s sponsors - Treasury, the Office of Management and Budget (OMB), and GAO.

Mr. Allen noted that the Board's objectives include outreach and training and Mr. Steinberg noted that he would support that objective if the Board had the resources to develop standards

Ms. Payne noted that, generally, when FASAB has a need such as development of the educational website, GAO has been willing to accommodate the project as long as new resources are not needed. So, staff had envisioned that GAO would assist in developing the website.

Mr. Showalter noted that he is supportive of the educational website project, subject to the availability of resources. He noted that there are groups that say that the Board needs to reach out more and increase awareness and the website would be one way to accomplish that objective. Mr. McCall noted that others need to know that the Board serves an important role and there needs to be some recognition that the role of the Board is broader than issuing standards.

Mr. Allen noted that, given some members' concerns, staff should inform the Board about the cost (in terms of dollars to be spent and staff time) of developing the site. If the project would only require, say 20 percent of staff time, then he would support continuing the project. However, if it would take a significant amount of staff time, he would not support continuing the project.

Mr. Showalter noted that Ms. Payne, the Executive Director, should determine the level of resources needed and make the call on whether to continue the project. The project does not involve standards-setting and if there are other projects on the agenda that are not being addressed, the Board should inform Ms. Payne. Mr. Showalter noted that he would support Ms. Payne's decision if she decides that the resources are available to continue the project.

Mr. Smith noted that if it is determined that the Board has the resources and capacity he would support continuing the project. However, if we do not have the resources, the project would not be a top priority.

Mr. Dacey noted that the project is important but not urgent. Also, he noted that he was not sure what level of resource commitment would be involved and he was concerned about how users would find the website and use it.

Mr. Dong noted that there is potential value in the project but it must consider: what educational tools have already been developed by Treasury, GAO, OMB, and others; what voids the website would fill; and how all the tools would work together to meet users' educational requirements. Also, Mr. Allen agreed that a coordinated effort would be critical.

Mr. Reger noted that staff should identify the outcomes that would result from the effort and see if we could get assistance from some of the task force members.

Mr. Steinberg referenced the conclusion from the Board's February 27, 2013 reporting model discussion which stated, "Staff will pursue the development of a conceptual reporting model that integrates budget, cost, and service performance information." Mr. Steinberg noted that this conclusion should be implemented.

Mr. McCall suggested reviewing the existing FASAB website and determining whether a tab for frequently asked questions could be developed. Upon determining the set of frequently questions, the questions could be listed and links could be added to take users to other locations with the answers.

Mr. Granof noted that he supports the idea of educational outreach; however, we lack information to make a decision on what would be the best approach. There are many unknowns such as how many individuals go to websites; how much would the website cost; how much staff time would be required.

Mr. Allen noted that there appears to be support for exploring the project and developing a better understanding of issues (such as cost, leveraging of resources, and expected outcomes) to discuss at the next Board meeting. The conceptual reporting model would be the primary focus and the educational website would be secondary.

> **Conclusion:** Staff will continue to focus on the development of the conceptual reporting model and will develop additional details for the educational outreach project plan.

- **Steering Committee Meeting**

The Steering Committee discussed the budget and noted the continuing uncertainty. Ms. Payne committed to providing a plan for an additional staff member at a lower grade level once the salary amounts for existing staff are more certain.

Adjournment

The Board meeting adjourned at 3:30 PM.