

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
April 27-28, 2011
Room 7C13
441 G Street NW
Washington, DC 20548

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Administrative Matters

- **Attendance**

The following members were present throughout the meeting: Chairman Allen, Messrs. Granof, Jackson, Reger, Showalter, and Steinberg. Mr. Dacey was present with the exception of a brief absence during which Ms. Franzel represented GAO. Ms. Bond was present with the exception of occasional absences during which Ms. Kearney represented OMB. Mr. Schumacher was present on April 27th but not April 28th. The executive director, Ms. Payne, and general counsel, Mr. Dymond, were present throughout the meeting.

- **Approval of Minutes**

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

- **Other**

Mr. Dymond announced that he will be leaving the general counsel's position to pursue a career in financial management within GAO's financial management and assurance team. He introduced Jacquelyn (Jackie) Hamilton, Deputy Assistant General Counsel for GAO. She will be serving as FASAB General Counsel upon his departure. Mr. Allen thanked Abe for his substantial contributions to FASAB's work and welcomed Ms. Hamilton. Ms. Hamilton has been with GAO for over 18 years and has been involved in financial accounting and auditing issues during her tenure. Her undergraduate degree is in accounting, economics, and finance.

Ms. Payne noted that the 2012 meeting calendar has been announced and a copy is in members' binders. She also explained that the FASAB website is being updated and that a Twitter account will be added. Twitter will be used to announce each press release as well as events such as members' speaking engagements. Members will be notified when the new website is available.

Ms. Payne directed members to the briefing materials regarding the annual board performance survey for fiscal year 2011. She explained that the annual survey has not changed but has been converted to a form that members can complete in Word. The 2011 schedule proposed will allow members to complete the survey after the fifth meeting of the year and discuss the results at the sixth meeting. This would support preparation of an integrated annual report covering future plans. Members had no suggested changes to the schedule.

Agenda Topics

- **Strategic Directions Addendum**

Ms. Payne explained that members provided comments on the draft distributed with briefing materials. A revised draft of the strategic directions addendum with member edits was provided to members.

Mr. Allen noted that the purpose of the addendum is to reaffirm the more detailed strategic directions report and list key drivers members identified. He asked members to identify any concerns they have.

Mr. Dacey noted that the CFO Council and CIGIE are developing a report on lessons learned from 20 years of CFO Act efforts. The group has spoken with a number of knowledgeable individuals. The report is due in July and he believes it will be relevant to the Board. Mr. Allen indicated that he thought the report would be highly relevant to technical agenda setting. For strategic directions, which the Board only looks at every four or five years, he asked if Mr. Dacey thought the addendum should be held open

until the report is available. Mr. Dacey did not believe it should but wanted the Board to be aware of the pending report. He indicated that there did not seem to be anything revolutionary but that the report is likely to emphasize the difficulty in using financial statements. He noted that many positive comments regarding the reliability of data derived from the CFO Act were likely to be included. Both Mr. Dacey and Ms. Bond thought the addendum could proceed and that the report would be a good topic for the August Board meeting.

Ms. Payne indicated that members should provide any further comments on the draft addendum within a week. She would then circulate the revised addendum for approval prior to its release.

- **Deferred Maintenance**

Mr. Allen introduced the topic by asking staff to discuss the TAB C materials.

Mr. Savini began the presentation by noting that five members (Messrs Dacey, Granof, Jackson, Showalter, and Steinberg) had provided detailed written comments to staff. Staff recommended framing the discussion around three major topical areas that caused the most concern among the member reviews; (1) the concept of preferred practices, (2) classifying condition reporting as additional information and (3) the reporting location of additional information.

Beginning with the preferred practices concept (refer to Attachment 1, page 14, paragraph 14, 3rd sentence) that was discussed at the February meeting, shortly after the draft exposure draft was completed and in light of the member comments received, staff believes that the preferred practices concept is too broad and represents an overreach. In addition, the language causes confusion as it competes with the task force recommendation that the agencies follow a preferred method (i.e., condition assessment survey) as opposed to more cursory inspection methods. Staff proposes the total elimination of the concept as it could interfere with managerial responsibilities but retaining the task force's recommendation regarding preferred assessment methods in paragraph 11a. Staff clarified that although the condition assessment method would be the preferred assessment method, we would continue to allow for the life cycle method or any other similar type method.

Mr. Allen noted that the way the draft is written the preferred practices language will be interpreted as driving agencies to the condition assessment method. Although that may have been the original intent, staff is suggesting that this moves into the area of management and might interfere with their ability to select among the different assessment methods.

Messrs. Granof and Showalter were not sure if the staff recommendation would solve the problem where an auditor might second guess a management decision not to switch to the preferred condition assessment method.

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Staff noted that in such a case management would have to document why it did not go to the preferred method. He explained that Ms. Payne previously noted that management might have a cost savings justification to switch to the lifecycle method. This leads us to the other option available to the board which is to not select any method as a preferred method and make them all comparable.

Mr. Jackson stated that he liked that approach.

Mr. Dacey stated that GAO had raised questions regarding the boundaries for the concept of preferred practices. For example, where would they start and where they would end? Being less prescriptive seems to be preferable. However, the effect of the changes would need to be clearly disclosed so that a reader understands why the number(s) may have (materially) changed. Additionally GAO had questions concerning how this preferred practices concept would compare to a similar concept (preferred method) in SFFAS 21¹. The board would have to distinguish if this is {truly} a method or something below a method. If the board wanted to move forward with some type of preferable method we would need to resolve that question. That is, is the difference between the lifecycle method and any other method in fact a change in method or something else (as used in SFFAS 21)? What might be beneficial will be the discussion of the pros and cons to each of the methods. The board's views concerning these methods could be communicated within the basis for conclusions wherein the benefits to each of the methods are highlighted without prescribing a specific method.

Mr. Steinberg asked if we knew how many agencies use the lifecycle method.

Staff stated that two agencies that use a similar method (parametric estimating method) are on our task force; NASA and the Smithsonian Institution. Staff has been told that they use this method because the inspection costs are pennies per square foot as compared to more expensive methods.

Mr. Schumacher asked if we were changing {or impacting} the issue of consistency from year to year or the reconciliation contained within the draft document.

Staff replied in the negative noting that the selection of the preferred assessment method was raised by the task force {in order} to bring about greater comparability between agencies not necessarily greater consistency.

Mr. Showalter in agreeing with Mr. Dacey noted that we have to be conscious of the terms we use since they have pre-established meanings; i.e., auditing profession. Staff should consider spending more time in the basis for conclusions explaining what the board considers characteristics (adding attributes) of preferable methods especially since the "other" category could be quite large. Such attributes could actually help

¹ Statement of Federal Financial Accounting Standards 21: *Reporting Correction of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources.*

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people select an appropriate method (i.e., condition assessment survey) without explicitly stating any preference.

At this time Mr. Allen stated that he would support what Messrs. Dacey and Showalter suggested and asked how the other board members felt. Specifically, we can move the entire preferred method discussion into the basis for conclusions, or as staff has suggested, retain the preference for the condition assessment method within the standard, but do away with any other references to preferred practices. The three options are: (1) leaving the document as-is, (2) retaining the preference for condition assessment surveys, and (3) eliminating all references to preferred in the body and moving that discussion into the basis for conclusions.

Mr. Dacey clarified that if the board wanted agencies to follow a preferred method or practice concept there would be implementation difficulties as staff has noted. A preferred method or practice would in essence lock an agency and impede its ability to revert back. As a result, Mr. Dacey favors taking out any reference to "preferred" in the body of the document and again, bolstering the discussion in the basis for conclusions where benefits {for each assessment method} could be explained and the factors or criteria {management should consider} in making a {selection} decision.

Mr. Reger referred to page five where the two most common issues related to DM&R are noted. First, the lack of comparability in assessing asset condition both within and among agencies and second, measurement and reporting practices and formats that vary greatly among agencies. He likes the idea of criteria as opposed to being prescriptive so that management has flexibility; however, he's faced with {what} the actual results of that approach {would look like} in light of consistency issues that currently exist. Mr. Reger is unclear as to whether or not the Board wants to really address consistency or continue to provide management with flexibility; he believes that these two approaches are diametrically opposed. However, this {dilemma} could be addressed by stating what attributes {that the Board desires an agency follow} regardless of the methods chosen.

Mr. Allen noted that the approach articulated by Mr. Reger was the direction where both Messrs. Dacey and Showalter were headed primarily because of audit implications in using terms such as preferred or preferred practices. Staff advised {earlier in the meeting} that the preferred practices approach (channeling entities into greater conformance) might be too aggressive of a direction to pursue. Mr. Allen agrees with what Messrs. Dacey and Showalter have proposed; that we not mention preferred at all in the body of the standard but within the basis for conclusions emphasize that consistency is important. The benefits of the different methods could be discussed, even mentioning that many members felt that the condition assessment survey was the preferred method. However, we should not say that this is the Board's position.

Mr. Schumacher then addressed paragraph 11 (a through c) and asked if that language in essence would stay the same except for the elimination of references to the preferred method.

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Mr. Allen confirmed that understanding.

However, Mr. Showalter noted that it is still important for agencies to select a method and consistently apply it in practice. We may have given up on comparability but not consistency. As Mr. Dacey points out, {changes would be allowed} as long as agencies note the changes and discuss their impact.

Mr. Allen replied by stating that both consistency and comparability are important..

Although Mr. Showalter agreed, he believes that comparability will be extremely difficult to achieve and that we should first strive for consistency.

Mr. Allen then asked the members if we could use work done by the task force to somehow indicate that there is a preferred method which leads to greater comparability.

Mr. Jackson replied in the affirmative noting that such a discussion {is best placed} within the basis for conclusions.

Mr. Granof recommended that we eliminate the reference/discussion to comparability {on page five, lines 9 through 11}. We should not imply that comparability is not important.

Mr. Reger then said that based upon this entire discussion he would agree with the Dacey/Showalter approach. However, he is concerned with the compilation of {disparate} and inconsistent agency results and the value of the combined representation. He prefers not to define the method but rather to define the criteria in a way that does not {by default} define the method.

Mr. Steinberg noted that if we were starting from scratch he would recommend that the only method would be the condition assessment method. According to staff it appears that all agencies are using the condition assessment survey and only two agencies are using methods other than the condition assessment method. As a result if he had his choice, he would prescribe the condition assessment method in order to achieve greater comparability. However if we're not going to pursue {comparability} as a goal, then he would agree with the proposal from Dacey/Showalter.

Mr. Jackson stated that he liked the Dacey/Showalter comments. He proposed eliminating the term "preferred" throughout the document and adding certain things to the basis for conclusions such as; (1) references to a preferred method can be ascribed to the task force as opposed to the board, (2) indicating the basis or rationale for the preference so there is {better} context for understanding preferences. Additionally, he would leave in-place the different methods described in paragraph 11(a through c). He liked the notion of factors that one might consider, however some members use the term criteria while some use the term factors. {Although he agrees with providing factors/criteria} management might wish to consider in selecting a method, he's not sure

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how feasible this approach would be. Mr. Jackson further noted that the board does not have a thorough understanding as to why it would prefer the condition assessment survey over other methods. However, at some juncture this information might move from RSI to basic information after a period of additional experimentation and experience. He believes this approach would strengthen the document.

Mr. Granof agreed with the elimination of the word preferred for the reasons previously cited. He also objected to the use of the word “encouraged” since it detracts from the credibility of the board; especially when the board’s encouragement is not followed. We have seen this with the FASB decades ago² where they strongly encouraged the direct method and no one has followed it. It is fine to encourage in a subtle manner but not explicitly.

When asked by Mr. Allen, Mr. Granof confirmed that he would be comfortable with the Dacey/Showalter proposal.

Mr. Schumacher also agreed with the Dacey/Showalter proposal noting that (1) the term preferred should be taken out of the context of the standard and (2) a discussion in the basis for conclusions would be appropriate. He also agreed with ascribing the preference to the task force as opposed to the board. Mr. Schumacher then asked staff to clarify whether or not only two (i.e., NASA & Smithsonian) of the agencies were in fact using methods other than the condition assessment survey. Because as Mr. Steinberg pointed out, if all of the government except for two agencies was using the condition assessment survey method, it would make more sense to require that and obtain comparability.

Staff clarified that there are at least two agencies that are using life cycle-like methods, both of which are on the task force. Staff further noted that as the fiscal climate changes, agency budgets may in fact necessitate a move to more cost-efficient assessment methods.

Mr. Steinberg noted that he has not seen any agency that does not use the condition assessment method.

Staff noted that the condition assessment method is the traditional method agencies have used.

Ms. Bond prefers giving the agencies the option to choose among the different methods and as a result, recommends eliminating references to any preferred method and also agrees to the rationale being in the basis for conclusions.

Mr. Allen then stated that he also supports the Dacey/Showalter proposal and that the board is fairly unanimous concerning this issue.

² November 1987. FASB Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows*.

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Staff then introduced the second issue (Paragraph 16 on page 14) which was the matter of classifying reporting information as optional or additional information within RSI. At the last board meeting it was determined to no longer require condition reporting information. However, staff is proposing that because agencies may want to (voluntarily) present this information, it should be presented along with the required information. Ms. Payne read the language as contained between lines 21 and 23 to provide the board with additional context to help understand the staff's suggestion. Staff noted that the issue was primarily a matter of geography. That is, staff would like to avoid a contextual problem with having some information in RSI while other information is presented in the "OAI" category; Other Accompanying Information. In addressing this matter, staff asked Mr. Showalter to provide his suggestion in best dealing with the staff's concern.

Mr. Showalter stated that he had concerns with the use of the term "optional" information and suggested that since he understood staff's concern, he would recommend that if an agency wants to report this information it could do so as RSI. In this way we are giving it a home.

Mr. Schumacher believed that the information would be within RSI because it is under the caption that reads Required Supplementary Information.

Mr. Showalter replied by saying that the way it is currently worded, if we do not address it, the information would fall into OAI.

Mr. Jackson noted that only the board can make a reporting element RSI. We cannot make this as an option and then allow the preparer to determine {what information} would be presented as RSI. That is, we either retain condition reporting or we drop it {completely} out. Mr. Jackson believed that the board made it abundantly clear at the last meeting that it did not want condition reporting. Therefore, he does not believe that condition reporting should be prescribed in any way. Once you indicate that condition reporting is optional you exclude it from RSI.

Ms. Bond also agreed with Mr. Jackson's comments. She too believed that it was made clear that the board did not want condition reporting. She believes that condition reporting is a function that drives the deferred maintenance and repairs estimate.

Mr. Allen said that he agreed that you cannot say something is optional and then go on to say that it is RSI. However, you can allow an entity to expound upon an RSI element.

Mr. Jackson said that from a technical or mechanical point of view that if an item is not required it cannot be part of RSI.

Mr. Allen replied that once you do define an RSI element, the board cannot tell them how far they should go in discussing that item.

Mr. Showalter said that he does not see this issue as a problem because the board agreed that condition {reporting} is important information and an agency can describe how they used condition assessment information to arrive at the DM&R estimate.

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Mr. Jackson said he also does not see a problem with an agency describing how they use condition information in getting to the estimate.

Mr. Showalter then said this is where he thought the staff proposal was headed.

Mr. Steinberg said that looking at this intellectually, if an agency wants to expound on their DM&R, how can you say that they cannot?

Ms. Bond, Mr. Jackson, and Mr. Reger concurred.

Mr. Schumacher stated that an agency would not be precluded from putting the information into Other Accompanying Information (OAI).

Ms. Payne stated that this is a question merely about the placement of the information.

Mr. Steinberg emphasized that the board cannot forbid the information.

Mr. Jackson concurred with Mr. Steinberg, but noted that any information beyond what is required would be considered OAI.

Mr. Granof stated that you could not, in fact, preclude an agency from adding to RSI.

Ms. Bond replied that there are no {such} restrictions within OAI.

Ms. Payne then stated that if the document is silent regarding the ability to add context, then the preparer would not be able to present an integrated discussion of DM&R and the related condition information. As a result, the condition information will be clearly segregated as OAI. The purpose of placing the related information here in RSI was to actually provide the preparer with more options to have an integrated discussion. The wording is not as technically correct as it should be but the purpose is to allow for an integrated discussion. Now, if the board but does not want to allow for an integrated discussion then we can simply not mention condition information at all.

Mr. Jackson asked if there were any standards that allowed for optional reporting.³

Ms. Payne replied by stating that Mr. Allen had done a very good job of describing RSI the prior day. RSI is different because the preparer needs to {check off what has been completed from an established list of required elements}.

While noting a discussion pertaining to the GASB 34 deliberations, Mr. Allen was interrupted by GAO's scheduled shelter-in-place drill. He asked all those in attendance to proceed to their respective shelter-in-place locations and await further instructions from GAO.

³ SFFAS 6, paragraph 84 concerning critical and non-critical amounts of deferred maintenance.

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The meeting resumed shortly afterwards and Mr. Allen reintroduced the issue of condition reporting by summarizing Mr. Jackson's concern that there should be no mention of condition reporting if the board has concluded that it is no longer to be a required element in RSI reporting.

Mr. Jackson went on to say that he was not sure what value condition information would provide in terms of providing additional context to DM&R. For example, earlier we were provided a letter from the Department of Interior that indicated it had 159,430 buildings. Where is the value of reporting condition information when you consider the {large} number of buildings? {How will the agency relate the two pieces of information?} The important point is to have a deferred maintenance and repair amount (sum certain) that was derived under a certain methodology accompanied by an explanation. However, how is context gained by {merely} adding condition information adjacent to this {large} category {of buildings}? In closing, Mr. Jackson does not believe that the board should entertain condition reporting at all.

Staff replied to Mr. Jackson's comments by noting two points. First, condition information was required in SFFAS 6, and the board felt at that time that it was a very important element for RSI reporting purposes. Second, it would be presumptuous to assume that all agencies would take the position that condition information would not add context to its DM&R estimate. For example, there could be an agency that has \$20 million of DM&R with high asset condition scores and another agency with a similar \$20 million with low asset condition scores. The task force has advised that they would like to be able to tell the whole story of DM&R. The reason staff needed to bring this issue {to the board's attention} is because the Veteran's Administration has requested that we allow deferred capital improvements to be reported as additional information and if in fact we allow the VA to report such information it would stand to reason that agencies who would want to report condition information also be allowed that same ability. Staff believes that readers are best served if this information is placed in one area; i.e., RSI.

Mr. Jackson stated he does not believe that this requires a separate provision. Agencies are free to put this information in MD&A and/or OAI. Agencies have enormous flexibility in discussing this matter as they like. With regard to deferred maintenance what we want is a monetization, identification of changes and {information} concerning methodologies. The board should not be in the business of telling agencies what they might want to do. We are writing standards and not providing options for people to explore.

Staff acknowledged Mr. Jackson's concerns noting that they were legitimate and fair and that is why staff thought that Mr. Showalter's earlier advice to drop the term "optional" and simply note that any other additional information could be reported in RSI made sense.

Mr. Jackson stated that the board did not want condition information as part of the standard as RSI.

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Mr. Showalter responded to Mr. Jackson by clarifying that the board did not want condition information to be a required part of the standard. He noted that the board did not say that it did not want condition information {to be reported at all}.

Mr. Allen then asked Mr. Jackson if his concern is addressed if in paragraph 16, the language after “DM&R” beginning at line 23 would be deleted. Meaning this, paragraph 16 would end with a “period” after “DM&R” on line 23 with no mention of deferred capital improvements or condition information. In so doing, Mr. Allen believed that by not making specific reference to where the information could be reported {this would allow agencies to use professional judgment} and {the information} would be able to work its way through {the reporting model}.

Mr. Reger then asked staff if the task force specifically wanted the board to require this information.

Staff replied to Mr. Reger’s inquiry by using the Veteran’s Administration example. In the VA’s case, the agency would like to show the relationship between deferred maintenance and repairs and deferred capital improvements. For example, if \$6 billion of deferred capital improvements are shown in context with \$6 billion of deferred maintenance and repairs the VA would like to tell the story that if it got funded for the \$6 billion in deferred capital improvements it would not need the resultant \$6 billion for deferred maintenance and repairs. Forest Service has also made the same argument. Staff would like to avoid bifurcating the information and splitting the story up.

Mr. Showalter reminded the board that the geography question needs to be answered. He went on to say that he’s certainly not in favor of optional information but in responding to the task force’s concern, {the question is} does the board care if this information is placed in any other location besides RSI? Because if we in fact modify paragraph 16 as Mr. Allen suggests doing, {this results in} placing this additional information in places other than RSI. Auditors will object to this information being placed within RSI if it is not explicitly stated as an element of RSI.

Mr. Allen replied by saying that if the information is contextual information related to an element within RSI it would be permissible.

Mr. Showalter stated that this is a fine line that preparers might not understand.

Ms. Bond stated that she concurs with Mr. Jackson. There is one agency that would like for the board to entertain this additional information for budgetary reasons and we know that this is not a budgetary report, but rather financial statements. These are not compelling {enough} issues. If an agency would like to better inform its readers they can enhance what they put on their web site for example. This information is appropriate for OAI and is not appropriate for RSI presentation. The agency has flexibility in displaying this and other formats any time that they would want to.

Mr. Steinberg agreed and noted that the board may be splitting hairs. Breaking this issue into its basic components, the board is saying that it is no longer requiring

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condition information. However, we recognize that agencies have the flexibility to report what ever they want wherever they want as long as it does not go against generally accepted accounting principles (GAAP). Therefore, if an agency feels that condition information is important, it is reasonable to foresee where such information can be related to RSI for contextual purposes. The same could be said for placing this information in OAI or elsewhere. What the board should not do is to require, encourage, or forbid information {condition information}. In closing, he supported Mr. Allen's solution; that is, end the sentence after "DM&R" on line 23 with a period.

Mr. Jackson responded by stating that he would like to stop the sentence but was inclined to say that the entire section should be moved to a footnote to make it subtle. He also stated that he did not believe he had a problem with the board discussing the task force's concern over the presentation of condition information within the basis for conclusions. Additionally, it may be appropriate to say in the BFC that it would be appropriate to discuss condition information in the MD&A where there is flexibility. In this way, the information contained in RSI can be rolled up and presented in a more effective way than this table (referring to Attachment 1, page 31) currently displays. Therefore, part of paragraph 16 could be removed as proposed by Mr. Allen and the other parts could be placed in a footnote. Mr. Jackson proposed stopping at the end of the second sentence with the remaining text moved to the BFC. He believes that the discussion in the BFC would benefit the community because by discussing this in MD&A more people will pay attention to it.

At this point Ms. Payne helped frame the discussion into two options with the first option being that the board could remain "silent" on whether or not the preparer has the ability to provide context to the required data in RSI or the second option being to stop the sentence at the end of DM&R on line 23 and just acknowledge that the entity may present contextual information related to RSI.

Mr. Allen then thought there was a third option available which was to leave the entire paragraph intact and incorporate Mr. Showalter's recommendation explaining where the additional data would go.

Mr. Showalter responded that his suggestion was only if the board cared about where the information would actually reside.

Ms. Payne stated that she did not suggest Mr. Showalter's option or suggestion because it did not seem to have significant support by the other members. She explained that in essence we are either deleting half the sentence (after "DM&R" on line 23 down to line 26) or the entire sentence (beginning at line 21, "*An entity...*" through line 26).

Mr. Jackson indicated his support for eliminating all the text after the second sentence (eliminating the entire sentence beginning at line 21). He suggested that deleted text could go in a footnote.

Mr. Schumacher also agreed with eliminating all the text after the second sentence.

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Ms. Franzel agreed by stating that eliminating the entire sentence was the better option.

Ms. Bond also agreed.

Mr. Reger also agreed.

Mr. Allen said that he did not see any harm in the leaving the first {part} of the sentence in the paragraph but {realized that he was} outvoted.

Mr. Steinberg agreed with Mr. Allen however, he noted that there is no technical difference between the two options and as a result he would concur with the majority.

Mr. Jackson conditioned his concurrence subject to a discussion within the BFC to include language that MD&A elaboration would be appropriate.

Responding to Mr. Jackson's (MD&A elaboration) recommendation, Mr. Allen advised that we not go in that direction of suggesting where an agency {might discuss its DM&R} because we then enter into the geography question.

Upon reflection, Mr. Jackson concurred with Mr. Allen's advice.

Mr. Granof stated that he preferred removing the entire sentence because preparers would not know what the board intended by referring to additional information that could separately reported.

Mr. Allen concluded this portion of the discussion by saying that the board's position is to remove the entire sentence. He then asked staff to introduce the third topic for discussion.

Staff noted that the third topic which dealt with additional information such as deferred capital improvements has in essence been answered in the discussion dealing with condition information.

Mr. Allen then asked that the timeline for responses be set for greater than 30 days and proposed a 60 day response time. He understands that staff has been trying to expedite the project at his request; however, sufficient time needs to be given to the community to respond to the exposure draft.

Staff noted that in the transmittal memo we proposed a 45 to 60 day comment period.

Mr. Allen said that 45 days appears to be more realistic than 30.

Mr. Showalter asked if the board would see a revised draft exposure draft.

Staff replied in the affirmative by noting that a significant number of comments and edits were received. Staff proposed to incorporate all edits into a revised draft ED and via the pre-ballot process issue both a marked-up version of the current exposure draft along with a clean version that the board could review and edit. Staff then covered Questions

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3 (optional reporting of critical and not-critical designations) and 4 (reporting of low and high dollar amounts) on pages 5 and 6 of TAB C. Staff advised the board that the consensus of the members who provided written comments to the draft exposure draft seemed to agree with the elimination of both of these elements. Noting no objection from any of the members Mr. Allen responded on behalf of the board in the affirmative that both of these elements should be eliminated.

Staff then introduced the final question (Question 5) on page six to the transmittal memo by asking Mr. Jackson for any comments relative to the *Reconciliation of DM&R* schedule (refer Attachment 1, page 31) he proposed be included within the draft exposure draft at the February meeting.

Mr. Jackson stated that his written comments addressed capitalized leases and software and he did not necessarily believe that we needed to discuss those issues at the meeting since that is not his primary point concerning the schedule. He stated that he did not understand how the schedule works. The headings could be clearer in the fourth column but that is a minor edit. Mr. Jackson did not understand how budgeted maintenance and repairs would factor into the equation. The budgeted amount for maintenance and repairs may not be the actual “new” or total maintenance and repairs (M&R) requirements. We need to clarify that budgeted M&R might not be “new” M&R because the budget amount is what the agency has budgeted to resolve, however, it is not the full amount that should be added to the beginning balance.

Mr. Schumacher stated that the budgeted M&R could take care of some of the old M&R {but not all of the DM&R}.

Mr. Jackson agreed and went on further to say that the budgeted M&R amount might be better presented as a narrative.

Ms. Payne stated that the task force raised two points. The first was about funded-M&R that was not executed and whether or not this amount should be included {in the estimate of DM&R} and second, that {this amount} was important from an analytical perspective.

Staff noted two points made by the task force. First, unfunded M&R or the amount of M&R that an agency was not appropriated is just as important as funded M&R that was not executed. {Second}, there are DoD-IG reports that are documenting that there is under-reporting of funded DM&R.

Mr. Jackson concurred by stating that in his opinion unfunded M&R is more important than funded M&R.

Staff explained the composition of the template shown on page 31 that Mr. Jackson asked to be included at the February meeting. Specifically, the DOD buildings personnel vetted the template and suggested using the term “Budgeted M&R” because those amounts would be readily available from the President’s budget. The next column entitled “executed M&R” would come from their financial system. The adjustments

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column would include “unfunded M&R.” The last column entitled “Ending DM&R balance” would then represent a combination of both funded and unfunded DM&R.

Ms. Franzel stated that as she looks at the schedule it appears to be an accounting nightmare. There will be various differences within the differences column and weird types of adjustments. None of the amounts in columns a. through c. appear to be precise therefore affecting consistency from year to year. Reconciling this line by line appears to be a very difficult task. A question about the cost benefit concerning the completion of this template needs to be asked. Now, if agencies would like to use this kind of a format fine, however, maybe {it should} not be as detailed with more context of discussion surrounding any major changes during the year.

Mr. Allen mentioned that at the pre-brief he discussed with staff that we would {clearly} convey that this was only an example.

Ms. Franzel asked if we could also include a different example otherwise preparers will gravitate to this sample. The result would be that anything that doesn't look like this example would be interpreted as not meeting the standard. Another example could rely more on a discussion based approach to explain the changes which occurred during the year. In this way people would have flexibility to select the most appropriate approach for their circumstances and cost benefit {considerations} and agency usefulness.

Ms. Bond stated that she completely agreed with Ms. Franzel's comments. She found it very hard to wrap her head around how this would actually work and the burden associated with {its completion}. In addition to the variability brought about by columns a. through c., the agency adjustments column is undefined; making the reader unsure what it means. She noted that the adjustments column appears to be a “plug” and questioned how it would be useful to a reader. What are we gaining from the reader's perspective and is this the best way to display the information? In addition, Ms. Bond struggled with some of the lines including capitalized leases and software. She recommended that we scrap this example and draft a more simplified example.

Mr. Jackson noted that we do not have DM&R on capitalized leases since that is a liability.

Mr. Reger stated that he could get three reconciliations of this one statement {therefore questioned its usefulness} and that he agreed with Ms. Bond concerning the agency adjustments column. We are looking to explain to the reader in some way the changes that occurred during the year. A discussion might be better than a chart. Also, it might be a good idea somewhere to have a brief description of the changes during the year with the relevant factors affecting the changes identified.

Mr. Showalter stated that the {reporting} purpose is to tell the reader whether things have gotten better or worse. He proposes going with simplicity because people can always do more. If we include the page 31 sample agencies will try to follow it and it will become problematic.

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Mr. Jackson then said that we could have a simple illustration that shows this year, last year and an explanation.

Mr. Allen then noted that staff had advised that some agencies are not even reporting any DM&R and this was an attempt to try to capture those estimates.

Mr. Showalter replied by saying that agencies can still report zero dollars and that this reconciliation would not change that.

Ms. Bond then said she doesn't believe the reconciliation will be meaningful and that it would be better to have a narrative discussion that clearly explains what changed. {Agencies need} to tell us what those things are. She believes that {narrative discussions} would be more informative.

Ms. Payne stated that she tends to agree. However, it is important to know the context as to how we got here. Staff was asked to provide the reconciliation. Anytime you're doing a condition assessment survey you are looking at 2 points; point a. and point b. and to presume the look {or changes between the 2 points} includes identification of "additions or deletions" is not reasonable so you don't have a way to necessarily do the math absent a "plug" column. If you want to illustrate a schedule you'll need to have a plug column. However, it seems as though the board does not want to illustrate such a schedule. Ms. Payne noted that a narrative approach would work as systems might not be able to support monetizing amounts.

Mr. Jackson then stated that this is not a transaction-based exercise.

Mr. Allen then noted that although he understood Mr. Jackson's point, {whatever an agency} decides its DM&R to be today, if it's less than before {they} have {an obligation} to explain why {regardless if it's transaction-based or not}.

Mr. Steinberg stated that the basic question is whether or not we want a reconciliation.

In reply, Mr. Reger stated that there are {in fact} two things {that the board needs to consider}; a reconciliation {the what} or a resolution {the why}. A reconciliation explains and points out the differences (the what) whereas a resolution explains why; why the differences exist. Therefore, what does the board desire, a reconciliation {the what} or a resolution {the why}?

Mr. Steinberg said that he interprets that to mean that a reconciliation is simpler than a resolution. If so, we want at least a reconciliation if not more.

Mr. Reger concurred.

Mr. Steinberg continued by saying a reconciliation would start with a beginning balance, how it increased, how it got smaller, and the ending balance. Mr. Steinberg then asked the members if he was correct.

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In reply, Mr. Allen asked Mr. Steinberg if he was referring to a dollar reconciliation or explanation.

Mr. Steinberg replied that it was stated that the reconciliation is just dollars {and that he was referring to dollars}. This would be the starting point. We may want more. From {his perspective}, he understands that the board is asking for a reconciliation and that would be a {monetary expression}; {then} this would {have to} include a beginning balance, additions, subtractions, and an ending balance. This totals to four columns. The subtraction is what you spent on maintenance. The additions, call it a plug {if you'd like} but that represents {the drivers} that caused the increase in deferred maintenance. For example, buildings getting older, ineffective maintenance programs, a different estimating process, etc. Whatever the case may be, we now know that the ending balance, as a result of the condition assessment represents "X" number of dollars. So, if the board wants a reconciliation it cannot be done with less than four columns unless you decide to do it in aggregate.

Ms. Bond reminded the board of Mr. Showalter's suggestion of simplicity. In essence, we just want to know what changed. Addressing Mr. Steinberg, she thought that the board did not want a mathematical reconciliation. She believes that the board wants a simple statement as to what changed and why.

Mr. Jackson did not believe that the data would be coming from financial systems. The data that is entered into this chart will not be transactions based. The data will be coming from condition assessments. These will be professional estimates. Agreeing with Ms Bond, we need to explain what changed. This would be more narrative based information. He believes that attempting to reconcile is a misnomer. He believes the board should take the position of having two columns that represent the balance from last year and the balance this year and explanation as to why the numbers changed. He believes this would be a meaningful discussion because the explanation will be based upon professional analysis. The statements would be supportable.

Ms. Franzel suggested getting away from the term reconciliation. She believes what we really want would be the beginning and ending balances and where the major changes were and why {they occurred} which could be provided in a narrative.

Mr. Steinberg replied by saying that Ms. Franzel was taking his discussion to the next point. We would show beginning and ending balances and the difference which represents the increases and decreases that can be explained narratively just as easily as including a number. The next question that we would have to ask ourselves is when the agencies are explaining the differences, do we want then to place on number on that explanation.

Mr. Reger referring to Mr. Jackson's approach asked the board to think about timber and the classification of assets and how a price change would change an asset's valuation. This change would affect the deferred maintenance {amount} related to our forest lands. For example, software that has become useless. The huge swings or

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changes will not be necessarily driven by appropriations or in how they were spent {correctly}, but rather by changed asset condition {by discrete asset class}.

Mr. Allen then noted that one of the big changes that would probably be forthcoming is the method used to make the estimations. That is obviously going to change from year to year. Mr. Allen stated that he is {very} supportive of the direction that the board is going. He would prefer seeing both beginning and ending balances as this adds discipline to the process with an explanation of the significant changes.

Mr. Jackson brought up another point related to cyclical assessments. {Paragraph 11 on page 13 lists the three assessment methods however, there is no mention as to how an agency should be expected to cycle through its presumably large portfolio of assets}.

Mr. Allen replied by stating that he believes this description falls under an agency's methodology. Mr. Allen does not believe we should go into acceptable or unacceptable methodologies. In his opinion that would be going too far.

Mr. Jackson said that his concern was that the standard might be interpreted by some as suggesting that the entire portfolio would have to be inspected each year. The standard might need to make some type of nominal statement in this regard.

Staff referred to Attachment 1a. (page 34, paragraph 81) which represents the existing SFFAS 6 requirements. Staff pointed to the deletion of the word "periodic" and asked if that not might satisfy Mr. Jackson's concern. The task force recommended this deletion because (1) the term periodic could infer a rigid annual-type process and (2) other bona-fide assessment methods would be excluded (i.e., non-period based methods). When staff stated that this might satisfy Mr. Jackson's concern it was clear that the majority of the board disagreed and actually felt that this deletion made matters worse.

Mr. Allen suggested that we look for a better word than "periodic."

Ms. Payne suggested that we could define {footnote} periodic as meaning not necessarily annual but on some cycle.

Mr. Jackson agreed noting that there needed to be clarification that the inspections could be cyclical.

Mr. Allen noted that the majority of the board was in favor of Ms. Payne's solution.

The Chairman then addressed the reconciliation versus resolution issue previously discussed and summarized that the majority of the board was in favor of both beginning and ending balances as the only numbers required along with an explanation of the change. Mr. Allen then asked for board confirmation of this summarization.

Mr. Showalter, in referring to Ms. Franzel's earlier comment, stated that the net change, in order not to have agencies do the math, should be incorporated into an example. Also, he did not believe that the board was proposing a detailed breakout as shown on

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page 31 by asset class. He does not believe we need to show this detail and takes the narrowest view of what should be presented.

Mr. Granof concurred.

Mr. Allen replied that if the board is proposing that preparers show only a single number, the power of illustration would necessitate at least a footnote that would read something to the effect the preparer may find it more meaningful to break this out by major category.

Mr. Allen also raised the issue of showing net change by cautioning that we insure that preparers understand that they do not have to directly tie their explanation to the net change dollar amount.

Ms. Payne then asked if the board wanted to require that the annual M&R be presented for contextual purposes. This number is a transaction based number that could be lost in the netting affect. This would be the expensed amount for M&R.

After a brief discussion that revisited many of the previously discussed issues concerning whether the board would require a reconciliation or resolution, it was decided to forgo references to the term reconciliation.

Ms. Franzel noted that the board wanted to go beyond change. You would want major activities impacting the accounts and balances identified. For example, you could have two major activities that net-out leaving both the beginning and ending balances at similar amounts.

Mr. Jackson noted that both the beginning and ending balances are not transaction based figures but rather amounts that would be developed via professional reviews. He concurred with Ms. Franzel that major activities would need to be discussed {so that readers would know what brought about the changes}.

Mr. Schumacher then asked about {how the change might be calculated}. He would advise the board not just to show a change, but to also show beginning and ending balances for context.

Mr. Allen responded by saying he did not believe that the board agreed as to whether or not the math of the change would be presented {but that} everyone agrees that beginning and ending balances should be presented. The Chairman then polled the members concerning whether or not to include changes in addition to the beginning and ending balances.

Mr. Schumacher preferred just beginning and ending balances should be presented.

Mr. Showalter preferred showing the changes for ease of readability.

Ms. Franzel preferred leaving the changes out because they could be misleading if included.

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Ms. Bond preferred just beginning and ending balances should be presented.

Mr. Allen preferred just beginning and ending balances should be presented.

Mr. Reger preferred just beginning and ending balances along with an explanation.

Mr. Steinberg preferred just beginning and ending balances with narrative explanation of the nature of the significant changes.

Mr. Jackson preferred just beginning and ending balances with narrative explanation of the nature of the significant changes.

One member was concerned that the board had lost sight of what is essentially the most important thing to the reader; the amount of the obligation that is not reported on the balance sheet. People are interested in the liability number. Changes are obvious inasmuch as an entity did not spend as much as it should have spent in regards to its maintenance program. As such, he does not believe changes would need to be shown. He was curious as to the types of explanations members expected to get. After a brief discussion with Messrs. Allen and Steinberg, Mr. Granof stated that he was not opposed to requiring a narrative explanation he was merely questioning how {substantive or meaningful it would be}.

Mr. Allen summarized this portion of meeting by indicating that the board's decision is not to have {show or require} the difference number.

Mr. Schumacher asked whether we were talking about a single number or a breakout between categories.

Mr. Allen stated that several of the members wanted a simplistic approach. Although he would not object to the use of a single number, due to the power of illustration he would at least advise {preparers} that it may be more informative for a break-out by major {asset} class.

Ms. Bond asked for a vote on this issue since it was not clear to her that the board had agreed to either a single number or, as Mr. Allen suggested, a single number with a footnote explaining that a more detailed breakout is allowed. She expressed her preference for the single number approach.

Ms. Payne asked for clarification concerning the composition of the single number approach. She asked whether it was the board's intent for that single number to capture all {three categories of } PP&E; general PP&E, heritage assets and stewardship land. There are operational {and/or} contextual differences for the user. For example, there is a difference between the interior department maintaining its heritage assets as opposed to GAO maintaining this single {historic} building.

Ms. Bond confirmed her preference for a single number.

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Ms. Franzel preferred allowing for flexibility in that the minimum acceptable could be set as requiring one number. However, agencies could expand the detail {if they desired to}.

Mr. Schumacher preferred some category break-out as Ms. Payne explained; two or three categories. We can then ask the question concerning cost versus benefit. Having one number just lumps everything together. However, we also don't want to see {too many categories}. For example, if we were behind in maintaining heritage assets that would be important information to know.

Mr. Showalter concurred with Mr. Schumacher noting that the board could always revert back to one single number. {It would be good to get responses from the community in this regard.} We should at least expose the three categories.

Mr. Allen asked if this should be a requirement.

Mr. Showalter stated that if the agency believes these are material amounts then yes, the requirement should be that the three categories be broken out.

Mr. Schumacher concurred with Mr. Showalter's comments.

Mr. Granof stated that he was first intrigued by the one number approach until a student of his, who is a Coast Guard officer shared her perspective with him. She was concerned about the deteriorating {specific} Coast Guard assets. He then realized the class of asset which is deteriorating does matter. For example, cutters, helicopters, or office buildings; {these different asset classes do make a difference}. Such major categories should be broken out and described.

Mr. Jackson doesn't object to the use of a single number, however it does make sense to him that DM&R be broken out by at least these three categories; general PP&E, heritage assets and stewardship land.

Mr. Allen asked if we in fact have DM&R on stewardship land.

Mr. Steinberg replied in the affirmative.

Mr. Jackson then noted that we have accounting standards that address each of the three categories of PP&E. As a result, there is a reporting responsibility for each of these three categories. Furthermore, Mr. Jackson stated that he would defer to Mr. Steinberg's advice that there is deferred maintenance and repairs on stewardship land. This information could lead to funding decisions where for example, there could be a trade-off between funding for stewardship land or general PP&E. He agrees with Mr. Showalter there would be some benefit to the break out. In Mr. Granof's example regarding the Coast Guard, they have the option to report in greater detail {asset class} because it goes without saying that these are minimum standards. The level of detail presumably would be selected based upon user needs. The financial statements would

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support the Coast Guard's contention to Congress that they in fact need additional funding.

Mr. Steinberg stated that he would require the three broad categories for exposure draft purposes and that the minimal illustration that we provide includes a footnote that the general PP&E could be broken down further by asset {class}.

Mr. Reger stated that he believes it is significant to know the difference between the {three} asset categories. The exposure draft should ask the question {re: cost/benefit} and the board can decide from there.

Mr. Allen stated that he agrees with Mr. Steinberg and making it clear that the three categories are only reported if they are material.

Mr. Granof asked how would the board encourage agencies to break the number down further {assuming materiality}.

Mr. Allen said he would not encourage them, but as Mr. Steinberg suggested there would be a footnote that general PP&E could be broken down further by asset class.

Ms. Payne asked that if board members had additional comments or concerns to communicate them to staff as soon as possible so that we could expeditiously make the changes. In particular, Ms. Payne asked members if there were any requirements within the draft document that they took issue with.

Mr. Showalter noted that in the illustration on page 30 beginning on line 24 there was negative disclosure language that has a tendency to increase the length of the footnotes. Mr. Showalter was interested in other board member views concerning his notation. He suggested that we either come up with a different narrative or simply delete what is there now.

Staff noted that based upon the board's decision today, this portion of the illustration will have to change to reflect the decision to require that changes between the beginning and ending balances be discussed.

Ms. Franzel stated that SFFAS 29⁴ and Technical Release 9⁵ both have good guidance related to condition reporting that GAO would like to see retained.

Ms. Payne advised that we were considering rescinding the section in TR 9 dealing with condition. Staff will need to explore how we can preserve this guidance in light of condition reporting within the context of OAI. Providing information on OAI from a GAAP standard setter might be awkward.

⁴ Statement of Federal Financial Accounting Standards 29: *Heritage Assets and Stewardship Land*.

⁵ Technical Release 9: *Implementation Guide for Statement of Federal Financial Accounting Standards 29: Heritage Assets and Stewardship Land*.

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Mr. Granof inquired about the statement in the executive summary on page 5, lines 10 through 12 and whether or not staff intended to retain the language.

Staff noted that that was a board member comment. However, as a result of Mr. Steinberg's suggestion to significantly shorten the executive summary, that language should not reappear in the next draft.

Ms. Bond asked if the board answered Mr. Showalter's question concerning the negative disclosure issue. She was not sure if all the board members had an opportunity to comment. She agrees with Mr. Showalter on this matter.

Mr. Allen stated that staff answered the question that {this portion of the illustration will have to change to reflect the board's decision to require that changes between the beginning and ending balances be discussed}.

Mr. Showalter stated that staff provided a good answer to his previous question.

The Chairman thanked the Staff, the members of the Task Force and the Board and concluded this portion of the meeting.

- **Federal Entity**

Staff member Melissa Loughan began the Federal Entity session by explaining at the February 2011 meeting, the Board approved staff's distinction between core (general) government entity and non-core accountable entity. This is based on the degree to which the entity is taxpayer supported, is governed by the Congress and the President, imposes or may impose risks and rewards on the taxpayer, and/or provides core federal government goods and services. The Board also agreed with the general notion that entities in the budget are core entities that should be consolidated.

Staff explained the Board requested staff to develop factors and criteria to assist in determining information that should be presented for non-core entities for the April Board meeting. Therefore, staff noted the primary objective for the April Board meeting is to determine if the Board approves the draft guidance regarding factors to consider for non-core accountable entity presentation and disclosures for those that are not consolidated. Additional objectives include obtaining the Board's feedback on the basis of accounting section, revised flowchart, format and detail of the proposed illustration guide, and comments on other sections of the ED.

Staff explained the issue paper details flexibility in presentation of non-core accountable entities and is provided because the range of non-core entities is broad and may require different presentation or disclosures to meet the reporting objectives. Providing this flexibility allows the preparer to present information judged most necessary to meet reporting objectives while also providing an understanding of the potential effect of the relationship on the core entity's financial statements.

The factors to assist the preparer in making the determination are listed on page 4 of the staff memo and include: *Relevance to reporting objectives, Nature of the potential benefits or risks/exposures associated with the relationship, Cost/Benefit of compiling the information, Organization views/perspective, Complexity of the relationship, Extent to which the information interests, or may be expected to interest, a wide audience, and Extent to which there are not alternative sources of reliable information.* Staff requested the Board's comments on the factors and whether the Board approved the factors.

Mr. Reger asked about the factor "*Cost/Benefit of compiling the information*" and what the thought process behind that might have been. Staff noted the factors are presented in a list for consideration in the aggregate; no individual weights should be assigned or interpreted. Having that indicated, staff believed it appropriate to list cost/benefit as a consideration. There may be consideration both ways. For instance, there may be times when an entity is immaterial or insignificant that it may be easier or less costly to simply consolidate versus develop disclosures.

Chairman Allen voiced similar concerns with that particular factor, as he believes it goes against some of the principles we are setting forth in the proposal if we allow the preparer to decide it is okay to consolidate in certain instances. However, based on that explanation, he notes staff used the terminology if the amount wasn't significant, then perhaps he would be more comfortable with that. However, he isn't comfortable with flexibility to consolidate when the preparer chooses to.

Mr. Reger agreed if it is immaterial then it doesn't matter. Mr. Reger explained he was trying to crosswalk between the complexity of the relationship and the cost/benefit factors. Mr. Reger explained the cost/benefit factor seemed an oddity compared to the others but he felt a bit more comfortable with how staff explained it.

Ms. Payne stated the main point to be conveyed is that some things are in non-core that are in the middle of the spectrum and some that are far to the end. Staff didn't want the perception that one was barred from consolidating entities in the grey area.

Mr. Showalter stated his interpretation was that it allowed consolidation if the preparer chose to do so. Chairman Allen agreed that was his interpretation and he didn't like that. Staff noted that to get to this question, an entity has met the inclusion principles. This assessment is determining whether an entity is core or non-core for presentation. Mr. Allen explained he is comfortable with everything laid out except for the non-core flexibility to consolidate. Mr. Reger agreed.

Mr. Dacey explained that the cost/benefit factor is the only one that doesn't read like a factor. He noted if you compare the wording of it-- "*In certain cases, consolidation may be less costly than a separate disclosure and the preparer may elect to consolidate non-core entities along with core entities. Also, the level of detail presented through disclosure may vary based on cost/benefit considerations.*" He notes the language actually refers to consolidation which is very different than the other factors. Mr. Dacey

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explained he believes cost/benefit is a consideration but perhaps the way it is laid out it gets you to a drastic result within that bullet. If it was cost / benefit to consolidate then for a number of other reasons then you wouldn't want to do it just because it was less expensive, you wouldn't want to do it if it was misleading to include because there are other factors for consideration. In certain cases, consolidation may be less costly than a separate disclosure and the preparer may elect to consolidate non-core entities along with core entities. Also, the level of detail presented through disclosure may vary based on cost/benefit considerations.

Ms. Payne explained in considering the benefit, one would consider all the other factors in the analysis. It would be a comprehensive analysis. Mr. Dacey agreed and said you would not do this without considering the other factors. Mr. Dacey stated he doesn't believe it is presented clear here. For example, if something is misleading to include you wouldn't include it although it may be cost beneficial to do so.

Mr. Jackson noted the standard was well written but he struggled without the flowchart. He believed the flowchart was key and integral to understanding. However, he believes once one is non-core it is illogical to provide flexibility, the entity shouldn't be consolidated. Core should be consolidated, non-core should be disclosed. The standard should be clear and direct on this. Mr. Jackson stated the standard should not provide flexibility as it relates to consolidation non-core. Chairman Allen agreed with Mr. Jackson's comments.

Mr. Schumacher asked about Mr. Reger's and staff comments when the cost may be higher to disclose the information. He asked if there should be flexibility for those situations. Chairman Allen stated he believes that is fine for immaterial situations. Mr. Dacey commented in a general sense it is easier to write a disclosure versus consolidate all the numbers. Mr. Jackson noted when you get into consolidation one also gets into elimination and other matters which have an associated cost. Mr. Showalter explained on the flip side, one could choose to consolidate an entity because you wanted to hide it. As disclosures are risk based, certain disclosures would not be disclosed. Therefore, it is possible that things might be hidden if one chooses to consolidate so perhaps a floor may need to be provided. Mr. Showalter noted that with the flexibility it is not offering the auditor a place to stand on the issue. Mr. Dacey agreed that as written there is the potential for it to be misleading. However, Mr. Dacey reiterated he believed cost benefit is a factor but it may not be framed properly.

Chairman Allen suggested the Board vote on taking out the flexibility to the general rule that non-core should be disclosed. He stated he is comfortable with the proposal, but he believes if it is not material they can consolidate but otherwise non-core should be disclosed.

Mr. Reger agreed the flexibility should be taken out as it leads to confusion.

Mr. Steinberg also agreed it should be removed.

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Mr. Jackson confirmed the Board was voting on whether the standard should remove the flexibility to consolidate non-core. He agreed it should not allow the flexibility and non-core should be disclosed.

Mr. Showalter agreed.

Mr. Schumacher agreed.

Mr. Dacey agreed that he is okay taking out that part of the cost benefit. He also agreed to remove the consolidation aspects for non-core.

Ms. Bond also agreed.

The Board unanimously agreed to remove the cost/ benefit factor and also agreed that non-core entities would lead to disclosures. Staff would also update the flowchart accordingly.

Staff confirmed the Board agreed with the other proposed factors. Chairman Allen agreed as there were no other objections.

Staff asked if there were concerns with the proposed disclosures. Chairman Allen stated the Board could bring up other issues at this time as well.

Chairman Allen noted in par. 43 states

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

He explained the last sentence gave him concern. He agreed with the attributes for core, but the last sentence relates to something different. He believes par. 43 should be a principle discussing the nature and characteristics of the core entities. He believes the last sentence is more specific to the temporary nature and interventions and it is dealt with in detail under the discussion of interventions. Mr. Jackson agreed and believes it didn't necessarily add anything to the paragraph.

Chairman Allen asked if the Board would object to dropping it from the paragraph 43. Ms. Bond explained that she appreciates it may not fit within that particular paragraph, but as an alternative it might be added to par. 47 or 48 where one might expect to find it. She added the intent might get lost if it is first introduced in par. 56.

Mr. Reger explained it wouldn't be considered a general criterion that is considered in the up front analysis if it is first introduced in par. 56. Mr. Allen agreed and requested that staff determine which paragraph it would be best placed in but there appeared to be

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a preference for par. 47 or 48 so that it is introduced at the beginning of the non-core discussion.

Mr. Jackson added that we should have sub-headings for core and non-core for the paragraphs to each to better understand the distinction. Staff confirmed that could be added.

Mr. Granof noted that par. 21 states

“An entity listed in the Budget of the United States Government: Analytical Perspectives-Supplemental Materials schedule Federal Programs by Agency and Account should be included in the government-wide reporting entity.”

He pointed out the wording of “should be included” is not entirely correct. Staff agreed the following paragraph provides the exception for non-federal organization receiving federal financial assistance. Mr. Granof explained the flowchart accurately depicts the process, but the narrative isn’t completely accurate.

It was agreed that a clause be added to the end of par. 21 that states “unless it meets the exception in the following paragraph.”

Mr. Schumacher commented that par. 46 addresses the basis of accounting for core government entities and it states they “should apply the GAAP hierarchy established in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. “ He noted that par. 64 addresses the basis of accounting for non-core accountable entities; it states “it should be on accrual based standards provided in generally accepted accounting principles. This includes generally accepted accounting principles for any domain (FASAB, Governmental Accounting Standards Board, or Financial Accounting Standards Board).” He asked if there should be some sort of note that FASAB is preferred but if you are not on FASAB then others are acceptable. However, he noted that since the Board agreed the non-core would not be consolidated and it will only be disclosed, maybe it doesn’t matter as much. He noted he had more of a concern if they were going to be consolidated. Mr. Schumacher explained he didn’t want anyone on FASAB GAAP to think they could change based on the way this was written. Ms. Payne noted she believed the GAAP hierarchy takes care of that, but staff will review it to ensure.

Mr. Steinberg explained the Board had discussed four different buckets within the non-core but the way ED is written, it appears the emphasis is core versus non-core and he was a bit confused on how the different categories would fit in.

Staff explained the attributes discussed for core and non-core in par 37-43 will be used in assessing if an entity is core or non-core (if entity is taxpayer supported, is governed by the Congress and the President, imposes or may impose risks and rewards on the taxpayer, and/or provides core federal government goods and services). Staff explained the types are presented to assist in identifying entities that are non-core

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accountable entities. Staff noted that when one reviews the Standard in its entirety, any description of the types of non-core that are presented will assist in identifying entities that are non-core accountable entities and may make the determination easier if one recognizes characteristics describing the entity.

Staff explained the approach was also based on a discussion where it was brought up that certain examples may arise where entities may “cross” or “overlap” categories—such as Fannie and Freddie, is it a Conservatorship or Federal Intervention. In addition, staff believed some non-core entities may not fit into a category, as well as the presumption that the disclosure would be made on a category basis (as in, all interventions would be together in a single disclosure). Staff noted this led to the notion that classification could be burdensome and lead to unintended consequences (such as an impression that combined amounts were needed by category). Staff added there were ways to carve out multiple categories if one wanted to—FFRDCs, museums, PPPs, etc.—which led staff to wonder if there was an advantage in the multiple categories. Staff asked does it really matter which category an entity is in as long as the proper Non-core disclosures are present and wouldn't we better served calling them all non-core.

Mr. Steinberg agreed that the core versus non-core is the key question. However he questioned if we don't have different disclosures for the different buckets then he wasn't sure if we still needed them. Staff explained the proposal included a disclosure for all non-core. The types were presented to assist in helping to identify entities as non-core when one looks at the standard in its entirety, though the core/non-core attributes are the actual assessment or test for determining if an entity is core or non-core. Mr. Steinberg questioned the reason for presenting the classes if we weren't going to offer disclosures by type.

Mr. Dacey stated he believes there is a benefit to the broad classes and they would help the readers identify types of non-core so for example readers don't try to work through the control aspects of a receivership. He explained it helps bring about some order and clarity to what the non-core is.

Mr. Steinberg clarified that we appear to be talking about the buckets because it will assist in determining if it is core or non-core.

Mr. Dacey agreed and saw it as a benefit. He added he liked the unified disclosure requirement, it makes it more cohesive. He added it will be nice to maintain the broad categories to assist the preparers by demonstrating the Board has deliberated on these broad classes.

Staff added the intent is also to do an illustrative guide that would provide examples and that coupled with the standard would provide users more guidance on the disclosures although it may not be at a standard level.

Mr. Steinberg explained that he didn't believe a uniformed approach would make sense as we might want to say more when we talk about the interventions as compared to the

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receiverships. Mr. Dacey noted the staff proposed disclosures did have certain items that were specific to interventions only. He added he liked the unified (not uniform) approach, meaning instead of having four different buckets then having to decide which bucket it goes in, this is a more comprehensive principles based disclosure about the organizations and the relationships and the transactions with them.

Mr. Steinberg stated it may not make sense to have an individual disclosure for every single item that is non-core as the footnotes are already extremely long. He could envision grouping some of the non-core.

Mr. Dacey explained the proposal needs to be clearer regarding the ability to group like kinds of entities to make a terse disclosure. This also includes the naming entities as one could name a class of an entity. For example, one comment is that he would make it clear that it would not be required to discuss each investment in TARP, rather talk about them in a collective sense and pull out any particular points.

Mr. Showalter commented that he preferred the consolidated types of disclosures but he originally thought they would be disclosed by the classes presented in the ED. He thought the receiverships and interventions could have standardized disclosures for each category. However, based on the discussion around the table he is fine with the approach but he did want to point out that it may not be clear and others may expect to see these buckets to appear.

Ms. Bond wanted to echo Mr. Dacey's point regarding the grouping of the entity for disclosure. She discussed the sheer volume of entities and noted it needs to be clear that classes or some aggregation is acceptable and we are not requiring line by line or entity by entity disclosure. She added that when she read it, she couldn't conclude that was the intent, so requested that be made clear.

Staff noted that was what was envisioned and staff would work on the wording to ensure it is clearer. However, staff confirmed it doesn't appear there is support for requiring entities to disclose based on the classes presented. It would be up to the preparer to determine the level of aggregation.

Mr. Jackson noted that Mr. Dacey referred to it as a unified disclosure. Mr. Dacey stated unified as in one principle based disclosure requirement versus a separate disclosure requirement for each of the broad classes of non-core identified. He added the actual disclosures for this will be spread throughout the statements, you won't find the information in one note. For example, you currently have TARP investments in the TARP footnote, a GSE footnote, FDIC is part of a line item, and there may be information in the basis of accounting note, etc.

Chairman Allen noted the appendix has a list of entities that are included in the CFR. He wonders if it would be possible to include a listing of the non-core entities that are disclosed. He had envisioned a list being together in a footnote, but recognized Mr. Dacey makes a very legitimate point that the information may be throughout the footnotes. Chairman Allen asked if that is the case, how one knows which entities are

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non-core and disclosed. He explained the CFR is large and the disclosures are lengthy that one may not understand what is included. He asked if it would be possible to include a summary of the non-core entities that were included.

Mr. Reger commented that Appendix A of the report includes a listing of the 24 CFO Act agencies, 11 additional significant entities, and 114 additional entities included in the reporting entity. He noted there is a list of entities excluded from the statements, but that list is not all inclusive but identifies entities such as Amtrak, AIG, Fannie Mae, and the Federal Reserve that were excluded.

Chairman Allen suggested a preferred approach would be a similar schedule or Appendix that presents the entities that are core (consolidated) and non-core which means disclosed that are included in the CFR.

Mr. Dacey suggested that some of the categories may contain a significant number of entities. For example, with respect to the interventions the disclosure may state there is an asset of this amount and there is detail to support it and describe any exposures related to it. However it may be difficult to name all of the entities that make up that asset amount. It may turn out to be a substantial number of entities which might be overwhelming. Mr. Dacey stated he wasn't sure of his position at this time, but wanted to point out it potentially could be a substantial number of entities to be listed if you took that approach, so it should be considered.

Chairman Allen explained he believed it was important to know which entities are included as non-core, especially if he was looking for a particular entity it would be helpful to know if it was disclosed or not.

Mr. Steinberg noted at one time there was a separate class for the museums and performing art organizations. He noted they are not small and they should be a separate group for consideration. He also views them as a separate class based on their characteristics as we may not be worried about financial risk, but more concerned about operations and perhaps real estate. He questioned why this was no longer a separate class in the proposed ED.

Staff explained in the revised ED, the first broad category was revised to Quasi Governmental and/or Financially Independent Entities, with the change being the addition of "and/or." With this change, staff believed the category was much broader as organizations that were quasi governmental and/or financially independent could meet the description and it further supported our position regarding there were not advantages to making additional detailed categories. Staff also feared making a category Museums under non-core may lead to the presumption that all museums are non-core. With this framework, a museum if considered non-core could meet the Quasi Governmental and/or Financially Independent Entities, but there is still the possibility of museums being structured that may meet the core entity definition.

Mr. Reger noted that we want a principles based standard, you have to get away from defining standards for each type and he believes that is what staff has done. He noted

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the Quasi Governmental and/or Financially Independent Entities define what the attributes are without putting the museums in there all the time. He added the three broad classes identified in the proposal thus far are not the same, and he understands why there is a distinction by their very nature these need to be put out there.

Mr. Steinberg agreed with Mr. Reger's point but stated he still had some concern with the Quasi Governmental and/or Financially Independent Entities. He believes museums are unique because they are supported half by the government and half by the contribution.

Chairman Allen suggested what might be helpful is a brief outline of how disclosures might look in the CFR as each member probably has a different understanding. For example, he thought there would at least be some type of listing of the non-core entities in the form of a note disclosure.

Mr. Steinberg explained his understanding is that we are identifying the categories of non-core primarily as a way to help identify the notion of non-core in general, but as far as the disclosures, they are unified disclosures and we aren't going to propose for individual entities, it will be for group or aggregate entities and the specifics of the disclosures could differ based on the type.

Mr. Dacey added that the type is based on what makes sense in the financial model and that it didn't equate to the broad classes presented in the ED, some types might be an investment. Mr. Steinberg agreed that the type was flexible, for example a museum could be a type.

The Board agreed that was the understanding at this point. Chairman Allen noted he didn't want to request staff to do the brief outline of expected disclosures if everyone appeared to have the same understanding. Mr. Dacey explained that many of the disclosures required are already mandatory because we must disclose our assets and liabilities and not necessarily as a result of this standard. He didn't envision a separate footnote entitled non-core entity.

Mr. Showalter asked would something be included in the reporting entity footnote. Chairman Allen explained that is what he was also suggesting a footnote of that sort.

Ms. Payne explained she had always envisioned that as part of Note 1. She asked if there should be something specific about what should be addressed in Note 1 about the reporting entity.

Mr. Reger explained Note 1 references the Appendix, and questioned if the Board believes there needs to be a change in the Appendix. Chairman Allen stated he believes there should be a way to know which entities are consolidated versus incorporated by disclosure. He believes it would be meaningful to show entities that are core entities which are consolidated and non-core which means disclosed that are included in the CFR.

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Ms. Bond explained she understood his point, but agreed with Mr. Dacey that the list would be overwhelming. She stated one has to balance things out and consider what is important to the reader. She believes it is more important to get the disclosures and questions if it would be beneficial to the reader to see all the small entities listed in the Appendix.

Mr. Jackson stated we haven't resolved the reporting entity fully yet. Therefore, before getting to the disclosures for non-core there are some issues that need to be resolved. He noted footnote 18, he doesn't believe the reference to NASA belongs there. Staff noted the purpose of the reference wasn't to assert that NASA was a Quasi Governmental and/or Financially Independent Entities; it was to direct readers not to look at the words individually. Staff suggested that perhaps the example wasn't necessary. Mr. Jackson explained that the footnote wasn't necessary. The Board agreed the footnote could be dropped.

Mr. Jackson acknowledged the Board had discussed the Smithsonian in context with the museums. He noted when there was the threat of the federal government closing down, he watched on television where the Smithsonian cited it would also have to close. This made him question if an entity is going to close down based on the funding or appropriation if the federal government closes down, would that make them federal or core. Mr. Dymond, FASAB counsel, explained as a general principle a shutdown would occur if an entity did not receive an annual appropriation, which could be a portion of a department (for example a department could be funded with multi-year appropriations, no year appropriations, trust funds, working funds, etc. that wouldn't be subject to a shut down).

Mr. Dymond noted in the Smithsonian's case they are partially funded. However a majority of their funding is from an annual appropriation, so a decision must have been made they wouldn't have the capacity to operate.

Ms. Bond wanted to add that it isn't as simple as it looks on the outside. Not only do you have to look at where the funding is coming from, you have to consider would the National Park Service be there to provide the protection and other staffing that may provide support. Ms. Bond explained she appreciated the point, but believes it is somewhat of a bad example with the Smithsonian because whether or not they would have stayed open during the shutdown is different than how reliant they may be on the budget.

Mr. Jackson explained it was the significance of the relationship that came to light, but he agreed there were a lot of other factors that were brought up that may need to be considered. He explained that the closeness of the relationship appeared that one may be so dependent on the government that it affects it in this manner.

Chairman Allen noted that in the state, one question asked is regarding the status of the employees and if they were considered state employees in making similar determinations. Chairman Allen asked Mr. Dymond if the employees were considered federal employees. Mr. Dymond stated he wasn't certain. Mr. Steinberg noted that if

we go back to the budget inclusion principle, the Smithsonian is included in the budget as a result of receiving appropriations and the absence of an appropriation is why they would have shut down. Ms. Bond took exception to that and stated it wasn't the reason, because as Mr. Dymond noted, the threat of the shutdown was related to entities that were operating under a continuing resolution and it would result from a lapse in appropriations. Chairman Allen recognized it is one of those on the cusp issues we are trying to deal with. Ms. Payne suggested that staff develop a few examples of museums in the Illustration Guide for the Board's consideration, including core and non-core entity examples.

Mr. Granof noted he had concern with the wording of par. 31 and 32. Specifically, he said that par. 31 states "Certain indicators provide persuasive evidence that control exists. These indicators provide strong evidence of control, however; the absence of one or more of these specific indicators does not lead to a presumption that control is not present." He asked if the presence of one would indicate that control is present, because in par. 32 it states "Other indicators provide evidence that control exists, but must be considered in the aggregate and often require the application of professional judgment in assessing" which is in the aggregate. Staff noted that as indicated in par. 31, meeting one of those listed could meet control, while the factors in par. 32 are considered in the aggregate.

Mr. Granof explained in par. 38 it states "Core (or general) government entities generally provide core federal goods and services on a non-market basis" but things such as the post office offers goods and services on a market basis. He also noted that par. 37 where it states "the principles above were used to assess..." was not very clear and he was unsure what the point was, but he thought perhaps it was more of an editorial issue that could be clarified. Staff suggested "would be used" or "should be used" in its place which would improve its clarity.

Mr. Granof also noted concern with par. 38 where it stated "Their governance structure is vertically integrated..." He explained an agency can be structured in any way so he was unsure what the meaning or intent was. Staff explained it was to refer to the entire chain of command, including appointments process and such. Ms. Payne stated staff would clarify because it wasn't meant to be within a department, it was to demonstrate the chain of command starting with the President and Congress.

Chairman Allen expressed concern over the reference to the risks and rewards in paragraphs 39 and 63. He explained, specifically in par. 39 we stated "Substantially all the risks and rewards fall to the taxpayer for core government entities" and in par. 63 it states "For example, if the federal government's risk of exposure is 100%..." He explained that he thought both of those were over the top and he would like to substitute a word like "significant" because what if 99% of the risk falls to the federal government. He cautioned against using words such as those, and felt more comfortable with significant.

Chairman Allen asked if any members objected to changing to significant in those places. Ms. Bond asked how he would define significant. Chairman Allen noted that we

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define non-core as 'limited risks and rewards', therefore significant would be something other than 100% but more than limited. Ms. Bond agreed that it didn't have to be 100%, but she was trying to understand how significant might be interpreted because she didn't want to leave a wide gap. He agreed but like other areas, there is continuum and he didn't believe it would be interpreted in that manner when considered with the other definitions.

Mr. Steinberg explained in looking at par. 39 it states "Core government entities receive taxpayer support to deliver goods and services on a non-market basis." He noted there are a lot of government entities that charge fees so they don't have to use taxpayer money although it does have to be appropriated. For example, the SEC, NRC, PTO, CFTC and he wondered how that would fit the criteria established considering we state receive taxpayer support. Mr. Reger noted the ability to levy fees is granted by the relationship with Congress, so while the fees are not taxes they are under the federal government's authority to provide for those fees. Mr. Dacey noted the bigger question may be if these entities are in the budget, if the fees are subject to the budget process and are core by definition. There appeared to be agreement the entities were included in the budget, but it needed to be confirmed. If so, Mr. Dacey explained the entity is directly considered core and there is no choice to be made.

Mr. Jackson suggested you could still address the issue by adding "and other" after taxpayer. Mr. Dymond explained Mr. Steinberg raises a good point and it should be clarified if it means funded out of the general fund, taxes, fees, etc. He suggested elaborating on that point to be clearer as to what is meant by taxpayer support.

Staff agreed that it is a continuum and would work on clarifying the language to state that with core, you may not even meet every single characteristic listed.

Mr. Granof explained when he was considering the Related Party criteria, he was considering government contractors, and there may be a risk that many contractors may meet the criteria outlined in par. 67-68. He suggested that we sharpen the criteria. Mr. Jackson agreed and stated that certain defense contractors would meet these.

Chairman Allen questioned how the criteria could be written to not include them. Mr. Jackson suggested specifically excluding military weapons system contractors. Mr. Dacey explained the contractors may be completely or solely economically dependent upon the federal government's business and that may indirectly influence them, but that doesn't necessarily equate to significant influence. On the other hand, Mr. Dymond explained if you read the terms of the contract for contractors that are completely economically dependent on the government, it may have total control. Mr. Dacey explained he believed the wording is similar to that of the private sector and the private sector may have contracts equally or closely similar and they aren't swept in. The Board agreed that contractors should be excluded; it was a matter of what needs to be changed to the proposed wording to ensure it is interpreted properly.

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Ms. Payne noted that in the control section of the proposal, par. 35 addresses the issue of economic dependency and something similar could be incorporated in related party. Par. 35 states

“Certain entities may be economically dependent on the federal government but ultimately retain discretion as to whether to accept funding or do business with the federal government. For example, many not-for profits rely on federal government funding but that does not mean they are controlled by the federal government. Although the federal government may be able to influence entities dependent on federal funding or business through purchasing power, the federal government does not govern their financial and operating policies.”

The Board agreed it would help.

Mr. Jackson asked if FASB required that entities be created or established by in its related party guidance. Staff explained no that it did not, that part was added to related party after the Board decided it shouldn't be an inclusion principle. At that time it was agreed it would be referenced in the related party section so entities that were established would be considered. The Board briefly discussed the history of the related party. Specifically, FASAB completed the American Institute of Certified Public Accountants (AICPA) Omnibus project to adopt certain accounting and financial reporting guidance that resided in the AICPA statements on auditing standards. The Board decided to address related parties as part of the on-going Entity project.

The Board asked staff to work on revising the language and bring that back for the next meeting. Mr. Jackson asked if it was necessary to have the language regarding the entity was established by the federal government. Mr. Dacey explained he had concern about that also and it might bring in entities that the federal government established but that the government may have no ongoing relationship with. For example, the government may create not-for-profits but that doesn't make them a related party. Mr. Dymond explained that it depends on what you mean by ongoing relationship because if Congress creates them through law, then Congress can change them, but otherwise Congress is not involved in the day to day operation of the entity. Mr. Dacey reiterated his concern that we may be potentially disclosing a lot more entities. Chairman Allen suggested that we look at the related party in its entirety at the next meeting along with the FASB and GASB requirements. He agreed that the established by factor alone shouldn't be enough to require related party disclosures.

Mr. Jackson also suggested there may be a way to deal with this in the “significantly influenced” part because you can't say that it excludes contractors but you might be able to come up with conditions such as no federal representatives on a board and so forth that might indicate you don't have significant influence. Chairman Allen suggested that just in the budget principle within the standard we carved out those entities that received federal financial assistance; perhaps there is a way to carve out certain entities within related parties.

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Mr. Dacey explained in par. 44 we note “Related parties *may* provide core federal government services but are more likely to provide market based services.” He believed that core may be mistaken for core entities. He suggested either core services or some other term to alleviate confusion.

Mr. Dacey asked if par. 64-66 under “Basis of Accounting for Non-core accountable entities” is still germane considering we are strictly going down the disclosure route for non-core. He noted if we start disclosing summary information about an entity that we don’t audit then he wondered what the auditor’s responsibility to audit that information might entail. He explained for some of the current entities, he isn’t certain that providing the statements or condensed information will provide helpful information. Mr. Dacey explained he is concerned about the audit responsibility of condensed information that may be brought in as a result of this. He stated he would like to put it up for discussion at the next meeting. Mr. Showalter explained you start with whether it is audited or unaudited, then there is a different path for each. Mr. Dacey agreed but stated there are some potential issues that may need to be discussed. Mr. Showalter asked if most of the potential entities are audited. Mr. Dacey said it may or may not be; but also by whom. Chairman Allen stated he assumed most of it would have been audited.

Chairman Allen wanted to go back to discuss the indicators in par 32 since he had some concerns with the indicators. For example, 32 f. “Finance the deficits of and provide financial support to or settle liabilities” is in the wrong category and should be in par. 31. He interpreted it to be mean “responsibility to finance the deficits...” He is uncertain if it is the government volunteering to do so, but if it responsible, then it is more persuasive.

Mr. Showalter commented that he had a similar concern with 32 b. “Access entity’s assets or direct the ongoing use of those assets, or has ongoing responsibility for losses” and what is the difference with 31 c. “Unilaterally dissolve the entity thereby having access to the assets and responsibility for the obligations.” He believes all of them get to the same point including 32f.

Mr. Dacey explained it is based on interpretation, if you interpret it as permissive-- *may* finance deficits, then it belongs in par.32. Ms. Bond explained she believes it belongs in 32 as she read 32f. with the lead in which states “the federal government has the *ability to*” so it is more permissive or stating that the government *may* versus being required or responsible for. Mr. Dacey pointed out that par. 31 has the lead in of “authority” where par. 32 is “ability.” This appeared to make the factors clearer. However Mr. Showalter asked staff to review the wording, for example the word “responsibility” is used in 32b which may be confusing since the lead in uses the word ability. Staff agreed to look at the wording for the points brought up.

Mr. Showalter suggested par. 36 which addresses the misleading to include principle may not be clear enough. Chairman Allen noted it’s a permissive clause, but he doesn’t feel that strongly about it and whether the standard includes it. Mr. Jackson noted this was an issue the Board discussed in its joint meeting with GASB and the difficulty in coming up with criteria. Mr. Showalter explained he is okay with it being included, but

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he would rather be clearer about why its there. He added it just seems like a statement without a purpose. Chairman Allen asked if he had a recommendation for improving it. He explained he didn't have a recommendation, but it caused some concern. Staff suggested perhaps adding explanation to the basis for conclusion and also reviewing the GASB literature for any additional points.

Mr. Granof asked if significant influence as it relates to ownership is something that should be dealt in the standard. He asked if the federal government owns 49%, how it should be handled. Staff explained that footnote 12 of the proposal explained "Ownership interests 50% or less should be accounted for in accordance with the appropriate accounting standards per the GAAP hierarchy." Staff explained this had been agreed to at a previous Board meeting when the issue had been discussed. The Board agreed the note would be sufficient.

Chairman Allen asked what was agreed to regarding the Basis of Accounting issue. Staff noted that Mr. Dacey had asked about the potential audit implications. Staff would do additional research and outreach, perhaps contact Mr. Showalter for additional input and/or to the audit community and the task force as necessary. Staff noted this manner could also be used to address the fiscal year end issue for core entities. Mr. Dacey concurred that was agreed upon.

Chairman Allen asked for clarification on the common fiscal year because he thought the Board could deal with that fairly quickly. Chairman Allen stated that it is common practice to state that you should take the fiscal year that ends within the primary or core government's fiscal year-end. He noted this was acceptable, and it is okay to have different fiscal year-ends and we don't want to mandate the same year-end. He noted there was language in the draft that needed to be revised that allowed for an ending that was a quarter after but he believed it could be soon enough after if the information would be available that it could be included in the financial statements.

Mr. Reger explained he encouraged the same fiscal year but realized that wasn't always possible. Mr. Showalter stated that the wording seems to set a policy. Mr. Dacey explained the reality of it is that none of the December 31 year ends would be completed in time for inclusion. Therefore, it might be best to make it clear it is acceptable to include the year end that falls within, even if that is several months before. Therefore, paragraph 66 of the proposal needs to be revised to reflect the year ending within the fiscal year of the core entity is acceptable. Mr. Dacey explained we will be recording the transactions with the non-core during the year so we really only run into this problem when disclosing the summary level information and the audit implications of that.

Ms. Payne requested the Board member's feedback on the sample format and detail of the proposed Illustration guide. She noted feedback on the scope and detail would be helpful in knowing what direction to go or modifications to make in the proposed presentation as well as the expected detail. Staff noted a placeholder was provided to indicate where an analysis against the requirements in the standard would be presented. Staff explained the analysis would show the following: *Analysis against*

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Inclusion Principles, Analysis to determine core/non-core status, and Decisions Regarding Presentation and/or Disclosure.

Board members asked for clarification on what would be included in the decision section. Staff explained the decisions would explain the judgments made and represent a basis for conclusion for the example.

Mr. Steinberg explained he didn't have a problem with hypothetical examples but they needed to be plausible. For example, he noted he has never heard of the Inspector General making or confirming appointments.

Mr. Dacey explained he looked at it as if we are going through the illustrations if we are trying to show how one goes through the logic and we chose illustrations that were clearly one way or the other so there wasn't doubt then he would be okay with it. However if you get into controversial issues where based on particular facts and circumstances, anything close to that the preparer will apply literally. He expressed concern over the fact it may be applied to cases that might not be similar. He noted it would be helpful if you show how the logic was applied but there may be clear ends of the spectrum where it may be safe doing that.

Chairman Allen explained that it is the controversial ones that people have problems with. Mr. Dacey noted it is facts and circumstances based and it may be literally applied at times that may not result in the right answer at times. Ms. Payne explained that staff hoped one thing that might mitigate against that is that for example, there is just one page of background for examples whereas in a real situation there would most likely be much more information including details of the operation of the entity and a complete scenario plus the advice of general counsel. Therefore, the illustrations would have to be with the understanding they omit complete information that would be available in a real situation.

Ms. Bond explained she agreed with Mr. Dacey that it would be good to have some crisp examples versus just controversial examples. She appreciates the need for some that may be on the edge. Chairman Allen agreed, the guide should have a mix of examples—some that are clear and easy, some that move towards the center. Mr. Jackson explained it is the analysis that will be most helpful. Chairman Allen requested board members assistance in providing or creating examples, that would be helpful as staff would be open to those. Mr. Showalter suggested looking at the criteria and determining which would be most sticky to apply and come up with examples from there. Mr. Granof stated the logic should follow the flowchart.

Mr. Reger asked how we expect an outside entity to be aware of this standard and the possibility they may be needed to be included so one can adhere to the requirements. For example, for some entities there may be a fight over whether this applies to them. In the case of TVA, they say they are covered by commercial accounting. Chairman Allen stated these are standards that must be applied to the federal government as a whole. Therefore, it applies to Treasury and if Treasury determines TVA is part of the government-wide, then it must include that information. The next question is if it is okay

to include FASB based information. Mr. Reger noted there are several entities where this is an issue. Mr. Steinberg noted this isn't an issue for the non-core or disclosed entities. However it is for core entities that may be consolidated. Mr. Dacey noted TVA is currently consolidated. Chairman Allen suggested for those entities, it is possible for them to compare the FASB based statements and do an analysis to determine if they are close enough or if there are adjustments that need to be made. He explained it isn't the FASB entity our standards apply to, it is the FASAB entity. Mr. Reger stated without some control mechanism how do you get them to do so. Chairman Allen explained that one assumes there is some control or relationship that would enable you to get the information considering the entity met the criteria or tests for inclusion. However, members recognized there is sometimes difficulty getting information.

Conclusion: The Board unanimously agreed to remove the cost/ benefit factor and also agreed to remove the flexibility that allowed non-core entities to be consolidated. Therefore, the core entities will be consolidated and non-core entities will be disclosed. Staff will also update the flowchart accordingly. The Board agreed with the rest of the proposed factors to consider for non-core disclosures for entities that are not consolidated.

The Board agreed the broad classes of non-core in the ED are presented primarily as a way to help identify non-core and assist preparers. The Board generally agreed with the staff proposed disclosures for non-core entities. The Board requested staff ensure it is clearer regarding the flexibility for the disclosure and it may be presented in an aggregated manner selected by the preparer based on the financial model and/or the information may be displayed in various notes.

The Board agreed the Illustrative guide should have a mix of examples including some that are clear and easy and some that move towards the center of the spectrum as well as some controversial. It was agreed the logic and decisions should be explained with caution of avoiding instances that might be applied in the wrong situations.

Staff will do the following:

- Develop a revised related party section and the Board will consider it in its entirety at the next meeting along with background on the FASB and GASB requirements.
- Additional research and outreach, perhaps to the audit community and the task force as necessary on the audit responsibility of condensed information as it relates to the potential audit implications especially for non-core entities on different basis of accounting or core entities with different year ends.
Note: The Board agreed the year end issue for non-core entities should be revised to the year ending within the fiscal year of the core entity is acceptable.
- Review the control indicators to ensure they are clear and consistent.

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- Consider adding explanation to the basis for conclusion and also review the GASB literature for additional points to make the misleading to exclude principle clearer.
- Incorporate the various other changes to the proposed ED that the Board members agreed to and/or suggested that are documented in the minutes. Changes communicated by members to staff but not discussed at the meeting will be incorporated as appropriate and will be reviewed by members in preparation for the next meeting.

- **Reporting Model**

Overview

The FASAB discussed a staff proposal to develop a new basic financial statement that would articulate (link) information in the existing financial statements. The proposal also suggested concurrently enhancing the conceptual framework to address voids and concerns that Board members raised during their deliberations on social insurance and other topics.

Upon discussing the proposal, the Board determined that adding a new basic financial statement to articulate existing information would not be beneficial to readers. The reporting model already includes a number of financial statements, including the new statement on sustainability (Long-Term Fiscal Projections for the U.S. Government) which is being widely used to inform fiscal discussions. Instead, the focus should be on better presenting or communicating the existing information.

Also, the Board believed that it would be premature to revisit the conceptual framework at this time. The Board acknowledged that the financial reporting community has a number of initiatives ongoing that may inform an analysis of the conceptual guidance. Details of the Board discussion follows.

New Basic Financial Statement

Mr. Simms began the discussion by noting that the objective of the meeting was to determine whether the Board agrees with staff's proposal to enhance the conceptual framework for the reporting model while concurrently developing requirements for a new basic financial statement. During the former social insurance project, the Board had initiated work to develop a new financial statement to help articulate the existing financial statements and Mr. Simms proposed to continue this work while concurrently enhancing the conceptual framework. The proposed project would be designed to address Board members' conceptual concerns and ultimately help improve the presentation of financial information to users.

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Regarding the question of whether the project is intended to require new information, Mr. Simms explained that developing requirements for new information was not an objective of the project. Instead, the focus of the project would be on better articulating existing information.

Mr. Showalter noted that simply developing another financial statement does not help readers. We already have a set of financial statements that do not articulate. We should focus on what information users need and developing a cohesive set of financial statements to provide that information.

Mr. Allen encouraged members to decide on what questions they would like financial statements to answer. Those questions would inform the Board on whether more or less financial statements are needed. He noted that when the Governmental Accounting Standards Board (GASB) initiated a reporting model project, their first step was to determine what questions should be answered by the financial statements. One question was, "Are the taxes raised sufficient to pay for the services being provided during the reporting period or are some of those costs being passed on to future generations?" Another important question was, "What does it cost to provide the services and who pays those costs?" Answering these questions "drove" the format of the financial statements and the basis of accounting - accrual.

Mr. Allen also noted that when he was preparing for the hearing before the House Committee on Oversight and Government Reform Subcommittee on Government Organization, Efficiency, and Financial Management, he reviewed the financial statements presented in the 2000 Financial Report of the United States Government (CFR) to determine if the financial condition of the federal government improved or deteriorated. However, Mr. Allen noted that he found conflicting information. For example, statements showed an increase in net position during the period (Statement of Operations and Changes in Net Position) and projected surpluses (Current Services Assessment), but the auditor report discussed serious sustainability challenges, and the management's discussion and analysis (MD&A) discussed increases to the debt limit. Thus, it was not clear whether the government's financial condition improved or deteriorated.

Mr. Steinberg noted that the major concern today is fiscal sustainability, are we going to be able to pay for services, and we have a good financial statement that informs that discussion. If we want to provide additional information, the notions of spending (what are we spending money on) and relationship to the budget (whatever we develop should inform Congressional decision-making) are areas we should consider.

Mr. Dacey stated that he would significantly question the need for an additional statement. He noted that a lot has changed and we have moved to reporting on sustainability. People are now using sustainability information as the tool that the Board had envisioned. For example, the National Commission on Fiscal Responsibility and Reform report has discussions on fiscal path. Mr. Dacey also noted that the MD&A or

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Citizens Guide could perhaps better discuss the relationship among the financial statements.

Mr. Showalter noted that he believes the Board should think about different ways to present or package the information rather than adding new statements. He noted that we have too many statements currently and the financial statements compete with each other. Competing statements confuse readers and readers are not sure how to interpret the information. This condition is illustrated by the fact that some readers are taking information from different statements and “mixing” the information together. If sustainability is the primary focus, that statement should be up front. If readers want to know about spending, they may need to be provided with information about spending and the Board should consider how to present that information.

Ms. Bond noted that an additional statement is not what is needed at this point. The Board discussed the task force recommendations at the previous meeting and, for the most part, the recommendations focused on enhancements to the form and content of the financial statements. The Office of Management and Budget (OMB) and the Department of the Treasury (Treasury) are continuing to move forward on those issues. Also, a statement of spending is being piloted to see how that information might be used.

Mr. Granof noted that the message in the current financial report is clear – we have major problems. We are not as far off from providing the information that citizens need as one might believe.

Mr. Jackson noted that we may need to reorder the financial statements. The first item that one sees is the sustainability statement, a future perspective. Next there would be a divider to separate the future perspective from the next section. The next section would be a historical perspective presenting the traditional statements.

Mr. Allen noted that although sustainability reporting is important, how should we clearly show whether the government’s financial condition improved or deteriorated during the period?

Ms. Kearney noted that preparers are working on better presenting the information. The MD&A will have a summarized view of key measures from the financial statements. That may be an opportunity for better articulating information.

Mr. Reger did not agree that we should develop a new basic statement. He noted that we have financial statements that are generated on a historical basis and a trained accountant is used to seeing them. Also, we have another statement that shows the potential long-term effect. The numbers on the historical statements and the sustainability statement should not be added together as some are doing currently. They do use the same basis and are not constructed by the same mechanisms.

Mr. Steinberg noted that the proposed project also intended to enhance the conceptual framework. He stated that the standards are currently ahead of the conceptual framework. Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display* was designed to support the statement of net cost, the statement of changes in net position, the balance sheet, and the statement of budgetary resources. The Board developed the statement of social insurance and the statement of sustainability after issuing SFFAC 2. SFFAC 2 could be revised to provide a conceptual framework for the forward-looking statements. Mr. Steinberg also noted that SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, discusses elements of accrual basis financial statements. However, the reporting model includes accrual and actuarial bases. SFFAC 5 could be amended to include elements of the actuarial basis statements. Mr. Steinberg noted that although the Board could enhance the conceptual framework, he would prefer to work on more important issues.

Mr. Dacey noted that we will be presenting the change in fiscal sustainability which will show the changes to the long-term. Also, the statement of operations will show the changes in the current year. Thus, we will have information on the changes to both financial position and condition.

Mr. Schumacher noted that he did not believe a new basic financial statement was needed. We have the statement of sustainability now and other basic information, but it could be better articulated or re-prioritized. Possibly, the only new information would be spending information.

Mr. Allen clarified that if the Board decides not to support a new basic statement, that vote would not preclude considering a statement of spending at the appropriate time. Members agreed with Mr. Allen's clarification.

The Board members unanimously decided not to support the proposal to develop a new basic statement.

Conceptual Framework

Mr. Reger noted that the Board could look at the concepts, but only with respect to the statement of spending. When all of the information on the statement of spending is available, the Board could consider how the statement of spending would relate to the other statements and whether it would be a new statement or a modification of an existing statement.

Mr. Steinberg would update SFFAC 2 and 5 to provide for the new financial statements, and lay the framework for a statement of spending and any other matters that result from the Chief Financial Officers (CFO) Council work. However, work on these conceptual areas would be subject to the Board's relative priorities.

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Mr. Jackson noted that he would need to be informed on what is missing from the concepts. We may need to wait until we see what is going to be proposed regarding the statement of spending.

Mr. Granof noted that the Board has limited resources and those resources should be directed to projects that will change practice. The Board will likely change practice, then modify the concepts.

Mr. Showalter noted that developing a concepts statement at this time may be premature. After we decide where we want to go, we may be better informed about what we need to address in a concepts statement.

Mr. Dacey noted that there may be some potential issues at the agency level. The CFO Council may have some suggestions that may affect agency reporting and the Board could work with the community in trying to provide credibility to the amounts being reported on different websites.

Ms. Bond also did not see value in amending SFFAC 2 and 5 at this time.

Mr. Jackson suggested that in addition to SFFAC 2 and 5, SFFAC 1, *Objectives of Financial Reporting*, may need to be revisited because it is foundational.

Mr. Allen summarized that members agreed that concepts should be revisited but not at this time.

Mr. Allen asked members to explain what they envisioned in terms of better presenting information or improving understandability. He noted that it might be beneficial to engage some communications experts to determine how financial information could be presented to answer some key questions. Mr. Allen wanted to know whether members felt strongly that some requirements should be developed into a standard.

Mr. Showalter noted that it may be interesting to determine why some analysts are reviewing various sources, restructuring information, and developing their own financial reports. This could inform the Board on what information individuals are seeking.

Mr. Jackson rhetorically asked that if financial reports have conflicting information such as those Mr. Allen noted earlier, does the Board need to resolve them.

Mr. Dacey noted that it does not appear that members are suggesting dramatically different presentations of the data we currently have in financial reports. However, they seem to be concerned about better ways of communicating the data. He asked other members to review the Citizens Guide and CFR and provide any suggestions for improvements they might have.

Ms. Bond offered to discuss the financial statements with their communications experts and provide an update to the Board at a later meeting.

Mr. Reger noted that the task force recommendations are being addressed and it is a continual exercise to determine how to better market the report and display information.

Mr. Allen noted that the Board could consider how to treat agency financial statements more effectively. Agencies are not standalone entities, but components of a larger entity. Because we have a standard for a complete entity, do we need to apply that entire standard to something that is a component of that entity?

Conclusion: The Board determined that adding a new basic statement to articulate existing information would not be beneficial. However, the Board believed that the conceptual framework should be revisited when more progress has been made on projects taking place in the financial reporting community and as resources permit.

- **Steering Committee Meeting**

The Steering Committee reviewed revised FY2012 budget amounts and discussed ways to cut costs.

Adjournment

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

Thursday, April 28, 2011

Agenda Topics

- **Natural Resources (and Discussion of Technical Bulletin 2006-1)**

Julia Ranagan, staff member, introduced the session by providing a short background on the history and current status of the project. Then she introduced the following two representatives from the Department of the Interior (DOI):

- Eric Eisenstein, Acting Deputy Chief Financial Officer and Acting Director, Office of Financial Management
- Scott Mabry, Finance Officer, Bureau of Ocean Energy Management, Regulation, and Enforcement (BOEMRE)

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Ms. Ranagan reminded members that BOEMRE is one of the three DOI entities that were formed as a result of the reorganization of the Minerals Management Service. Ms. Ranagan also reminded members that Mr. Mabry had been involved in the field test of SFFAS 38, *Accounting for Federal Oil and Gas Resources*.

Ms. Ranagan noted that this session was a follow-up to the February meeting where the board had discussed the comment letters received on the technical bulletin applying the guidance from SFFAS 38 to other types of natural resources. At that meeting, several members expressed concern about cost-benefit after reading DOI's comment letter, which appeared to contain conflicting views among the different bureaus within DOI. Staff asked DOI to submit a revised comment letter to the board clarifying DOI's departmentwide position.

Ms. Ranagan stated that DOI submitted a revised letter to address the board's concerns. In addition to noting their support of the proposed technical bulletin, they have requested that the technical bulletin not be effective until fiscal year 2014, one year after SFFAS 38, because the same staff that would be devoted to developing the estimate for SFFAS 38 would also be the ones determining what needs to be done to comply with the proposed technical bulletin.

In addition to that letter, DOI has also requested that Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, that is set to become effective beginning with the upcoming fiscal year 2012, be required as required supplementary information (RSI) for several years as they gather enough survey data on their buildings and structures to support a reliable estimate of their asbestos liability. Staff thought it would be an opportune time to allow the board to ask questions about DOI's request since they were already scheduled to meet with the board about natural resources.

Mr. Allen suggested that each of these issues be discussed separately, beginning with the draft technical bulletin on other natural resources.

Draft Technical Bulletin 2011-1, Accounting for Federal Natural Resources Other than Oil and Gas

Mr. Allen thanked Mr. Mabry for the clarification provided in the letter; he said he had a list of questions previously but the revised letter answered most of those questions. However, he said he was troubled about the issue with immateriality; in 20+ years of auditing, he has never felt that the client had to prove to him that something was immaterial. He said he can go to the records and determine whether or not to accept the client's conclusion about materiality. Mr. Allen asked Mr. Mabry whether the accounting records sufficiently support the revenue collection so that the auditors could look at those and gain comfort from those numbers or is the accuracy of the records the problem.

Mr. Mabry said that in many cases, DOI does have the information to support established resources such as coal, but for some of the other resources, such as hard

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rock, there is no baseline for establishing the asset amount; there is only the revenue streams of what DOI has had in the past and they have been small in a lot of cases. However, due to emerging technologies and other reasons, there are other resources that are being developed more. Mr. Mabry said that DOI knows the revenue streams but the streams do not necessarily represent the asset base; DOI's big concern is being able to establish an asset base. He noted that immaterial revenue streams would not necessarily prove to the auditors that the underlying asset base is also immaterial.

Mr. Dacey asked if DOI would have a problem coming up with an estimate for all natural resources other than coal, oil, and gas or if there were other natural resources for which DOI could develop an estimate. Mr. Dacey also asked if there is an anticipated quantity to be extracted when the materials go under lease or is it fairly open-ended. He noted that someone must have done a minimum estimate to determine that it is worth leasing but he does not know if there is a formal estimate at that point.

Mr. Mabry said coal was one of the resources that DOI had expressed some reservations about but the minerals experts believe DOI can come up with an estimate methodology similar to what has been developed for oil and gas, and if that is not possible, DOI could use the numbers reported by the Energy Information Administration (EIA) because EIA also maintains the numbers for coal just as they do for oil and gas. He said it is some of the other less material resources that DOI is more concerned about how to value the asset base.

In answer to Mr. Dacey's second question, Mr. Mabry said he is not certain if all contracts specify a set quantity; he would have to look at the terms of the contracts to see if some are open-ended or not.

Mr. Reger said one of the things he is interested in is whether the information that is accumulated and reported in financial statements is also useful to management. He asked Mr. Mabry if DOI was looking to compile information on their resources, such as hard rock, for its own management of those assets or merely as an exercise to comply with a financial reporting requirement imposed by FASAB.

Mr. Mabry responded that a lot of it is in response to the standard; he is not sure DOI would have developed the asset baselines if not for the standard because EIA already maintains information on many of the resources. He said he does not see a management benefit to it; it is more just being able to show the asset on the financial statement. He said DOI would never have a reason to show that asset anywhere other than in the financial statements; if it were not required, he does not think they would do it. However, Mr. Mabry added that it would make sense for DOI to begin keeping information on the resources if there is a requirement to report these resources as assets.

Mr. Allen asked Mr. Mabry if DOI has never been asked by Congress about the viability of leases or the potential to lease. He said it seems to him that Congress would be asking for some indication of the viability or the quantity being leased. Mr. Mabry said that is correct and DOI does that at the time of the lease; it performs due diligence to

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determine the value of the lease and if the bid is returning the proper economic benefit to the federal government. He said that is what Congress is more interested in – is the government getting the revenue it is supposed to be getting.

Mr. Reger asked Mr. Mabry what circumstances would change that would make it easier to implement the technical bulletin in 2014 versus in 2013. Mr. Mabry responded that part of the reason is a workload issue because the same staff that would be working to develop the estimates for oil and gas under SFFAS 38 would then have to turn their attention to developing the estimates for other resources under the technical bulletin. The other part is that it would provide a similar timeframe for implementation that DOI received for oil and gas—meaning the time from issuance of the requirement to its effective date would be comparable. He said at this point in time, it is not clear whether the Bureau of Land Management (BLM) or the Office of National Resources Revenue (ONRR) would be the best source of information for the estimate to be developed for coal.

Mr. Reger asked if the issue associated with this is defining the asset or valuing the asset—valuing the asset is much different than coming up with an estimate of how much is there. Mr. Mabry responded that quantity is the issue; the valuation is pretty straight-forward.

Ms. Ranagan asked for clarification regarding Mr. Mabry's description of the information required under the technical bulletin. She said that the technical bulletin is only requiring an estimate of the resources under lease as of year-end and the estimated flows to the government over the life of the lease—not the entire asset base. Mr. Mabry responded that is correct under the technical bulletin; he was referring to oil and gas.

Mr. Jackson said that he doesn't think the quantity should be an issue because once the federal government enters into a lease agreement, the asset would be roughly equivalent to the present value of the lease stream. He asked Ms. Ranagan if that was accurate.

Ms. Ranagan agreed noting that the signing of the lease is the triggering event under the technical bulletin. If there is not a material amount under lease for any given resource, there would be no reporting required under the technical bulletin.

Ms. Ranagan noted that the board was originally requiring a lot more information to be reported about all oil and gas but significantly scaled back the requirements to primarily proved reserves because of the difficulty obtaining accurate information about oil and gas other than proved reserves.

Mr. Mabry said that brings up a good point because DOI should be able to prove materiality to the auditors through a review of leases and the estimated values of only those resources under lease as of year-end.

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Mr. Dacey said that gets back to his question—when DOI enters into the leases, it knows what the rate is, but does DOI always know what the quantity is? Mr. Mabry said he will have to look at the terms of the leases to see if they contain specific quantities.

Mr. Jackson said it would be helpful to find out what terms the leases contain before finalizing the bulletin because that would go a long way towards answering the question.

Mr. Showalter asked Mr. Mabry if DOI has the systems to capture the lease data for some of the smaller “non-critical” resources. Mr. Mabry said that is one of the issues that BLM was concerned about.

Mr. Showalter said if DOI can prove the population of total leases to the auditor, then DOI can prove materiality. If DOI can't prove the population of total leases to the auditor, then it cannot prove materiality.

Mr. Jackson said DOI should have tightly controlled records with regard to leases because if DOI does not have that, how could it prove the accuracy of its assertions related to the revenue streams?

Mr. Allen pointed out that the custodial responsibility agencies have is even more important than proving materiality to the auditors.

Mr. Jackson said it seems to him that DOI needs to pull all of their leases together which may take some time because they may not be all in one place, but once DOI has all of its leases and the surrounding terms and conditions contained therein, DOI can determine if it has the information necessary to calculate the estimate needed to implement the technical bulletin.

Mr. Mabry agreed that he thinks DOI can do that but that is why it is asking for the additional time in order to gather that information.

Mr. Showalter said he is sympathetic with the additional requirements to prove immateriality that are brought about by the technical bulletin and pointed out that DOI can eliminate a lot of the immaterial resources quickly by proving that the price times the maximum capacity available under the leases is immaterial.

Mr. Mabry said DOI would be more concerned if the board remained silent on the application of SFFAS 38 to other types of natural resources than it is with the technical bulletin, which provides clarification on the matter.

Mr. Dacey pointed out that in addition to materiality, being “reasonably estimable” is also another limiting factor that could be argued as well. Some of the quantities of resources under management by DOI may not be reasonably estimable.

Mr. Allen polled members to ask whether they agreed with a 2013 or a 2014 implementation date for the technical bulletin:

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Member	2013	2014
Jackson		X
Steinberg		X
Reger		X
Allen		X
Bond		X
Dacey		X
Showalter	X	
Granof		X

Mr. Schumacher was not present.

Mr. Steinberg said he reluctantly agrees with 2014 because accounting seems to be forcing better management and he hates to delay that.

Several board members noted that although they do not object to the 2014 effective date, the technical bulletin should continue to stress that earlier implementation is encouraged.

Mr. Dacey asked DOI to keep the board informed if there are any roadblocks that they encounter along the way.

Mr. Showalter said he did not hear a case for extending the date to 2014; it just takes some of the pressure off of management to complete the task. Mr. Showalter stated they need to reflect on the discussion with the Board and come back with a more convincing argument to support the request for the delay.

Mr. Granof says he does not have a problem waiting the extra year but he just does not understand why it would take so long to gather the data.

Mr. Jackson said it may improve the board's deliberative process if they could hear back from DOI while they try to implement this and find out what types of things make the task difficult to accomplish in a more timely fashion.

Mr. Allen wrapped up the discussion and asked Mr. Eisenstein to address the board regarding DOI's separate request related to Technical Bulletin 2006-1.

Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs

Mr. Eisenstein stated that DOI is requesting that the information required by Technical Bulletin 2006-1 be presented as required supplementary information (RSI) for a limited time period to enable agencies such as DOI additional time to gather survey data on its buildings and structures.

Mr. Eisenstein noted that this approach would be consistent with Statement of Federal Financial Accounting Concepts (SFFAC) 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*, Table 1 – Factors to Consider in Distinguishing Basic Information from RSI. Mr. Eisenstein specifically cited two of the factors from Table 1 as examples: experience among users, preparers and auditors with the information; and benefit/cost ratio of using resources to compile the information as well as ensure accuracy.

Mr. Eisenstein said that DOI believes it would be appropriate to present the information in RSI for a limited time period because reliable estimates are not yet available at reasonable cost. DOI thinks the board should consider the benefits and costs of producing and auditing this information in the short-term. DOI has already spent over \$2.5 million on contracts evaluating the asbestos in approximately 3,000 of DOI's 160,000 buildings and structures. Mr. Eisenstein noted that little cleanup data is available for 106,000 of DOI's structures.

Mr. Eisenstein stated that DOI (like similarly situated agencies) would be concerned about the reliability of the preliminary estimate of asbestos-related cleanup costs to be presented as basic information subject to full audit in DOI's 2012 financial statements.

Mr. Allen asked if DOI were proposing a date through which the information would be presented as RSI.

Mr. Eisenstein stated that DOI had not proposed a set date, noting that SFFAC 6 said it is reasonable to require information as RSI until experience is gained (reading from SFFAC 6 par. 73C that states "It may be experimental in nature to permit the communication of information that is relevant and important to the reporting objectives while more experience is gained through resolution of accounting issues. Also, the information may be expressed in other than financial measures or may not be subject to reliable estimation."). He went on to state that DOI's position is that at this time the information is not readily subject to reliable estimation at reasonable cost.

Mr. Allen stated that based on his experience as an auditor, they would reach conclusions based on auditing a sample of 60 or 100 transactions, or whatever size is reasonable for the population. Internal controls would still need to be reviewed and the population would be stratified but, through those techniques, and using what DOI has already done, he would argue that DOI could come up with a reliable projection.

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Mr. Allen said those are his two questions: (1) what could we learn from other agencies that have done it, and (2) was the approach taken one that could be used to develop a reliable projection?

Mr. Mabry said BOEMRE does not have any buildings but he has discussed the issue with National Parks Service and one of the challenges they are running into is utilization of a cost estimate and being able to come up with a cost estimate that can be applied to the square footage. One thought is it should be by region because there could be different asbestos standards for different regions. Another thought is year built but the ruling in most areas states that you cannot produce asbestos-containing material (ACM) in the U.S.; people could still buy ACM from Canada and elsewhere and put it in their buildings. Therefore, applying a cost estimate that can be applied to square footage across the organization is one of the big challenges.

Mr. Jackson asked what the bulk of the buildings are; Mr. Mabry responded that a lot of them are sheds, maintenance, and storage buildings.

Mr. Eisenstein stated that DOI has been working very hard to develop an estimation methodology and it is still a work-in-progress. When they first reviewed a draft of the technical bulletin, they thought they could come up with a simple estimate based on the age of the buildings (the ones more likely to have asbestos based on their age). However, they are finding it is not that clear-cut; there have been changes to buildings and other factors that make the estimation more difficult than originally thought.

Mr. Eisenstein reiterated that DOI is not suggesting that the information not be presented; they are suggesting that it would be more reasonable to present it as RSI for a limited time.

Mr. Mabry noted that something similar was done for SFFAS 38, requiring the information as RSI for three years before requiring it as RSI.

Mr. Allen responded that the technical bulletin is much older; it has been around for five years and was already deferred once.

Ms. Payne added that technical guidance was also provided during that time [Technical Release 10] and there is always the option of disclosing information in a footnote if it is not possible to develop a reasonable estimate.

Ms. Payne added that she noted that DOI has the largest number of buildings and structures for non-Defense agencies but their square footage is not that large. She asked if DOI focused on the largest square footage buildings first.

Mr. Mabry responded that National Park Service conducted their studies by park as opposed to by building, based on the regional approach he mentioned earlier.

Ms. Kearney asked DOI to clarify that they are not asking for a deferral; they are asking for an experimental period as RSI.

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Mr. Eisenstein responded affirmatively, stating that he believes two to three years would be reasonable.

Mr. Eisenstein pointed out that Technical Release 10 permits industry-specific modeling but there is little or no information for some of the asset groups that are particular to DOI (e.g., monuments, memorials) so they would need to survey these assets to get the actual data.

Mr. Jackson asked if anyone knows what Agriculture has done with regards to estimating their asbestos. Mr. Mabry responded that he has not spoken with Agriculture; he has gone to the Navy because they have done a lot of work in this area.

Ms. Payne said staff had made some calls to agencies and was planning a roundtable on the issue.

Several of the board members agreed that they would like to have a status of what other agencies were doing before they make a decision on it.

Mr. Allen directed staff to come back to the board at the next meeting with a summary of what other agencies are doing and provide a recommendation.

CONCLUSION / NEXT STEPS: Regarding proposed Technical Bulletin 2011-1, *Accounting for Natural Resources Other than Oil and Gas*, staff will send a revised version with an effective date of 2014 to the board members for review via email. Regarding DOI's request to report the information required by Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, as RSI for two or three years, staff will seek information from and coordinate a roundtable of preparers and auditors to provide information to inform the board at the June meeting and develop a related recommendation for the board's consideration.

- **Technical Agenda**

Ms. Payne introduced the technical agenda discussion by reviewing existing projects. She believes that in the three to five year window, each of the identified future priority projects could attract resources. The question for the board would be the sequence of future projects and she provided her comments on the merits of each project. She then suggested that member ask any questions they have and then offer their priorities.

Mr. Dacey asked about risk assumed – he referred to page 5 of the briefing materials and asked for clarification regarding the scope. Items 1 and 2 on those pages were understandable. He asked about the other areas. Ms. Payne indicated that FASAB would be breaking new ground in some areas—such as implied guarantees and natural disasters. In addition, in some cases it would be difficult to set boundaries for reporting.

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Mr. Dacey asked for more information on implied guarantees. Ms. Payne noted that there is currently a great deal of interest in implied guarantees in academic and public policy arenas. For example, recent regulatory reforms are being studied and some are reporting that large banks now enjoy a lower cost of capital than smaller banks. Some believe this is the result of an implied guarantee resulting from regulatory arrangements. She expressed some concern that a search for implied guarantees that could be reported would pose a slippery slope dilemma and greatly expand the project and financial reporting boundaries. For that reason, she estimated a longer time frame for the project, suggested a phased approach, and allocated more staff resources.

Mr. Dacey indicated he envisioned some narrative disclosure about relationships. He did not believe it could go much further than that. He asked about the notion that expected cash flows be used a basis for recognizing costs.

Ms. Payne responded that the IASB project on insurance contracts may offer lessons learned about valuation. She allowed that we could not draw direct analogies from the insurance industry but that some recognition of costs may result from applying new measurement methods.

Mr. Allen noted that many economists addressed the subsidy resulting from implied guarantees and that it was observable through market pricing of transactions. He wondered if you ought to make disclosures about such subsidies. Mr. Dacey affirmed that he viewed this as an area for disclosures but not necessarily changes to recognition requirements. He viewed the need as clearer disclosures of risk so that a reader could understand the nature of the risk assumed.

Mr. Allen added that it was a fair concern because such a project could be open ended and go on for many years. Ms. Payne indicated that the scope could be adjusted but she had not envisioned foreclosing the notion that an amount could be measured. If an amount could be measured then the question should at least be asked whether an amount should be recognized.

Mr. Dacey noted that the face value of contracts might be available and wondered if that was sufficient measurement. Ms. Payne noted that some might argue that amount overstated the risk assumed and that expected cost had evolved greatly.

Mr. Allen asked if there was a movement away from the traditional FAS 5 approach to contingencies. Mr. Dacey noted the differing views of FASB and IASB—they are approaching loan losses as an expected value measurement. They seem to have agreed to move to an expected loss approach to loans. Today they would not project expected losses; instead they would focus on known impairments. In the insurance industry, we have an expected losses approach today. The FDIC does a bank by bank analysis to determine those they expect to fail. For flood insurance, the liability is based on floods that have occurred. He thought it would be challenging to come up with an expected loss on the current book of business.

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Mr. Allen indicated that we may not be able to settle on the scope today. He asked if there are other questions about the projects.

Mr. Steinberg indicated that he thought we should start with as broad a scope as possible and then narrow down. He noted that we have a statement of fiscal sustainability that he hopes covers all exposures and whether we can sustain them. He is much more worried about the liability side. He places risk assumed number one and this is behind some other projects in terms of the start date. Ms. Payne indicated that the timing of the start is based on when staff members would become available.

Mr. Jackson noted that risk assumed should be a priority. He is comfortable starting broad and narrowing down later.

Mr. Granof noted that some projects report only “one member” supports. Ms. Payne indicated that it was the strongest statement she was able to make after listening to the tape of the board’s discussion. Mr. Granof responded that he thought the electronic reporting project was elusive but very important. He liked the project write up.

Mr. Allen indicated that he thought a partnership would be needed to make progress. He saw a role for OMB and asked if a joint effort would be beneficial. Credibility would be brought by a partnership with GASB and IPSASB along with the administration. If it was a high enough priority – he would approach the other boards.

He asked members to comment on their priorities. Mr. Showalter asked if the request was to report a ranking. Mr. Allen indicated yes and Mr. Dacey asked members to also comment on what was a priority in the three to five year window. If there are projects at the bottom of the list that are not urgent, they may fall off the list.

Ms. Payne reported Mr. Schumacher’s priorities since he was unable to be at the meeting today. His priorities are risk assumed, leases (prefers to be right behind FASB on this), cleanup costs, investments in non-federal securities, and public-private partnerships. He also offered comments on four other projects. On reduced burden on preparers, he was unsure of the scope and it being a stand alone project but was generally supportive of the idea that burdens be reduced when appropriate. On electronic reporting, he noted that a partnership – such as the one Mr. Allen described – would be essential for it to succeed. On performance reporting, he believed it was worthwhile but that it may not be a FASAB project. On internal use software, he would support it if other members supported it but he would rank it sixth.

Mr. Showalter ranked risk assumed first and supported a broad scope at the beginning of the project. He supported reducing burden on preparers as number two but would approach it through evaluation of the component entity reporting model. He believes we still need to look at the financial statements as published and how effectively they communicate. He places leases as number three. Investments in non-federal securities had not been on his list but now had a better understanding and placed it at four. Public-private partnerships is at five. He would like to collaborate on electronic reporting. He

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noted that cleanup costs could come out of risk assumed and he did not rank it separately.

Mr. Dacey ranked risk assumed first and leases (following FASB's lead) second. He would not put reducing burden on his list but would consider it in each project. Electronic reporting is elusive and he noted that GASB has been occasionally working on it without much progress. He wondered if AGA should work on it as a best practices effort. Performance reporting would not be on his list. On investments in non-federal securities, he wonders how the board would change the FASB preparers' reporting in the separate project on that issue. If the board changed the notion that federal entities can report under FASB standards, he might consider it. For public-private partnerships, he believes the GAAP hierarchy would apply. He asked if we really have much activity at the federal level. Ms. Payne noted service concession arrangements at the parks, VA regional health care facilities, and DoD military housing. She also noted that the automatic application of the GAAP hierarchy prevents the board from making decisions about the timing and level of detail appropriate for US entities.

Mr. Dacey thought perhaps we would adopt the standards established by others. He was open but did not see a strong need. On internal use software, he thought the issues could be dealt with by the AAPC or others.

Ms. Bond started by looking at existing projects. She thought that the reporting model project changed somewhat based on yesterday's conversation. She thought the statement of spending should be top priority but would begin as a FASAB project in 2013. She also thought the component entity portion of the project would be broader. The CFO Council and the Council on Government Integrity and Efficiency study of the 20 years of CFO Act experience and accompanying recommendations should be a top priority. She would like to see resources remain available to work on that. She supported Mr. Showalter's comments on reducing burden on preparers. She thought that work on the statement of spending and the results of the study would demonstrate a concern for reducing burden and she would support that effort.

Ms. Bond ranked risk assumed next but shared Mr. Dacey's concerns about the scope. She felt it was drafted too broadly and would be unwieldy. More work could be done years out after some initial progress. She would address leases next. The other projects she would not address. Cleanup costs is something she would not address at least until 2013. Electronic reporting is not a FASAB project – she agrees with others' comments. While she is personally interested in performance reporting, she would not rank this as a FASAB project. The others she does not see as priorities in the near term.

Mr. Allen noted that he linked the evaluation of the component entity reports, the 20 year study of the CFO Act, and reducing burden; he ranked this as a priority for current projects. Risk assumed would be his first. Electronic reporting would be second if there were partnerships. Ultimately, he thought there should be certain minimum standards for electronic reporting. He acknowledged that this was on the fringes of our authority.

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After these, leases would be next because the time may be right to build on the FASB guidance. He would then rank investments in non-federal securities. He prefers that the standards cover all topics rather than relying on the hierarchy. Internal use software would be next—he would simply expense it depending on the recommendations of the AAPC task force. Public-private partnerships would be next. Cleanup costs could be done quickly and might come sooner for him.

Mr. Reger thought reducing burden should be an under-lying priority in all projects. His number one is risk assumed. He thought integrating the statement of spending and saying how it relates to cost is second. His third was leases. The public-private partnerships should be addressed because it can be a long-term problem and he ranked it fourth since they can create liabilities. Electronic reporting would be important if we could partner with others. He did not rank any others as priorities right now but might come back to them in the future.

Mr. Steinberg ranked risk assumed first. He put electronic reporting second. He said the project description showed how important this is and the issues we may encounter. He believes it will move ahead at a rapid pace and this is an opportunity to get out front on something the preparers care about. He also thought we would not have differences with GASB on this and could partner. He ranked cleanup costs next because he does not learn anything from reading the statements of agencies with large liabilities. He did not see the problems in other areas but would put them on the agenda to be addressed as time permits. He also thought the statement of spending is a concepts project and we previously deferred concepts work.

Mr. Jackson noted that the statement of spending will require us to describe the basis of accounting. He thought we would be compelled to address it in GAAP to make it a basic statement. He ranked risk assumed as a top priority. He would not put anything else on the list. With respect to cleanup costs, he sees some fatal flaws in the cleanup costs – for example, the landfill example is not appropriate. However, the burden on preparers arising from cleanup costs could be quite significant. He appreciated the need to fix the standard but would be cautious. He would reduce burden by considering cause and effect for each standard and not as a separate project. He thought consideration of materiality at the component entity level would help reduce burden. He thought leases should be addressed when FASB completes its work. He would simply expense software but did not rank it as a priority. His absolute ranking was risk assumed and nothing else.

Mr. Granof agreed that risk assumed was first. He was troubled by where to rank electronic reporting and ranked it two so we would not forget about it. There is a lot to be done but partnerships would be important. Leases he ranked three. Investments in non-federal securities he ranked four. Owning twenty or thirty percent of an entity is significant. He believed that there will be more ownership of non-federal securities and that it will be a prominent issue. He ranked public-private partnerships fifth and we could deal with this efficiently. He ranked cleanup costs and internal use software as five and six. Performance reporting is critical and the federal government is ahead of state and locals. But, he would not rank it high as a FASAB project.

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Mr. Reger asked Ms. Bond if the review of the CFO Act would produce recommendations. Ms. Bond indicated that she could not say what the recommendations would be. She thought that it would be prudent to be aware of what's going on in the community. There is potential for the Board to see some priorities among the recommendations. She raised it so that the Board would be aware of the effort and not be surprised. She thought the Board should be prepared to be nimble.

Mr. Allen indicated that it would be part of the reporting model project and we have resources available. Mr. Reger said the timing would be an issue – there is some question of when the report will come out. Mr. Allen said the prioritization has some flexibility. We can revisit after the report comes out. Mr. Jackson noted that a great deal could be done through the AAPC and staff guidance to reduce burden. Often we simply need to provide some leadership to effectively implement a standard rather than changing it.

Mr. Dacey agreed. Sometimes issues are simply related to implementation approaches. Mr. Jackson noted that perhaps other standard setters don't offer much implementation guidance but we have the advantage of being in a smaller arena.

Mr. Allen suggested we summarize the results and let members offer feedback. Some members may wish to change their rankings. Ms. Payne summarized the top ranked projects for the three to five year window as follows:

- 1 – Risk Assumed
- 2 – Leases
- 3 – Investments in non-federal securities
- 4 – Public-private partnerships

She noted that number five was electronic reporting but had a large “if” – if we found partners – and number six was internal use software.

Ms. Bond noted that reducing burden was mentioned many times. Ms. Payne noted that it was almost always in the context of other projects and being mindful of reducing burdens. Ms. Bond noted that those projects without majority support would not seem to be areas we would come back to. Generally, members questioned how to deal with projects ranked highly by some members but not ranked at all by more than four members. Mr. Reger noted that providing a sense of where to put resources may be all we accomplish today but a score for each possible project was not useful.

Ms. Payne indicated that all members and staff have indicated sensitivity to reducing burden. In addition, events and circumstances that arise during the three to five year window can influence where resources are assigned.

Mr. Allen indicated that a ranking below the top four was not useful.

- **Measurement Attributes**

Ms. Wardlow presented a ballot draft of a final Statement of Federal Financial Accounting Concepts, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*. A marked-up version of the draft showed the changes made since circulation of a revised preballot draft to Board members on March 22. The ballot draft incorporated members' comments on the revised preballot draft. Ms. Wardlow also proposed a revision to the wording of paragraph 45. The Board approved the change, which results in paragraph 45 reading as follows:

45. When used for initially recording and reporting short-term assets and liabilities, the degree of relevance, reliability, and understandability of settlement amounts would be similar to that afforded by fair values. However, the relevance of initial amounts for longer term assets and liabilities would decline in subsequent periods. Remeasured settlement amounts would seem to be more appropriate because their relevance and reliability would be maintained or enhanced as the reporting dates approached the final settlement date. For some long-term liabilities, remeasurement may require the professional expertise of disciplines such as, for example, that of actuaries with respect to pension liabilities.

CONCLUSION: Eight of the nine members of the Board approved the final concepts statement for issuance; the ninth vote was expected soon after the meeting. Release of the concepts statement was expected after the 90-day review period allowed for the Principals in the FASAB Rules of Procedure.

- **Earmarked Funds**

Ms. Parlow noted that the Board had previously received a copy of the revised preballot draft exposure draft and a memo summarizing the comments of the Earmarked Funds Task Force on Mr. Dacey's proposal for an alternative format for reporting key amounts parenthetically on the face of component entities' Balance Sheet and Statement of Changes in Net Position. She noted that a majority of the Task Force members had disagreed with the proposal, citing the expense of reprogramming systems and a belief that the alternative format would be confusing to readers.

Ms. Parlow asked the Board if they wished to adopt Mr. Dacey's proposal as the Board's majority proposal or to allow it to remain a minority proposal.

Mr. Jackson asked why there would be a problem inserting the amounts parenthetically. Ms. Parlow said that most systems are not set up to insert calculated amounts into title lines.

Ms. Kearney asked why the Board is not simply proposing to keep the format the way it is.

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Mr. Dacey said that if everything was reported in the notes and nothing on the face of the statements, it would be misleading for some agencies. For example, 93% of the financing sources for Social Security are earmarked, and 99% of the cumulative results. He said that his concern was that reporting only in the notes would be misleading. He said that if it would be easier for component entities to retain the existing format, that would also be acceptable.

Ms. Kearney asked if this would apply to all component entities. Mr. Dacey said that all agencies reporting earmarked funds would need to report at least some information on the face of the financial statements.

Mr. Showalter asked about a third option, to simply reference the note on the face of the statements without displaying dollar amounts. Mr. Dacey said that he believes that this would not be adequate, at least for some agencies. Mr. Showalter said that the pro forma does look cluttered.

Ms. Parlow said that at the last meeting, a majority of the members had approved a note-only option as the Board's proposal. She asked the Board if Mr. Dacey's proposal should remain a minority proposal, or if the Board wishes to adopt it as the majority proposal.

Mr. Steinberg asked if there were some middle ground, perhaps to use a percentage to determine materiality. Mr. Dacey said that the Board would need to agree on the percentage.

Mr. Reger said that the government-wide consolidated financial statements would need to default to whatever is reported at the component level.

Ms. Parlow said that the information not reported on the face of the statements would still be reported in the notes.

Mr. Dacey said that the notes currently do not have enough detail to support the government-wide standards. Ms. Payne asked if this could not be addressed by changing the requirements for the notes. She said that a major objective was to streamline the component level statements, and that the notes could be expanded to provide information for the government-wide statement.

Mr. Kearney said that the alternative format does not look much different from the current reporting. She said that if the reporting were note-only, she would want the line items to support the government-wide reporting.

Mr. Reger said that if all agencies did the six-columns, either on the face of the statements or in the notes, it would support the government-wide. However, if some agencies do the parenthetical, it might not support the government-wide statements and the government-wide statements would need to change.

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Ms. Parlow said that the requirement would be for component entities to report all the information that they are currently reporting, regardless of which financial statement format they used.

Mr. Allen said that the Board had agreed that it is a priority to minimize the burden on agencies to whatever extent possible. He said that would be to move all the reporting to the notes. However, he said that he is concerned about what Mr. Reger had said, because the government-wide reporting is critical. He asked what is being gained by moving the component level reporting to the notes.

Mr. Jackson said that what is gained is not cluttering up the face of the statements. Mr. Reger said that the same argument could be made for the government-wide regarding the location of the reporting. Mr. Allen disagreed, because the government-wide reporting is a priority. Mr. Dacey said that reporting for certain components agencies is also a priority.

Ms. Parlow asked how the Board could identify those agencies. Mr. Jackson said that one option would be to have parenthetical reporting per Mr. Dacey's recommendation, plus the additional reporting in the notes. He said that another option would be to retain the status quo.

Ms. Kearney asked why agencies would do option 1. Mr. Jackson said that most agencies probably would not, but that it could be an option. He said that this would de-clutter the face of the statements.

Mr. Allen said that he doesn't think that this would lessen the reporting burden at all. Mr. Reger said that agencies choosing option 1, then all agencies would need to provide additional information in the notes.

Ms. Parlow asked if agencies could not report the necessary information in the notes, while providing this information to Treasury via the "closing package." Mr. Reger said that they could, but that it would not be any easy task.

Mr. Jackson said that the footnote would need to include all the information that agencies would need to include all the information currently provided on the face of the statements in the notes. He said that Option 1 would be to continue the status quo for reporting, and that Option 2 would be to put all the information being reported today in a footnote, but put some information parenthetically on the face of the statements.

Ms. Payne said that Mr. Reger had provided a list of line items for which information is needed and she asked if Mr. Reger wants a list of line items in the ED. Mr. Dacey said that the ED could include a requirement without listing each line item. Mr. Reger agreed.

Ms. Kearney asked if the Board even wants to make this proposal, or whether the existing requirements should not simply be retained.

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Ms. Parlow noted that the previous majority proposal had been note-only and asked if the members wished to reverse that position.

Mr. Allen called for a vote, and a majority of the members approved the parenthetical option.

Ms. Parlow said that the ED should include pro formas of both options. The members agreed.

Mr. Allen asked if there were any other issues.

Ms. Parlow said that there were not any other substantive issues, but that the Department of Labor had asked for some clarifying language to help in applying the new exclusion to the unemployment trust funds.

Ms. Allen asked what the next steps would be.

Ms. Payne said that staff would work with Mr. Reger and Mr. Dacey to implement the changes, and a new preballot draft sent to members, so that a ballot draft could be available for the June 2011 Board meeting.

Ms. Parlow said that the changes would be (a) to incorporate Mr. Dacey's proposal as the majority proposal, and (b) to draft language that would ensure that the government-wide reporting is supported by the component level reporting.

Conclusion: Staff will draft a revised preballot draft ED that will (a) incorporate Mr. Dacey's proposal as the majority proposal, and (b) include language that the component level reporting should include sufficient detail to support the government-wide reporting on earmarked funds.

- **Draft Technical Release**

Ms. Payne asked the Board if there were any objections to the AAPC issuing Technical Release (TR)13, *Implementation Guide for Estimating the Historical Cost of G-PP&E*. Proposed TR 13 was provided to the Board on April 7 to begin the 45-day negative assurance Board review period that is required for all technical releases. Mr. Dacey asked the Board if they were comfortable with Example 4 in the TR which illustrates an entities' use of budget/appropriation information to estimate the historical cost of aircraft. He noted that in the case of a subsequent de-obligation of funds, the example does not require the entity to adjust the original estimate back to the "final closeout costs incurred." Ms. Payne pointed out that the example does illustrate the entity making adjustments to the estimate based on subsequent changes (e.g. recessions or reprogramming), both increases and decreases, to the original appropriation. She also reminded the Board that SFFAS 35 allows the use of reasonable estimates without the requirement to ultimately determine the historical cost based on the original transaction

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data. The Board had no objections to the issuance of Technical Release 13. The technical release is expected to be issued as final in early June 2011.

Adjournment

The meeting adjourned at 2:00 PM.