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

Wednesday, August 24, 2016

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or “the Board”) members were present throughout the meeting: Mr. Showalter, Ms. Bronner, Messrs. Dacey, Granof, McCall, Reger, Scott, and Smith. Ms. Ho was present with brief absences during which she was represented by Ms. Davis. The executive director, Ms. Payne, and general counsel, Ms. Motley, were also present throughout the meeting.

Administrative Matters

- **Approval of Minutes**

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

- **Updates and Clippings**

The Board congratulated Mr. McCall on being awarded the Association of Government Accountants' Outstanding Certified Public Accountant in Government Career Contribution Award.

Mr. Granof provided an update on the Governmental Accounting Standards Board (GASB). In recent meetings, GASB has discussed defeasances using existing resources, comments on the asset retirement obligation exposure draft (ED), comments on the fiduciary activities ED, comments on the leases ED, and an omnibus on a variety of issues. Of the larger projects, GASB expects the reporting model project to prompt an Invitation to Comment (ITC) soon, with the primary issue being recognition in governmental funds. The three approaches that will be proposed in the ITC are near-term financial resources, working capital, and total financial resources. Additionally, GASB is beginning a project considering the performance obligation approach to recognition of revenue.

The International Public Sector Accounting Standards Board has not met since the June FASAB meeting.

The Board recognized Ms. Payne for her 25 years of service to FASAB with a plaque.

Agenda Topics

- **Handbook Options**

Melissa Batchelor, assistant director, explained that the objective of the session was for the Board to consider the results of the focus group meetings conducted in July 2016 to evaluate alternatives for providing accounting standards to the community. Staff explained the briefing materials, located at tab A, included an analysis and recommendation for the Board's consideration and approval.

Ms. Batchelor explained that at the June 2016 Board meeting the Board had approved an outreach plan to evaluate alternatives for providing accounting standards to the community. Staff conducted two focus group meetings in July 2016 to obtain the views of those using the accounting standards; such feedback would inform the Board and aid in making the final decision regarding options to present FASAB pronouncements.

Ms. Batchelor explained the focus groups had representation and participation by chief financial officers (CFOs), offices of the inspector general, and non-federal entities.

Key points from the meetings included the following:

- The majority of participants wanted to maintain the current FASAB Handbook.

- Most participants were generally happy with the FASAB Handbook. The benefits of maintaining include ease of research and the certainty that it works. They believed the benefits from changing the format would not be worth the resources.

- Those that favored the FASAB Handbook either had a strong preference for the Handbook by Chapter page on the website or believed from a cost-benefit perspective that changing the format would not be worth it.

- While most participants agreed there would be a benefit to having a topical arrangement, the majority did not see the benefit outweighing perceived resources needed to develop the topical version.

During the focus group sessions, most participants conveyed they were generally happy with the FASAB Handbook, but FASAB could make improvements to its functionality and search features. Ms. Batchelor explained the full summary and offered more detail regarding the focus group meetings.

Ms. Batchelor explained that, based on the focus group meetings, staff recommended maintaining the current FASAB Handbook and that next steps should center on opportunities to improve the current FASAB Handbook. Ms. Batchelor noted that she had heard from approximately half of the Board members, and they were in agreement with the staff recommendation. Ms. Batchelor opened the floor for discussion.

Mr. Reger noted that, during the focus group sessions, participants had suggested offering the Handbook on a subscription basis. He wondered if that idea should be explored further considering the budget constraints. Ms. Batchelor noted FASAB staff had confirmed with counsel that we would need legislative authority to sell subscriptions. Ms. Motley explained that generally the Government Accountability Office (GAO) may charge for printed copies of its publications, for purposes of defraying the costs of printing and shipping, but does not charge for electronic versions. GAO charges for printed copies of audit reports and the Government Auditing Standards but posts electronic versions free of charge on its website. Charging for subscriptions would presumably be for purposes of covering different types of costs—the costs of developing and issuing a publication—and would be a departure from this practice.

Mr. Reger explained that he believed it was important to think long term about costs and consider other mechanisms. Ms. Payne explained that FASAB had looked into other ways in the past. Currently, reimbursement would be limited to the direct cost of delivering goods or services, such as education sessions. The cost of the Handbook and changing the way it is delivered is broader than the direct cost of printing a Handbook. Further, public access to the standards might be restricted under a payment system. Ms. Payne also mentioned that the Steering Committee had discussed other mechanisms of accepting funding and each has drawbacks.

Mr. Dacey noted that, aside from the funding, people are generally happy with the current Handbook. He gathered that they were not aware of the topical index, and he was not sure if making it more prominent on the FASAB website would increase its use. Mr. Dacey explained that because FASAB's standards and Handbook are in pdf format, they are easily searchable. He believes a codification would be very expensive considering there are not many complaints.

Mr. Scott noted that it appeared the codification was supported by independent public accountants. Ms. Batchelor confirmed this and posited that this may be due to a desire for consistency.

Mr. Dacey asked if FASAB could administratively add an organizational structure to the paragraphs in the basis for conclusions (such as the letter "A" as FASAB does now) to the earlier Statements so those paragraphs would be differentiated. Staff agreed that this could be done as an administrative function for consistency.

Mr. Smith asked about the possibility of obtaining cost information or number of potential users; perhaps there is a vendor willing to offer a subscription service. Ms. Payne noted that Checkpoint currently offers FASAB standards, but it does not appear to get much exposure.

Mr. Scott asked about the feasibility of the government-wide portal. Ms. Batchelor explained that because much of the guidance is related, the focus group believed it would be helpful if there were hyperlinks that resided on one platform. FASAB staff believes this is an excellent idea but one that may be beyond the scope of what FASAB can initiate. The CFO Council, in conjunction with the principals of the Joint Financial Management Improvement Program, should initiate and consider further this type of broad, cross-cutting effort. Ms. Batchelor suggested that Mr. Reger may be in the best position to determine if this is something the CFO Council would be willing to consider.

Mr. Reger said he would convey this to the CFO Council. He explained there is no reason FASAB cannot take the proposition to the General Services Administration, which maintains the CFO Council website. He expounded that modifications are expensive, so that should be a consideration. Mr. Dacey noted that conceptually the platform could consist of links. Mr. Showalter appreciated that the Board considered the focus groups' recommendations.

Mr. Showalter suggested that the Board agrees with the staff recommendations and did not see a need for a vote on the issue. Ms. Batchelor explained she would keep the Board informed on updates of the Handbook as needed.

> **Conclusion:** The Board agreed with the staff recommendations to maintain and improve the current FASAB Handbook. Staff will inform the Board on progress as needed.

- **SFFAS 50 Interpretation Request**

Melissa Batchelor, assistant director, explained that the objective of the session was for the Board to consider a letter from the Department of Defense (DoD) requesting clarification of the recently issued Statement of Federal Financial Accounting Standards (SFFAS) 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*. Ms. Batchelor explained the briefing materials, located at tab C, included DoD's letter to the Board along with relevant excerpts from SFFAS 50.

Ms. Batchelor explained that DoD requested clarification of how future costs relating to internal use software (IUS) under development at the time the opening balance is established should be treated—specifically, the interpretation of SFFAS 50, paragraph 36.d.ii.(a).

Ms. Batchelor explained that SFFAS 50, paragraph 36.e states, "Once established using alternative methods, opening balances are considered consistent with GAAP [generally accepted accounting principles]." While it appears clear that the provisions of SFFAS 10, *Accounting for Internal Use Software*, would apply after opening balances are established, questions have been asked.

Ms. Batchelor noted the reference to prospective capitalization does not specifically address IUS under development at the opening balance date, and DoD has raised questions on this point. For cost-benefit and comparability purposes, some agencies (such as DoD) have interpreted paragraph 36.d.ii.(a) to mean that projects related to software under development that were excluded from the opening balance should continue to be expensed. Staff also notes that the intent of SFFAS 50 was to provide a cost-effective means for reporting entities to implement GAAP. Therefore, staff believed it important for members to discuss so the Board's intent is clear.

Mr. Showalter opened the topic up for discussion.

Mr. Dacey noted that if costs were capitalized in accordance with SFFAS 10, then a portion of the asset would be capitalized. Ms. Batchelor noted that was consistent with what was done when SFFAS 10 was implemented. Mr. Dacey also noted that it would eventually be expensed—and in a relatively short period of time, as IUS has a short useful life.

Mr. Smith asked why DoD would not capture the costs going forward. For example, if a project begins and only a small portion of costs have been incurred (10%)—with 90% of the project remaining, this method would not be appropriate. He also noted that some projects can go on for many years. Ms. Ho agreed and did not understand why DoD would not have the information available for systems under development.

Mr. Smith noted that FASAB started SFFAS 50 to provide a cost-effective means to assist reporting entities in implementing GAAP because they did not previously have a system. This way reporting entities could focus on implementing systems and controls.

However, it appears reporting entities still do not have a system in place to go forward, and they want something more to be done because they still cannot conform to the proper accounting standards.

Ms. Batchelor noted it was important to keep in mind that SFFAS 50, paragraph 36.e states, “Once established using alternative methods, opening balances are considered consistent with GAAP.” While staff believed the provisions of SFFAS 10 would apply after opening balances were established, it seems understandable for DoD to base its interpretation on cost effectiveness. Ms. Batchelor also noted that one of the underlying notions is that the reporting entity should have the systems in place to go forward when the assertion is made.

Mr. McCall explained that he was also concerned that DoD could write-off large projects that should be capitalized.

Ms. Alaleh Jenkins, DoD’s assistant deputy CFO, joined the Board at the table and explained that DoD planned to capture cost for new IUS projects that begin after 10/1. She explained that it was not DoD’s intent to focus on IUS that began prior to 10/1. It did not appear to be worth DoD’s effort because those items would not reflect all costs incurred.

Mr. Dacey asked Ms. Jenkins what the obstacles or challenges would be to collecting costs for IUS under development for those projects. Ms. Jenkins explained that it was easier for DoD to begin capitalization with new projects beginning after 10/1. Further, it was a bit less complicated to determine the phase of development for new projects after 10/1 versus those in progress at 10/1. Ms. Jenkins explained the department needs additional time if it is to focus on projects that relate to opening balance. When asked if she had an inventory of the systems, Ms. Jenkins replied that she did. She explained that it would take time to inventory and noted that there are budgets related to information systems, but differences exist. She elaborated that the development phase for DoD is 18-24 months.

Mr. Showalter reminded members that they should focus on what the Board intended in paragraph 36.d.ii.(a). The Board is not being asked to change the Statement but to consider what was meant with the specific paragraph. He believed it very important to consider Ms. Batchelor’s point regarding paragraph 36.e— “Once established using alternative methods, opening balances are considered consistent with GAAP.” He believes (although not explicit) this means SFFAS 10 applies after the opening balances are established.

Mr. Showalter explained he believes an important point for DoD to remember is that materiality applies. The Board allowed the bigger (opening) balance to be written off. He noted this is looking at the costs of year plus one and plus two, etc. He asked if Ms. Jenkins would have the information available to determine whether those costs are material or not. She explained she was not certain at this time but it would require work—such as analysis of budget, inventory, actuals, etc.—and time. Certain members noted that if an auditor can get comfortable with DoD writing off 12 billion dollars (3.7

billion dollars net) of IUS at the beginning balance, then DoD and the auditor should be able to find resolution as to what may be an immaterial net amount under development at the balance sheet date.

Mr. Scott asked if this issue affected other agencies. Staff explained that certain intelligence agencies may be affected, so an interpretation would also impact them. Also, if there were any new reporting entities, they could be affected.

Ms. Bronner noted she was concerned with the lack of accountability and potential issues with project management if a reporting entity does not know where it is with its projects. Eventually the reporting entity needs to have numbers, a better handle on spending, and documentation. It seems unusual to prescribe standards which cater to certain agencies or which offer forgiveness, but she would rely on her colleagues for direction on whether an interpretation is appropriate.

Ms. Ho agreed that accountability is important, and reporting entities should understand where they are with their projects. However, she did not remember the Board discussing this issue specifically. If the Board had discussed this and the focus was to relieve burden and enhance cost effectiveness, the Board might have expensed these as well.

Mr. Showalter explained that Ms. Bronner's comment focused on the key question for the Board: whether an interpretation is appropriate or needed.

Mr. Smith did not believe so because the Board would be creating a new standard. Mr. Smith believed DoD should resolve any issue regarding IUS through materiality. He added that SFFAS 50 allows the reporting entity one chance to adopt. If a reporting entity is not ready to adopt then it should wait, whether that takes two or three years to get the controls or processes in place to adopt the Statement and go forward.

Mr. Showalter requested to hear from all the Board members on their position.

Mr. Reger explained that he believed this was an issue that needs to be resolved between DoD and its auditor; materiality applies because it would only apply to projects within the scope of SFFAS 50, paragraph 36.d.ii.(a). He did not believe the Board could help with that.

Mr. Dacey did not believe the Board had discussed this issue specifically, and he understood how it could be questioned. He saw an argument for allowing DoD to expense the remainder because the Board had allowed the write-off of the balance, which was helpful. Further, only part of the capital asset would be capitalized. However, he also opined that the reporting entity should have the systems in place to capture the costs, and if the Statement requires GAAP after 10/1 then it should be capitalized. However, he is not troubled by DoD's proposal.

Mr. Smith explained he believed issuing an interpretation would hurt the process because it creates a new standard. He believed DoD could resolve any issues regarding IUS through materiality or through negotiation with its auditor.

Ms. Bronner agreed with Mr. Reger and Mr. Smith.

Mr. Granof also agreed with Mr. Reger and Mr. Smith. He added that he believes the less FASAB says the better, so he did not believe an interpretation was necessary.

Mr. McCall explained that although he sympathizes with DoD, he also believes the issue needs to be resolved between DoD and its auditor and materiality applies. Further, SFFAS 10 would trump the interpretation and be applied once the opening balance is established.

Mr. Scott also agreed that GAAP or SFFAS 10 would apply, and DoD should rely on materiality. He did not see a need for an interpretation.

Ms. Ho explained that she does not believe the paragraph is clear, but she is not sure what the Board can do to help. For implementation, materiality is a good argument, but there is always a burden on resources.

Mr. Showalter stated the consensus around the table: the Board agrees the implications of this paragraph were not discussed and may not be clear, but there is not a need for an interpretation.

Mr. Dacey suggested the Board may want to consider how materiality is applied in relation to the line item.

Ms. Jenkins explained that one of the challenges DoD faces is with multiple components subject to audit by different auditors. This results in different interpretations by several parties. Therefore, staff suggested the Board could provide alternatives to DoD’s request to ensure consistency among DoD components and interpretations by parties (including auditors).

Mr. Reger asked how issues such as these have been handled in the past. Staff explained that often these issues are resolved by arranging a meeting with both the preparer and the auditor or issuing a letter. Ms. Payne explained that she wanted to confirm what the Board’s intent was because there had been several calls, and the arguments seemed strong.

Ms. Payne explained that, considering the Board has supported the position that GAAP applies, staff believes it can provide staff-level guidance. Ms. Batchelor suggested she would determine the appropriate level of guidance and a plan for responding to DoD.

After the meeting, staff recommended composing a letter from the chairman in response to the letter written to the Board. Staff notes that the inquiry to the Board was, “To that end, please advise whether or not FASAB's intent or interpretation is consistent with the DoD's implementation methodology described above. If our interpretations are consistent, we recommend that FASAB codifies this in the appropriate form of pronouncement or guidance."

Considering the Board is in agreement with what currently is provided in the existing SFFAS, it seems inefficient to divert staff resources to producing a document that would necessitate due process. The chairman and the executive director approved this approach, which did not require further Board action.

The letter will be attached to the minutes showing the issue was deliberated by the Board.

> **Conclusion:** While the Board acknowledged this issue had not been discussed specifically, the Board believed SFFAS 10's provisions would apply to future costs of IUS projects under development at the opening balance date if a reporting entity elects option SFFAS 50 paragraph 36.d.ii.(a). The Board also noted materiality applies, and most issues should be worked out between DoD and its auditors. The majority of the Board voted not to issue an interpretation as requested by DoD. A letter from the chairman will be provided to DoD in response to its letter.

- **Budget to Accrual Reconciliation**

Grace Wu, project manager, and the budget and accrual reconciliation (BAR) working group developed a new budget and accrual reconciliation format (NBAR) that would reconcile net cost to net outlays and replace the current Statement of Financing (SOF) note. Some of the members of the working group—including Ms. Wu, Mr. Steve Ramey from the Small Business Administration, Mr. Greg Wilber from Deloitte, Ms. Lori King from the Department of Energy, and Ms. Jamie Sailing from Fiscal Service—presented to the Board the briefing materials, located at tab B.

This information comprised the following topics:

- The background of the NBAR development
- The advantages and disadvantages of the NBAR compared to the SOF
- The placement of the NBAR
- The detailed sample of the NBAR with an agency sample
- The proposed NBAR survey results
- A sample Department of the Treasury (Treasury) crosswalk on the proposed new format

After examining the research results and evaluating six pilot agencies' positive feedback on the NBAR, the BAR working group recommended the following:

- The NBAR should replace the current SOF note to reduce its complexity, provide more usefulness to the user, and support the government-wide net cost to budget deficit reconciliation. The new format aligns the agency reporting with government-wide reporting. This reconciles net cost to the unified budget surplus (or deficit) as required by SFFAS 24. It will provide agency-level support to the government-wide reconciliation.

- The suggested placement for the NBAR is a financial statement note.

- There is a need to update the current standards to reflect the changes brought by the NBAR.

The Board and the working group members discussed the proposal, including where the new reconciliation would reside, how budget receipt amounts could be supported in the government-wide (GWA) net operating cost and net budget deficit reconciliation, and the possibility of adding additional pilot agencies to gain more experience on the NBAR. The working group is in the process of contacting more cabinet agencies to join the pilot process before moving forward on a final standard in order to address as many issues up front as possible. It is a cost-benefit consideration to suggest placing the NBAR in the note, instead of the main financial statements, and not to include the budget receipt in the NBAR. Yet, as stated in SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, it is at the discretion of the Office of Management and Budget (OMB) as to whether the information is a footnote or a basic statement. The working group also performed a detailed account-level crosswalk from the NBAR for each line item to the GWA reconciliation line items. In doing so, the working group found that about 80% of the current GWA reconciliation will be supported by the NBAR.

To reduce the preparation burden on the component level agencies, the budget receipt was intentionally omitted in the NBAR because the majority of the budget receipts are collected by one federal agency—the Internal Revenue Service. In addition, the budget receipt is already recorded in the Statement of Custodial Activities or as Custodial Activities, thus the amount reported to the GWA could be supported by an audit performed in that statement on a component level. A separate Treasury general fund project is in the works, which would help address the budget receipt issue as well.

The Board members also provided advice regarding the NBAR. Mr. Granof discussed improvements on some of the line items in the new format, so they more clearly indicate why they either increase or decrease net cost but do not have the same impact on net outlays. Mr. Showalter recommended including the suggested narrative contained in the briefing paper. Ms. Ho believed the support to the agencies' reporting system or their vendors would be very important due to the potential changes brought by this new report requirement. The working group agreed to take into consideration these suggestions when moving forward.

In addition, Mr. Showalter asked for Treasury's view on the importance of getting the crosswalk work before FASAB can issue guidance on the NBAR. Ms. Ho stated that Treasury first will decide where to put the crosswalk, since Treasury has never issued a crosswalk on a note before. Because many auditors will depend on the crosswalk to perform the audit, getting the crosswalk to work is a very important step, which Treasury needs to consider before FASAB issues the standard. Additional pilot agencies testing the NBAR would help to improve the accuracy of the crosswalk.

Finally, the Board discussed the issue that the current component level structure is not quite working as smoothly as it could, which may cause problems on the NBAR implementation. The Board also discussed the potential effects on the Treasury Financial Manual and OMB A-136.

> **Conclusion**: The Board reacted positively to the new format and supported continued development requests, including involving more agencies to pilot the NBAR.

- **Reporting Model**

The Board and Ross Simms, assistant director, discussed changes to a draft ED. Mr. Showalter opened the session and reminded Board members of the session objective—to discuss edits and resolve any open concerns. Staff will present a pre-ballot ED on day two of the meeting.

Mr. Simms referred members to tab D of the briefing materials: an August 24 version of the ED. The Board agreed to the following revisions to the ED:

- Page 6, question 1—Staff will remove the question regarding the purpose of the ED.

- Page 6, question 2—To obtain comments on the scope section as well as the illustration in the ED, staff will revise the second respondent question to state, "Do you agree or disagree with the discussion and illustration? Please provide the rationale for your answer."

- Page 11, paragraph 6—The scope section of the ED should focus on the objectives applicable to FASAB rather than stating that particular objectives raise questions regarding the Board's role. Staff will delete the following text from paragraph 6.

  > [However, the breadth of the reporting objectives combined with the growth in data sources raise questions regarding the role of FASAB, a GAAP standards-setting body; particularly with regard to setting standards needed to meet the budgetary integrity and systems and controls objectives. The budgetary integrity and systems and control objectives are viewed as unconventional objectives for a GAAP standards-setting body.]

- Figure 1, Management's Discussion and Analysis (MD&A) column—Examples presented in the illustration should be consistent with FASAB Concepts. Thus, the list of items in the MD&A column should be replaced with the list of items presented in Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management's Discussion and Analysis*.

- Figure 1, Financial and Non-financial column—Staff will add "Improper Payment Information" and "Management and Performance Challenges" to provide examples of the types of other information component reporting entities present with financial statements and required supplementary information (RSI).

- Page16, paragraphs 21 and 25—Staff will combine the two paragraphs, given they both discuss projections.

- Pages18-19, Concepts for budgetary information presented in component reporting entity financial statements and RSI section—Staff will move the section to follow the concepts for government-wide and component reporting entities section. Concepts for the government-wide and component reporting entities should precede the discussion on budgetary concepts for component reporting entities.

- Throughout the ED—Staff will remove "ideally" and "would."

- Page 21, paragraph 51—Users need to understand that financial statements and RSI present information for a component of the federal government, rather than for an independent economic entity. Accordingly, staff will revise paragraph 51.a as follows.

    the entity's mission, structure, goals, and objectives, including the ~~relationship between the component reporting entity and the government-wide reporting entity and risks provided by the component reporting entity~~ relationships among the component reporting entity, other component reporting entities, and the government-wide reporting entity;

- Page 23, paragraphs 60 and 61—The performance results section should only focus on the Operating Performance objective rather than discussing both Operating Performance and Stewardship. Staff will delete the following text.

    60. […for the government-wide reporting entity would collectively provide information to assist users in assessing the broad outcomes of the government's actions.]

    61. [Users are concerned about the impact of the government on the national economy and society and the financial reporting

objectives note the need to assist users in assessing the impact on the country of the government's operations and investments for the period. The objective focuses on broad outcomes rather than on specific services.]

- Page 25, paragraph 69—Staff will replace the term "pictorial" with "visual representations."

- Page 25, paragraph 70—Staff will revise the list of items in the Summary as follows.

  a. the purpose or the intent of the summary level, informing users of what information they might expect to see and the relationship to the government-wide and/or component reporting entity, as appropriate,

  b. the scope of the summary level so that users understand what information the level includes,

  c. basic performance goals and measures,

  d. <u>sources and uses of resources and financial results</u> ~~gross costs, exchange revenue, and net cost~~,

  e. <u>assets, liabilities, and net financial position as of the end of the reporting period</u> ~~results of operations~~,

  f. the status of budgetary resources,

  g. challenges facing the entity,

  h. ~~the status of resources and obligations~~,

  i. <u>financial condition to include</u> sustainability information,

  j. ~~the status of budgetary resources~~, and

  k. trends.

- Page 25, paragraph 72—Staff will delete the following text.

  [FASAB considers citizens' need for understandable information about a federal reporting entity and may require a presentation of summary level information.]

  Staff will move the following text to the first paragraph of the section.

> For reports to be understandable to different audiences, different reports may be necessary to provide information relevant to the needs of the expected report users, with suitable amounts of detail, explanation, and related narrative.

Conclusion: Staff will revise the ED and present a pre-ballot draft during day two of the meeting.

The meeting adjourned for lunch.

- **Risk Assumed—Insurance Phase**

Mr. Showalter opened the Wednesday insurance programs session by reminding members that pre-ballot approval was scheduled for Thursday upon final review of any changes since the binder delivery.

Robin Gilliam, assistant director, referred the members to tab E. She noted the goals for this session were to 1) answer the three questions presented in the memo, 2) review any edits from member comments received after delivery, and 3) address any additional edits in preparation for a pre-ballot vote on Thursday.

1. Memo Questions

Memo Question 1: Does the Board agree with the entitlement exclusion recommendations?

Ms. Gilliam asked if there were any questions about the mandatory programs analysis in appendix A. Mr. Dacey asked how the “public health & welfare” type is excluded. Ms. Gilliam explained that those programs provide benefits or financial assistance based on an individual’s or household’s income and/or assets. She also noted that FASAB staff had reviewed this exclusion with the Pension Benefit Guaranty Corporation staff, who agreed that their programs would not meet this exclusion. Mr. Dacey thanked the FASAB staff for the extensive analysis.

Ms. Gilliam informed members that, as a result of the analysis, staff recommends the following exclusions:

- Programs that provide grants
- Programs that provide benefits or financial assistance based on an individual’s or household’s income and/or assets

The Board agreed with the two additional exclusions.

Memo Question 2: Does the Board agree with the recommended basis for conclusions for the updated exclusions?

Ms. Gilliam presented the basis for conclusions for the exclusions. After delivery, Mr. Showalter recommended edits for clarity.

The Board approved the basis for conclusions for the updated exclusions with the additional edits from Mr. Showalter.

Memo Question 3: Does the Board agree that re-exposure is not necessary?

Ms. Gilliam explained that proposed updates from respondent comment letters and Board review did not result in technical changes. She noted that edits were for clarification purposes only and auditor respondents agreed. Therefore, staff is not recommending a re-exposure.

The Board agreed.

2. Board Comments/Edits After Binder Delivery but Before the Meeting

Ms. Gilliam presented the following changes made from Board comments received after delivery of the binders:

- Per Mr. Showalter's suggestion, staff added content about the entire Risk Assumed project to the summary and beginning of the basis for conclusions. This will inform readers why *Insurance Programs* is the first phase of the project.

- Per Mr. Granof's suggestion, staff added a footnote to the basis for conclusions to explain a "Katrina type" hurricane. This will better inform future generations that may not know about or have experienced such an event.

The Board agreed with these additions.

3. Board Edits at the August 24, 2016, Meeting

Ms. Gilliam asked the members if there were any other comments.

In addition to minor editorial edits, Mr. Dacey recommended removal of the "expected cash flow" definition. He noted that the liability for losses on remaining coverage measurement is now a flexible model; therefore, the definition is no longer necessary.

The Board agreed and staff removed it from the definition and glossary section.

- **Leases**

Monica Valentine, assistant director, presented to the Board (from tab F) a marked version and a clean version of the pre-ballot draft of the lease ED, along with questions for discussion. Staff also provided the Board with proposed changes from Board members to the draft ED since the meeting materials were distributed to the Board.

Staff first presented questions to the Board.

I. Memo Questions

a. *Does the Board agree with staff's recommended comment period end date of January 20, 2017, if the exposure draft is released by September 30?*

Staff explained to the Board that January 20 was selected to allow federal entities that plan to comment on the ED time to get through their fiscal year-end audit cycle as well as the holiday season. Mr. Reger noted that January 20 was the final day of the current administration and that federal entities may not want to comment on the draft so close to the end of one administration and the beginning of another. He suggested January 6, 2017, as the new deadline. The Board agreed with Mr. Reger's suggestion and set the comment period end date as January 6, 2017.

b. *Does the Board agree with staff's recommendation to schedule a public hearing during the April 2017 meeting?*

Staff proposed scheduling a public hearing for April 26, 2017, and providing notice of the public hearing in the ED. The Board agreed that scheduling a public hearing should be determined based on the responses to the comment letters. Therefore, the ED will not include the scheduling of a public hearing; however, the possibility of a public hearing will be noted in the ED.

c. *Does the Board agree with the revisions to the Basis for Conclusions?*

There were no objections to the revisions made to the basis for conclusions.

d. *Does the Board agree with the proposed effective date of periods beginning after September 30, 2019?*

Mr. Showalter noted that 2019 is too far out as an effective date. He suggested the ED be exposed with the September 30, 2018, effective date and revise the date to September 30, 2019, if the Board gets a negative reaction to the 2018 effective date. The Board agreed with Mr. Showalter to change the effective date to 2018. The Board also agreed to not allow early adoption of the standard in order to maintain consistency among the reporting entities.

II. Board Comments/Edits After Binder Delivery but Before the Meeting

Staff received a few proposed edits from Board members on the pre-ballot draft ED version sent to the Board prior to the meeting. Some of those edits were minor edits and others were more substantive. Staff highlighted the following edits for Board discussion.

- Mr. Showalter suggested adding the phrase "to delete the 'capital lease' references in SFFAS 5 and 6" to the paragraph preceding the proposed amendments to SFFAS 10 and Technical Release (TR)16, *Implementation Guidance for Internal Use Software*, to clarify why the Board is proposing the amendments. Ms. Payne noted that since the proposed amendments to SFFAS 10 would only be reflected in the basis for conclusions, the amendments to SFFAS 10 were unnecessary and could be deleted. The Board agreed with the added phrase in the paragraph prior to the TR 16 proposed amendments.

- Mr. Showalter suggested revising the language in the basis for conclusions to further clarify the Board's rationale for defining *short-term* as 24 months. The Board agreed to eliminate the cost-benefit references in that paragraph.

- Mr. Showalter suggested revising a sentence in the basis for conclusions to read as follows: "The Board believes that rent increases are related to economic valuations events, while lease incentives and concessions are more closely aligned with marketing cost." He suggested the revision to better clarify the difference between rent increases and lease incentives/concessions. The Board agreed with Mr. Showalter's edit.

- Staff recommended adding the following GASB copyright language to the basis for conclusions: "The GASB material is copyrighted by the Financial Accounting Foundation (FAF), 401 Merritt 7, Norwalk, CT 06856, USA, and is used with permission." FAF granted the Board permission to cite portions of the GASB ED *Leases*. The Board is required to add the statement to the lease ED. The Board agreed with the additional language. The Board also agreed to modify the language in the basis for conclusions, which gives an overview of the Board's coordinated efforts with GASB in developing the lease proposal.

- The Board also agreed to other minor edits to the draft proposed.

III. Board Edits at the August 24, 2016, Meeting

In addition to the proposed edits noted above, the following revisions were discussed during the meeting.

- Mr. Granof recommended that the Board add a question to the ED to address the effect of remeasurement on the lease liability and asset, as well as language in the basis for conclusions to reflect the Board's rationale. Mr. Dacey also recommended that the remeasurement question address whether certain remeasurement triggers would cause significant costs to the preparer. The Board agreed to incorporate Mr. Granof's and Mr. Dacey's recommendations.

- The Board agreed to move the entire amendments section to the end of the standards section of the ED to enhance the flow of the document.

- The Board asked staff to develop implementation guidance to be included in the ED. The Board directed staff to include examples in the implementation guidance.

Adjournment

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

Thursday, August 25, 2016

Agenda Topics

- **Performance Reporting Educational Session**

Lisa Parker, GASB senior project manager, discussed GASB's service efforts and accomplishments (SEA) reporting project. Tab H housed the materials for the discussion.

Ms. Parker formerly served as the director of finance for a small community, and she led the preparation of the community's SEA report. Her community was one of the first in the nation to issue a SEA report using GASB's suggested guidelines.

Ms. Parker proceeded to discuss the history of SEA reporting at the GASB. The effort began in 1985 when GASB called for experimentation. Later, in 2010, the GASB issued the suggested guidelines for voluntary reporting. Since issuing the suggested guidelines, GASB has not had the resources to extensively continue the research and determine how many governments actually follow the guidelines.

Ms. Parker referred to GASB's concept statement number one. The statement discusses the objectives of financial reporting and states one of the objectives of financial reporting is to provide information to assist users in assessing the service efforts, costs, and accomplishments of the government. Subsequently, the GASB issued concepts statement number two specifically regarding SEA reporting.

The GASB received a grant from the Alfred P. Sloan Foundation to continue its research efforts and identified governments to issue reports using the initial draft of the suggested guidelines document. The governments met in groups and shared their progress. GASB also met with the governments to discuss their progress in using the guidelines and determine challenges, likes, and what was working. GASB later published a research report. Ms. Parker noted her community was one of the participants in the study, and when they issued their report, citizens of the community expressed appreciation. Her community did not receive such responses for the Comprehensive Annual Financial Report.

However, governments were concerned GASB would issue standards for reporting SEA measurements. Governments believed they operated differently and standardized performance measures were unreasonable.

GASB prepared a white paper titled "Why Governmental Accounting and Financial Reporting Is and Should Be Different." The document highlighted how governments are fundamentally different from businesses in several ways.

GASB believed SEA reporting was a part of general purpose external financial reporting. The primary purpose of governments is improving the well-being of citizens, and citizens should be provided information to help them assess whether their well-being is improving. Information should be provided about outputs and outcomes, as well as information about the acquisition and use of resources.

GASB amended its concepts statement on SEA reporting. GASB noted governments operate differently and should establish their own measures and benchmarks. For the amended concepts statement, GASB removed the notion they would be developing standards for SEA information. GASB also specified the elements of performance measures using these categories: measures of service efforts, measures of service accomplishments, and measures relating service efforts to service accomplishments.

Upon completing the conceptual guidance, GASB issued suggested guidelines for voluntary SEA reporting. The suggested guidelines are considered non-authoritative guidance, and the document opened the door for GASB to issue other suggested guidelines for voluntary reporting. Given the SEA information is not audited, Ms. Parker noted she had not experienced instances where users viewed the lack of an audit as an inadequacy. The issue regarding whether the information should be audited arose during the discussions on GASB's scope of authority.

Ms. Parker discussed GASB's guidelines for SEA reporting, including the essential components of an effective SEA report, qualitative characteristics appropriate for reporting SEA performance information, and ways to effectively communicate SEA performance information. Ms. Parker explained the essential components and noted when governments began preparing SEA reports they presented too many performance measures. The guidelines suggest focusing on a limited number of measures helping to tell the government's "story" in the most powerful way. The guidelines also include a set of questions SEA preparers can use to help them identify key performance measures.

During the discussion of the qualitative characteristics appropriate for SEA reporting, Ms. Parker noted the guidelines suggest obtaining feedback from users regarding the report's understandability. She explained in her community, the government hired a firm to speak with 400 citizens every year, and each year citizens' level of satisfaction increased.

Regarding the qualitative characteristic, comparability, Ms. Parker discussed many governments expressed an inability to compare their performance with other governments. However, the guidelines indicate comparability could assess their performance over time. They could establish an initial benchmark and determine whether they are improving or deteriorating over time.

Ms. Parker also discussed some regional organizations that had established performance measures. For instance, North Carolina has a type of oversight commission. It established measures for a program conducted by local governments, and it issued a report so the local governments could compare to each other.

Mr. Reger indicated the federal government provides funds to states and local governments to perform numerous services. The federal government could consider requiring comparable measures among the states and local governments. As a result, the federal government could learn why building roads in one state, such as Delaware, might be cheaper than building roads in other states, such as Maryland and Virginia. Ms. Bonner discussed working with local housing authorities and the Department of Housing and Urban Development's Moving to Work program. They are developing comparable outcome measures for local housing authorities utilizing federal resources.

Ms. Parker added, in the early 2000s, the United Kingdom mandated the local governments to measure performance in certain areas. The local governments' activities depended on federal funding, and they started measuring items beyond the federal government's requirements.

Mr. Granof discussed the challenges in distinguishing output measures from outcome measures. Ms. Parker explained the intent of the GASB guidelines regarding outputs and outcomes. An output measures a quantity of something, such as the number of miles. However, an outcome measures the results associated with the provision of services.

Regarding whether there have been policy changes as a result of SEA reporting, Ms. Parker indicated GASB has not conducted research on the topic. However, there may be some academic research. Mr. Dacey explained GAO has issued reports on the federal government's Government Performance and Results Act (GPRA) implementation efforts.

- **Performance Reporting Educational Session**

Mr. Reger introduced Mark Bussow, performance team lead for OMB, and noted Mr. Bussow's effort in recommending enterprise risk management (ERM) as part of OMB's new Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Mr. Bussow is encouraging agencies to think about their risks using the ERM framework.

Mr. Bussow provided an overview of the Federal Performance Framework and indicated ERM is an integral part of the framework. He began by providing background on GPRA. The core of GPRA was a set of agency specific requirements for performance management. Agencies were required to prepare a strategic plan every three years for a five year period, an annual performance plan, and an annual performance report.

Although GPRA included reporting requirements, the information was generally not used.

Subsequently, President Obama's administration started having conversations with Congress on a refresh of the GPRA. The discussions focused on creating processes within the agencies to consume and act on the performance information and creating performance reviews to ultimately improve the supply of information. The quality of the information would be reported to the public, and the information would have a significant impact on driving results. The emphasis would be face-to-face performance review meetings. Thus, the GPRA Modernization Act (GPRAMA) established clear roles and responsibilities throughout the system for driving forward on mission performance.

GPRAMA designated clear roles for the chief operating officer, institutionalized the Performance Improvement Council and the performance improvement officer, and most importantly, created a goal leader concept. GPRAMA established individuals who are responsible for achieving an outcome and driving toward a goal; sometimes the responsibility crosses formal lines of organizational authority.

Mr. Bussow discussed the different levels of performance reviews GPRAMA requires. The first is cross-agency priority (CAP) goals. For instance, infrastructure permitting is a CAP goal involving 30 different agencies. Infrastructure permitting involves highly complex processes such as building a large bridge, solar farm, or the Keystone Pipeline. Stakeholders expressed the processes were too long and seem to be getting longer over time. In addition, the government did not have a central point of contact capable of discussing how the processes were working.

Consequently, the government set a goal to reduce, by 50%, the aggregate time required to conduct these processes. The government also established goal leaders and the Council on Environmental Quality provided guidance for the reviews. By setting a goal and establishing a regular performance review process, OMB developed a structure for driving performance results. Other CAP goals included cyber-security, investments in job creation, and management goals such as shared services and customer service.

Congress provided authority to implement two programs. The first is the White House Leadership Development Fellows Program: a one-year, enterprise-level leadership development program. As part of the program, the secretaries of agencies nominate individuals to participate in the program and serve on CAP goals. Second, because CAP goals do not have budget accounts aligned to them, Congress provides funds to allocate among them.

Next, Mr. Bussow discussed agency priority (AP) goals. The AP goals are essentially the CAP goal model applied at the department and major agency level. Each of the 24 CFO Act agencies set between two to eight AP goals every two years. Leadership has flexibility in determining the number of goals and currently there are 99. The deputy secretary leads quarterly, data-driven reviews to drive progress on the AP goals. Each

AP goal also has at least one goal leader who conducts regular performance reviews and provides quarterly updates.

Mr. Bussow provided an overview of strategic goals and objectives and noted how agencies establish strategic goals and objectives every four years. Agencies and OMB also conduct annual strategic reviews.

Mr. Bussow explained the performance timeline and noted, historically, the timing for performance reporting was based on data availability instead of the optimal time for data use. Previously, performance reporting was often in the fall, which is the worst time for strategic-level decision making possible in Washington. Currently, agencies conduct strategic reviews in the spring to inform the budget process.

The website www.Performance.gov is the central source of information. The website presents the goal leader’s name and photo, the action plan discussing what the agency is trying to achieve, and key metrics. A reader can see all the CAP and AP goals with regular quarterly performance updates and strategic objectives across government. The website also presents the information from agency performance plans for each strategic objective.

GPRAMA requires agencies to publish a list of programs. However, when agencies published a list of about 1,600 programs, Congress and other stakeholders sought a more detailed list. OMB afforded agencies flexibility in determining their programs. OMB is currently integrating the discussion of programs into the Data Act conversations, recognizing the high level of interest and considering how the Data Act information could flow by program. The Data Act needs to be resolved first and then OMB will follow up on how to link program information to performance.

The Board discussed whether performance reports include cost information. Ms. Ho explained it was not possible to present cost information for CAP goals. Cost information may be available at particular agencies, but not government-wide. She also noted how strategic goals at an agency can change. Thus, if the agency reported cost by strategic goal, the agency would need to revise how it aggregates costs each time the goals change. Mr. Bussow indicated agencies have to prioritize and determine what information is most relevant to each goal. While cost information may be needed for operational areas, program evaluations or expert advisory boards may be needed in others. Mr. Dacey added the Board permits agencies to present costs in a variety of ways. Some agencies present cost by strategic goal, while others present cost by organizational unit or other means.

Mr. Bussow emphasized the importance of performance reviews. While historical data is critical, Mr. Bussow’s team has emphasized the need for forward-looking information. Agencies need to consider how the future will look in difference scenarios and consider different risks by focusing on ERM. Conducting performance reviews helps ensure the agency has the analytical capacity to consume the information and act on it.

Mr. Reger also discussed the importance of performance reviews. He noted agencies began benchmarking their administrative functions, and, initially, the effort focused on comparing a few measures among agencies. Over time, agencies began to build in performance reviews and OMB would prompt the agencies for this information. This information included if the agency was accomplishing its goals and missions better and if the agency needed to make strategic improvements to deliver on the promises it had made in its goals and objectives. Cost is an important criterion. However, it is not always the most important. Agencies may consider their risks.

Mr. Bussow encouraged the Board members to review the new OMB Circular A-123. The circular has a section on ERM and covers risks to achieving strategic objectives and outcomes, operational and major programmatic risks, and financial reporting and compliance risks. Agencies would need to provide an assessment of the likelihood and effect of those risks and their proposed approach for mitigating the risks. OMB is focusing on problem solving and determining what it can do to mitigate risks. Agencies should clearly identify their approach for mitigating risks; the approach may involve implementing control activities or involve other processes such as the budget process. In such instances, additional budget authority may be needed. The circular allows agencies some flexibility in implementing the requirements.

Mr. Bussow noted his team focuses on improving the quality of risk reporting rather than creating a distinct vehicle for reporting risks. In his view, risk is a subjective assessment and relies on the judgment and experience of the individuals involved in the system. OMB does not require the reporting of risk profiles. It recognizes how a reporting requirement would minimize the level of candor and deliberative judgment critical to senior leaders making the decisions and assessments.

- **Annual Report and Three-Year Plan**

Ms. Payne directed the members to the draft annual report and three-year plan located at tab J. The draft provides a brief summary of the annual performance survey results. The results were similar to the previous year, and there were few suggestions for improvement. Members were asked to provide feedback.

The Board sought the following specific changes:

- Remove the bar chart showing survey results and expand the related narrative
- Add a list of standards awaiting implementation to alert the community

Members also discussed the following points:

- Progress on advancing the standard-setting agenda has increased. This was attributed to stability in staff resources, effective use of task forces, detailed staff from GAO, and efficient use of meeting time.

- The three-year plan in brief is a very helpful tool and should be added to the meeting materials. This would allow members to plan to meet peak needs.

- The Board gave some consideration to how the budget is set. The usual approach has been to sustain resource levels by meeting cost increases each year. One member raised the option to seek funding for specific needs. This would entail a justification for the estimated cost of a proposed project, such as the topical codification of standards. Members were concerned that such an approach to funding technical projects might impair the Board's independence. In the past, resource concerns were raised and addressed when the Board felt it was unable to address priority issues. While there are ways to seek funding for projects such as the topical codification, in this instance, some members believed the forum showed that the benefit of the codification would not justify the costs.

- A survey on the three-year plan will be conducted this year. Members asked whether the survey might also seek input on the performance reporting project and next steps for the reporting model. Staff committed to develop a separate survey directed to a non-accounting audience.

Ms. Payne noted she would revise the draft and circulate it for comment for the Appointments Panel members before the October meeting. Staff will seek final input at the October meeting, and FASAB will issue the report by November 15.

The meeting adjourned for lunch.

- **Time Reserved to Review Changes from Day One**

<u>Leases</u>

Ms. Valentine presented to the Board two proposed implementation guidance options. The first option was a *prospective implementation approach* that would require that leases unexpired at the beginning of the reporting period be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation. The second option was a *modified retrospective implementation approach* that would require that leases unexpired at the beginning of the reporting period be recognized as if they had always been accounted for under the provisions of the standard (that is, as of the later of the beginning of the earliest comparative period presented in the financial statements or the commencement date of the lease).

The Board agreed with the *prospective implementation approach* and asked staff to further develop the implementation guidance and include examples of implementation scenarios. Staff agreed to further develop the implementation guidance as described by the members and to send the revised implementation guidance back to the Board for approval within the week.

The next steps will be to incorporate all of the Board's edits, send the Board a ballot draft of the ED for approval, and strive release the ED by the end of September.

Reporting Model

Mr. Simms presented a revised ED based on the previous day's discussion. The Board agreed upon the following changes:

- Title—Staff will revise the title of the ED from *Financial Statements and Required Supplementary Information* to *Federal Financial Reporting*. The ED discusses more than financial statements and RSI.

- Throughout document—The ED uses the phrase "other information." Because audit literature also uses the phrase, staff will replace "other information" with "other reported financial information" to minimize confusion.

- Figure 1, Statement of Program Performance Measures column—Staff will revise the title of the column to "Performance Information." The ED discusses performance information rather than a Statement of Program Performance Measures.

- Figure 1, Management's Discussion and Analysis (MD&A) column—Staff will insert a reference to SFFAC 3. SFFAC 3 provides a discussion on MD&A items, including budgetary information.

- Page15, paragraph 27—To focus on the limitations of other reported financial information, staff will revise the listing to state the following.

  a. may lack exposure to the same level of internal controls as financial statements and RSI,

  b. may lack consistency with GAAP standards for financial statements and RSI,

  c. may not meet the qualitative characteristics of financial statements and RSI, and

  d. may not be subjected to certain procedures required by GAGAS [generally accepted government auditing standards].

Mr. Simms will send members a pre-ballot draft ED presenting the approved changes. Board members should provide any additional edits by September 8, 2016.

Insurance Programs SFFAS Pre-Ballot Vote

Ms. Gilliam presented the proposed *Insurance Programs* SFFAS with final track changes for pre-ballot.

The Board approved the pre-ballot with no further changes. Ms. Gilliam informed the Board that FASAB staff will send an electronic copy for editorial comments, which are due by September 8, 2016.

Adjournment

The Board meeting adjourned at 2:30 p.m.

Federal Accounting Standards Advisory Board

September 8, 2016

Alaleh A. Jenkins
Assistant Deputy Chief Financial Officer
Office of the Under Secretary of Defense, Comptroller
Department of Defense
1100 Defense Pentagon
Washington, D.C. 20301-1100

Dear Ms. Jenkins:

I am responding to your inquiry of August 10, 2016 requesting clarification of Statement of Federal Financial Accounting Standards (SFFAS) 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35.* Specifically, your letter requested "clarification of the reporting requirements prescribed in paragraph 36.d.ii of SFFAS 10, as amended by SFFAS 50."

SFFAS 50 provides the following:

36. d. Alternative Methods. A reporting entity should choose among the following alternative methods for establishing an opening balance for internal use software. Because a reporting entity may have multiple component or subcomponent reporting entities[9C] selecting different alternative methods, a reporting entity should establish an opening balance based on one, or a combination, of these alternative methods. However, application of a particular alternative method must be consistent within each individual subcomponent reporting entity prior to consolidation into the larger component reporting or reporting entity.

i. Alternative Valuation Method. Deemed cost[9D] is an acceptable valuation method for opening balances of internal use software. See SSFAS 6 paragraph 40.d. for implementation guidance regarding deemed cost.
ii. Prospective capitalization. The reporting entity may choose prospective capitalization of internal use software. If the reporting entity elects prospective treatment, the reporting entity should choose between the following acceptable alternative methods at the opening balance date:

[9C] SFFAS 47, *Reporting Entity*, provides that "component reporting entity" is used broadly to refer to a reporting entity within a larger reporting entity. Examples of component reporting entities include organizations such as executive departments and agencies. Component reporting entities would also include subcomponents that may themselves prepare general purpose federal financial reports (GPFFRs). One example is a bureau that is within a larger department that prepares its own standalone GPFFR.
[9D] Deemed cost is an amount used as a surrogate for initial amounts that otherwise would be required to establish opening balances.

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(a) Exclude all internal use software, inclusive of that under development at the opening balance date, from the opening balance.

(b) Exclude internal use software in service from the opening balance, but include amounts related to internal use software under development at the opening balance date. Internal use software under development should be recognized in opening balances based on the provisions of paragraphs 15 through 27 or on the alternative valuation method (deemed cost) provided in paragraph 36.d.i.

Your letter conveyed that "DoD intends to implement alternative (a), and believes that for Internal Use Software (IUS) projects with development costs excluded at the opening balance sheet date, development costs after the opening balance sheet date on those same IUS projects should be expensed."

As you are aware, the Board discussed your request and letter at the August 2016 meeting. The Board also heard additional information from DoD regarding the status of DoD IUS implementation efforts and systems. Ultimately, the Board did not support the implementation strategy presented in your letter. The Board believes SFFAS 10 provisions would apply to future costs of IUS projects under development at the opening balance date if a reporting entity elects alternative (a). Much weight was placed on the paragraph that immediately follows paragraph 36.d. of SFFAS 50. Specifically, paragraph 36.e. of SFFAS 50 states: "Once established using alternative methods, opening balances are considered consistent with GAAP."

A goal of issuing SFFAS 50 was to assist DOD in establishing a baseline so that DoD could focus on needed improvements to systems and controls and to establish a sound financial management system going forward. Most Board members noted that materiality should be considered in determining how to treat the costs of IUS under development at the opening balance sheet date. They ultimately concluded issues regarding these costs should be resolved between DoD and their auditors, including your suggested implementation strategy. Therefore, the majority of the Board concluded SFFAS 50 was clear as to the guidance to follow and voted not to issue an interpretation as requested by DoD.

Thank you for alerting us to the issue. The AAPC recently approved a project to develop implementation guidance related to SFFAS 50 and will be seeking volunteers regarding this effort. We will make every effort to assist in resolving future issues. If you have any questions, please contact Wendy Payne at 202 512-7357.

Regards,

D. Scott Showalter
Chairman