

**FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
December 19, 2011
Room 7C13
441 G Street NW
Washington, DC 20548**

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Monday, December 19, 2011

Administrative Matters

- **Attendance**

The following members were present throughout the meeting: Chairman Allen, Messrs. Dacey, Granof, Jackson, Reger, Schumacher, Showalter, and Steinberg. Ms. Bond was present during most of the meeting and during her absence was represented by Ms. Kearney. The executive director, Ms. Payne, and general counsel, Ms. Hamilton, were present throughout the meeting.

- **Approval of Minutes**

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

- **Technical Agenda Report**

Ms. Payne opened the discussion of the technical agenda report by explaining that members should find a revised copy at the table. Revisions resulted from pre-meeting comments from members and one staff member who updated a project plan. She explained that the report would be released by the Chairman and does not require a vote of the Board.

Mr. Steinberg inquired how it would be released. Ms. Payne noted it would be distributed to the listserv and professional associations. A press release would go to media contacts. The report would be distributed only in electronic form and a count of visits on the website could be made available. In response to Mr. Steinberg's request, Ms. Payne stated she would report that information to us at the next meeting.

Members suggestions focused on changes that would encourage feedback. The following suggestions were offered and agreed:

1. To encourage comments:
 - a. Revise the title to "Report to Stakeholders: FASAB Three-Year Plan"
 - b. Identify stakeholders on the first page of the chairman's letter
 - c. Explain that the Board carefully considers costs and benefits in standards-setting and encourage readers to alert the Board to any specific provisions that should be reviewed
2. Introduce the potential projects by explaining that the list accumulated over time and some may be less an issue than others
3. Ensure project timelines all begin in December 2011 and include URLs for the project pages
4. Include references to recent work by other standards-setters where appropriate
5. To rename the "reducing Burden" project to "Evaluation of Existing Standards"

Mr. Allen also noted that he requested a discussion of the mission statement early in 2012. He notes that the mission mentions internal users explicitly but does not mention external users. In contrast, factors members will consider in selecting projects, as identified in the chairman's letter, do emphasize external users. He does not believe internal users use financial statements.

Mr. Steinberg noted that this was a very narrow interpretation of "use." Use is not just making decisions involving dollars and cents. Financial statements are also driving reliability and accountability. Clearly, internal users use financial information from systems that support financial reporting. Second, the desire for performance information is growing. Finally, outsiders have never looked at the Federal government's financial statements for decisions. The government has a AA credit rating despite a \$13 trillion debt. The predominant use should be internal users.

Mr. Allen noted the distinction between the government-wide level and the component entity level. The expectation is that citizens and citizen intermediaries are the primary users of the government-wide. Mr. Reger noted he saw a trend to more users of the government-wide.

Mr. Dacey inquired whether the “accounting standards should” portion of the mission statement should mention prospective information. Mr. Allen suggested that issue be raised in February.

Mr. Reger asked if the goal for February would be to prioritize the projects listed as potential. He asked how that impacted the schedule for releasing the report. Ms. Payne noted that she hoped the report would go out early in January so that any feedback would arrive before the February meeting.

Members were encouraged to provide editorial comments to Ms. Payne. She indicated that she will circulate the document for an additional review by members before the chairman releases the report.

Agenda Topics

- **Earmarked Funds**

Ms. Parlow opened the discussion by noting that there are a few open items to be resolved before proceeding to a preballot draft Statement of Federal Financial Accounting Standards (SFFAS).

She said that at the October 2011 meeting, the Board had decided that component entities would not be required to report information on earmarked funds on the face of the Statement of Changes in Net Position but would have the option to report in a note. She said that the Board had asked staff to draft language that would encourage certain major component entities to continue to report on the face of the statement. She said that, as requested, staff had drafted three options for the Board: (a) language in the Basis for Conclusions, (b) language in the standard for “factors to consider,” and (c) a 50% rule, with additional language to go beyond the 50% rule in certain circumstances.

Ms. Parlow said that staff was recommending Option B, draft language on “factors to consider” that would be added to the standard.

Option B from December 2011 briefing materials:

Proposed draft language on “factors to consider”

19a] Deciding whether to present information about funds from dedicated collections on the face of the statement of changes in net position requires judgment. The preparer should consider both quantitative and qualitative criteria. Acceptable criteria include but are not limited to:

1. quantitative factors such as

- a. the percentage of the reporting entity’s revenues from dedicated collections or
- b. cumulative results of operations from such funds; and

2. qualitative factors such as

- a. whether a fund from dedicated collections is of immediate

She said that the draft language in subparagraphs 1 and 2 of Option B was based on existing language in SFFAS 27 for factors to consider in selecting earmarked funds to be presented individually, and that staff has not received any questions or been made aware of any problems regarding the implementation of this language. She noted that inserting the examples of Social Security and Medicare should make it very clear that the Board’s intent is for those programs to continue to report on the face of the statement of changes in net position. She said that she had not heard any objections from any of the members prior to the meeting.

Mr. Allen asked if the members would like to discuss the options.

Mr. Jackson said that preparers need to go through a decision process, but that Option C does not include options for certain agencies.

Ms. Parlow said that by “options” staff meant that the Board had directed staff to draft three options for conveying the Board’s intent for reporting on the statement of changes in net position. Ms. Parlow said that the first option, Option A, was to include language in the Basis for Conclusions. Mr. Jackson said that staff had made a good case for not recommending that option.

Mr. Dacey said that he was concerned that Option B may not always provide the desired result. He said that Option C provides more specificity.

Option (C) from December 2011 briefing materials:

Draft requirement with 50% rule

[19a] Component entities should report on the face of the statement of changes in net position if the reporting entity's total revenue and other financing sources for funds from dedicated collections either

1. constitute 50% or more of the reporting entity's total revenue and other financing sources, or
2. the reporting entity's funds from dedicated collections are likely to be of immediate concern to constituents, politically sensitive, or controversial.

However, he said that he likes the qualitative factors of Option B. He said you could have a blending of the two. He said that perhaps the numerical rule should be more like 25% than 50%. He said that he doesn't know where you should draw the line, but 50% seems a little high.

Mr. Jackson said that he agreed with Mr. Dacey on the percentage. He said that some agencies would have a trigger with the percentage rule in Option C, but for others there would be a thought process. He asked Ms. Parlow if he understood this correctly.

Ms. Parlow said that he was correct, and that there is also an alternative version of Option C that does not include a specific numerical percentage, but rather that dedicated collections "constitute the predominant source of the reporting entity's total revenue and other financing sources." She said that most people would likely interpret that as meaning more than 50%.

Mr. Allen said that Option B does not include a 50% rule and that he preferred Option B.

Mr. Jackson said that he prefers that there would be mandatory reporting on the face of the statement for certain agencies but a thought process for those that fall below the threshold. He said that he has no preference regarding what the percentage threshold should be.

Ms. Kearney asked why Option B would be needed. She said that Option C appears to adequately cover all situations.

Mr. Allen said that Mr. Dacey appears to want to expand item 2 in Option C by including language from Option B. Mr. Dacey agreed and said that the qualitative factors in Option B might be relevant.

Mr. Schumacher said that a combination of Options B and C would be appropriate to cover agencies that do not meet the quantitative threshold.

Mr. Allen asked if the members would like to vote on a 50% threshold rule.

Mr. Showalter said that if the Board went with the lower 25% threshold, the qualitative aspects would not be as important. He said that if the Board went with the 25%, he does not think that any other factors would be necessary. He asked if Ms. Parlow knew what the impact would be if the Board went with 25%. Ms. Parlow said that she was almost certain that Medicare received more than 25% of its revenues and financing sources from dedicated collections.

Mr. Showalter said that he would also be concerned about inadvertently including any funds that the Board does not want included.

Mr. Dacey said that in his opinion, if 25% of an agency's revenues and other financing sources come from dedicated collections, that percentage would be enough to justify reporting on the face of the statement of changes in net position.

Mr. Reger said that if the Board wants to restrict it to just the really large funds, it really needs to include a rule with a percentage.

Mr. Allen said that the Board could also use words such as "predominant source" rather than a specific percentage. He said that he would like to use the "predominant source" from Option C into Option B and leave the rest of Option B as it is.

Mr. Dacey said that he wanted to clarify what the rule is referring to. He said that he is referring to the total activity for all earmarked funds in the reporting entity.

Mr. Reger asked why there is a need for a rule with a specific percentage. Mr. Dacey said that it would help avoid judgmental differences between auditors and preparers.

In response to Mr. Showalter's concern, Ms. Parlow said that such a rule would sweep in agencies such as the Securities and Exchange Commission (SEC), which has a very small percentage of its funds from appropriations. She said that under Option B, the SEC might have the option to report in the notes, but Option C with a percentage rule would require them to break out the information on the face of the statement of changes in net position.

Mr. Granof asked, what would be the consequences if agencies presented differently from what the Board intends? What would be the consequences? He said that after all, this is only a question of presentation, not measurement.

Mr. Dacey said that there would be no adverse consequences, assuming the standard was met.

Mr. Granof said that given that, he would prefer a more principle-based approach, which would be Option B, perhaps with “predominant source.”

Mr. Dacey said that if the Board goes down that route, it should be more explicit about what the principle was – for example, the predominant source of funding and perhaps modify the way that the qualitative factors are worded.

Ms. Parlow said that Option B has two quantitative factors – revenues and other financing source, and cumulative balances, and asked what should be done with the latter. Mr. Dacey said that the balance sheet reporting is already required, so item 1b could be deleted from Option B.

Mr. Jackson said that for the SEC example, he is wondering how the requirements could address such a situation. He asked if there could be something in the Basis for Conclusions could address such a situation. Mr. Allen asked if there could be a one-sentence clarification.

Ms. Parlow said that for reasons noted in the briefing materials, the Basis for Conclusions is not the best venue for making exceptions to requirements.

Mr. Dacey said that at this point, the SEC segregates its funds on the face of the statement. He said that the Basis for Conclusions might be a good place to discuss materiality issues.

Mr. Showalter said that based on prior statements the language should not refer to “materiality.”

Mr. Allen asked for a vote on an amended Option B, using “predominant source” and deleting “cumulative results.” All of the members indicated approval.

Ms. Parlow said that the next item was to approve language that the Board had directed staff to draft that requires a reference to the note in line items for the statement of changes in net position for agencies that do not report on the face of the statement. Mr. Dacey said that he does not believe that more than one reference to the note is necessary. Ms. Parlow asked if the requirement should narrow down where on the statement the reference should be. Mr. Allen said that staff should come back with a proposal. Ms. Payne agreed.

Mr. Allen asked if the members would be able to see the document prior to the February meeting. Ms. Payne said that staff could send a revised draft prior to the February meeting.

Mr. Steinberg asked what the issues are, other than what has been discussed.

Ms. Payne said that working out language for the Basis for Conclusions is often complicated. She said that a preballot draft should ideally not have any technical wording issues. She said that the members should see the document one more time and send comments before proceeding to preballot. She said that it often happens at this stage in a project that there is a preballot draft with the first distribution, and then ballots are distributed at the meeting.

Ms. Parlow opened the discussion for the next question for the Board. She noted that the “alternative format” (parenthetical display of amounts in the line item titles) that was illustrated in the exposure draft is permissible under existing standards. She asked the members if the new SFFAS should still include the description of the alternative format, or simply include the same illustrations that were in the exposure draft.

Mr. Allen asked what staff recommended. Ms. Parlow said that staff recommends not mentioning the alternative format in the standard but retaining mention of it in the Basis for Conclusion and including the illustrations in the Appendix.

Mr. Allen asked if there were any objections, or any need to discuss, the staff recommendation.

Mr. Dacey asked if the inclusion of the illustration would be an assurance that the illustration meets the reporting requirements.

Ms. Parlow said that SFFAS 27 mentions only key line items, and that it was more a matter of convenience and less confusing presentation for agencies to disaggregate the entire statement of changes in net position. She noted that SFFAS 27 does not require disaggregation of unexpended appropriations. She called the Board’s attention to existing standards in paragraph 19 of SFFAS 27, which appears (with proposed amendments marked) in paragraph 12 of the draft new SFFAS.

Mr. Dacey asked if the other Board members believe that providing the illustration is meaningful and helpful.

Mr. Showalter said that the comment letters did not indicate much interest in the alternative format.

Mr. Allen asked if the Treasury Department would get the information that it needs with this option.

Mr. Dacey said that anything not on the face of the statement needs to be in the notes. He said that the Basis for Conclusions could clarify this.

Mr. Jackson said that the clarification should be in the standard, not in the Basis for Conclusions. He said that preparers do not look in the Basis for Conclusions for reporting requirements.

Ms. Parlow said that in the amended version of paragraph 22 (in the section of SFFAS 27 that addresses disclosure requirements for component entities) states that, “The

information must be in sufficient detail to support the reporting requirements for the U.S. government-wide financial statements in paragraphs 29 and 30.” She said that this sentence requires agencies reporting only limited information on the face of the statements to provide the remaining information in the note. Mr. Showalter asked if that sentence could be prefaced with something like, “Regardless of what format is used for financial statement presentation...”

Mr. Allen said that staff is recommending that the standard should not discuss different presentation formats. He said that he did not see any reason not to support the staff recommendation.

Mr. Schumacher said that the preceding sentence, which says that the information can be provided on the face of the financial statements or in the notes, could take care of Mr. Showalter’s concern by inserting a reference to parenthetical format.

Mr. Allen said that he agrees with the staff recommendation not to mention the alternative format. He asked if any members objected to the staff recommendation. There were no objections.

Ms. Parlow said that the remaining question was to retain the effective date that was proposed in the exposure draft: fiscal year (FY) 2012 and subsequent periods).

Mr. Reger noted that statements for the first quarter of FY 2012 are due to the Office of Management and Budget (OMB) in January 2012. Mr. Allen said that quarterly statements are not required to be in conformance with generally accepted accounting principles. Ms. Kearney agreed that the first quarter statements are not audited or released to the public, but she said that agencies use the first quarter financial statements to do planning for that year’s financial statements and audits.

Mr. Allen said that at the last meeting, he recalled that the Board was primarily concerned with fiscal year-end reporting, and therefore a majority of the members supported the effective date that was proposed in the exposure draft – FY 2012 (the current fiscal year). Ms. Parlow confirmed that this was correct, and was recapped in the December briefing memo on page 11.

Ms. Payne said that, allowing for the 90-day review period, the new SFFAS will not be available for issuance until early June of 2012.

Mr. Steinberg said that it would appear to be impolitic to issue a standard during the year in which it becomes effective. Mr. Jackson agreed, and said that the new SFFAS would exclude certain funds. He said that this would produce a conundrum, because agencies’ quarterly reports would have included those funds.

Mr. Allen said that one argument against postponing is that the existing standards do not produce the clear reporting that the Board intended. He also said that deleting funds does not appear to be adding a burden to preparers.

Mr. Steinberg repeated that it would be impolitic, as a Board, to issue standards that become effective in the year in which they are issued – especially if they are issued only four months before the end of the fiscal year. He said that things often are more of a burden to implement than anticipated. He said that this could open the Board to criticism that the Board does not care about whatever disruption it may cause to agencies by the timing of its issuances.

Mr. Allen said that he would like to hear from the federal Board members.

Mr. Dacey said that in terms of removing some of the larger funds from the reporting category, if there were a provision for early adoption, it would look awkward if there were inconsistent reporting for the those funds, such as those managed by the Office of Personnel Management versus the Department of Defense. He said that the Board should pick the same time for everyone. He said that if the effective date were delayed until FY 2013, agency management would discuss the standard and discuss the impact of that standard – for example, restating the prior year – on the next year’s statements. He said that he has some sympathy with Mr. Steinberg’s view and said that he does not know whether agencies can implement the new standard quickly or not.

Mr. Allen said that when the Board sought comments on the exposure draft, it was known that the proposed SFFAS would not be issued by the beginning of the fiscal year in which it was proposed to become effective.

Mr. Dacey said that it’s important to consider what the final issuance date will actually be.

Ms. Parlow said that the major provisions – changing the name of “earmarked funds,” permitting combined versus consolidated, and excluding certain funds – were intended to reduce the burden on preparers.

Mr. Dacey asked when the comment period ended. Ms. Parlow said that the comment period ended in August 2010. Mr. Dacey said that agencies’ views may have changed since August. Ms. Parlow said that she could re-survey the respondents.

Mr. Allen asked whether there is a way that the Board can give agencies a heads-up when the standard is sent to the sponsors so that the agencies can do prep work.

Ms. Payne said that staff routinely sends out a notice at that point, and also anything that happens at a Board meeting is posted on the website. She said that agencies can do their prep work, but that she has concerns similar to those expressed by Mr. Steinberg.

Mr. Allen asked if Ms. Payne is recommending delaying implementation for a year. Ms. Payne replied that she would have reservations about issuing a standard in June that would be effective in October. She said that when FASAB issued SFFAS 27, there were many phone calls with implementation questions and audit issues.

Mr. Reger asked Ms. Parlow who the respondents were who disagreed with the proposed effective date. Ms. Parlow said that two of the respondents who disagreed with the FY 2012 effective date are quoted on page 11 in the December briefing materials: the Department of Labor and the SEC.

Mr. Dacey said that that we already know the population of earmarked funds, and that the proposed amendments would likely result in fewer, rather than more, earmarked funds. He said that staff could contact the agencies affected and find out if the proposed standard would be a burden to them if it were made effective in the current fiscal year.

Mr. Allen said that this could be done before the next meeting. Ms. Parlow said that she can certainly poll agencies about implementation burden if the SFFAS is issued in June 2012 or subsequently.

Mr. Jackson said that considering the pace of this project, an effective date of FY 2013 merits consideration. He said that we can't assume that the Board will have this standard issued by June 2012. He said that worst case might be two or three months after that. Because of this, a FY 2013 effective date would be more reasonable.

Ms. Parlow said that Mr. Dacey had proposed that early implementation should be prohibited. She asked for comments.

Mr. Reger said that he agrees with Mr. Dacey.

Mr. Allen said that he sees this differently. He said that prohibiting early implementation could cause a burden to any agencies, because the standard is supposed to reduce burden and possibly costs. He said that costs are a big issue right now. He asked for a vote around the table.

Mr. Jackson said that implementation planning takes time, and that often agencies don't have adequate time.

Mr. Showalter, Mr. Schumacher and Mr. Allen said that they support a FY 2012 effective date. .

Mr. Dacey said that is inclined to support FY 2012 but that he needs more information from agencies.

Ms. Kearney, Mr. Reger, Mr. Jackson, and Mr. Steinberg said that they support FY 2013.

Mr. Granof said that the members should delay a decision until they have more information from agencies.

With the decision that staff will contact the agencies most likely to be impacted, the agenda session concluded.

CONCLUSIONS:

1. Staff will draft a revised version of Option B, using “predominant source” and deleting “cumulative results.”
2. Staff will draft a revised requirement for a reference to the earmarked funds note on the face of the statement of changes in net position for agencies that do not report on the face of the statement.
3. Staff will revise the document in accordance with staff recommendation to omit mention of the alternative display format and to retain the illustrations in the Appendix.
4. Staff will contact the agencies most likely to be impacted by the new standard and ask for comments on the implementation burden to implement in FY 2012 if the new standard is not issued until June 2012 or a subsequent date.

- **Federal Reporting Entity – Government-wide**

Staff member Ms. Loughan directed the members to Tab B- Federal Reporting Entity - Government-wide. Staff explained the primary objective for the December Board meeting is to approve changes to the government-wide portions of the ED. The changes relate to options for the title, addressing the issue that core entities are federal entities and other changes proposed by Board members.

Staff explained the first issue, ‘Options for Titles’ on page 3 of the staff memo, is presented for discussion because the board agreed at the October meeting the title (previously “Government-wide and Component Reporting Entities”) should be revised to a more descriptive option. Staff further explained the change was agreed in conjunction with the discussion of the scope of the project; several members believed the title should align with the scope of the project. Staff noted that while it may be a good time to consider, as there are still open items in the project—component entity reporting and related parties—the title may be revisited later.

Staff noted the options were presented on page 3 for the Board’s consideration and while staff recommended the first one, there was clearly a strong case to be made for either of the first two options. Staff opened the discussion for Board member input.

Chairman Allen noted that he had concern with the term “Include in” followed by “and related disclosure requirements” in the title. In audit literature, ‘include in’ typically means ‘displayed on the financial statements or disclosed.’ Therefore, he has a concern with the first option “Identifying Organizations to Include in General Purpose Federal Financial Reports and Related Disclosure Requirements” as it wouldn’t be addressed in that manner. He would prefer to change the word ‘include’ to ‘Consolidate’ so it would state what one is consolidating and disclosing or he would prefer the second option.

Staff asked Chairman Allen if he was comfortable with include in the second option, and how it is used referring to the reporting entity—“Identifying Organizations to Include in the Financial Reports of the Government-wide Reporting Entity and Component Reporting Entity.” He confirmed he was because it would cover both consolidating and disclosures for the entity.

Mr. Granof suggested the title ““Identifying and Reporting upon Organizations to Include in the General Purpose Federal Financial Reports”

Mr. Dacey stated he preferred Mr. Granof’s title. Chairman Allen asked if other members preferred this or if there were objections. The Board agreed to the title without objection.

Staff directed the Board to the second issue on page 4--Core Entities are Federal Entities for GAAP Purposes. Staff explained at the October meeting, the Board agreed that core entities are federal entities for GAAP purposes and the ED should have an explicit statement recognizing this fact. Staff noted the draft language was included in the memo, and appears as paragraph 53 on page 22 in ED as follows:

Core government entities are considered federal entities and should apply GAAP as defined in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

The Draft language for recognizing core entities are federal entities for GAAP purposes was approved without objection.

Staff directed the Board members to the third area for discussion on page 5--Updated Exposure Draft for Decisions at October Meeting and Other Changes. Staff explained this contained a summary of the changes to reflect decisions of the Board and other updates to the ED since the October meeting. Staff explained the document reflects:

- Revised Language for the Consolidation of FASB-based Information without Conversion as well as the additional language in the basis for conclusions
- Revised Language for Addressing the Federal Reserve System
- Reduction / Consolidation in the number of Questions for Respondents
- Ensured consistency with terminology throughout document, especially as it relates to organization, GPFFR, etc.

Chairman Allen explained there had been certain questions from a member regarding the impact of the Federal Reserve and asked Ms. Payne to give an update. Ms. Payne explained that Mr. Granof had conferred with Mr. Showalter and Mr. Steinberg. They requested a better understanding of what information would likely be in the government-wide financial report specific to the Federal Reserve under the proposed standards.

Ms. Payne explained that while we can't commit other parties to certain actions, staff has been in discussion with the Federal Reserve and Treasury representatives to identify potential disclosures based on the proposal. Staff has requested a pro forma disclosure for the February meeting.

Mr. Reger explained that his office is working with the Federal Reserve representatives to determine what the presentation or disclosure would be based on the proposed standards. He explained there are questions right now regarding the Board of Governors versus the Reserve Banks as well as if one fits into one set of criteria versus another (i.e. core versus non-core). Mr. Reger explained the Reserve Banks appear a lot more independent than the Board of Governors. Mr. Granof noted the Board of Governors is immaterial, and of course one must consider the Reserve Banks. Mr. Reger explained they are working through these issues to determine the proper display after resolving those questions.

Mr. Granof explained that the Board should be satisfied that the standards bring about the type of reporting that was intended.

Mr. Reger explained there is a list of entities that may be considered questionable in how they would be presented—TVA, NCUA, Import-Export, FDIC, PBGC, and USPS.

Mr. Granof acknowledged there may be other entities that need to be considered. However, he believed the motivation for this project was the financial crisis and the need to review organizations like the Federal Reserve. Mr. Granof noted there may be other entities, but none have over \$2 trillion in assets.

Mr. Reger acknowledged that staff's assessing the Reserve Banks against the criteria were not coming to the same conclusions. Mr. Granof explained that is why we are doing this exercise is to determine if there will be different conclusions between the Federal Reserve and the preparer. Mr. Reger explained the Federal Reserve in a cooperative spirit is working together to determine what the presentation should look like based on the proposal but as of now, no definite decisions regarding non-core or otherwise have been made.

Ms. Bond explained she wanted to clarify that the goal of the project was to develop criteria that would be applied, and not to pull any specific entity in. Staff noted the project pre-dated the economic crisis.

Mr. Dacey explained that certain information about the Federal Reserve is presented in the financial statements. He also noted that the Board hasn't discussed related parties. He acknowledged there may be a difference of opinion as to how much information should be disclosed, but the information is available for the Federal Reserve if people want that information. Mr. Dacey explained while he appreciates efforts to express how information might be presented under the draft standards, it puts auditors in a unique situation if asked for input on what an audit conclusion would be. Mr. Dacey noted there is a reasonable amount of information currently reported about the Federal Reserve. Mr. Granof explained the information about the Federal Reserve is somewhat

scattered in the present report and in his opinion one doesn't get a clear picture of the relationship.

Chairman Allen noted risk as one of the main items that needs to be disclosed about the Federal Reserve and that may not be the driver for the project, but instead the risk assumed project.

Chairman Allen explained this discussion would continue at the February meeting when the Treasury and Federal Reserve representatives come to tentative agreements on applying the draft proposal.

Chairman Allen asked staff to move on to the other changes. Staff explained that other changes were incorporated into the ED based on various comments most of which were suggested by Board members. Many of the changes were editorial in nature, but some relate to definitions and key aspects of the ED.

For example, staff explained the 'Control' definition was revised to use different terms than the term itself. There were no Board member comments on this change.

Staff also noted the paragraph related to the 'In the Budget' inclusion principle was revised and the exception for federal financial assistance is now one paragraph as follows:

In the Budget

19. An organization with an account or accounts 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 GPFRR unless it is a non-federal organization receiving federal financial assistance. To identify non-federal organizations receiving federal financial assistance candidates should be assessed against the next two principles (Ownership and Control) to determine if they should be included in the government-wide GPFRR.

However, staff explained that Mr. Steinberg had expressed concerns with the language and wanted to offer alternative wording for the paragraph.

Mr. Steinberg explained he had a teleconference with staff and Mr. Jackson. He offered the following wording:

In the Budget

19. Generally an organization with an account or accounts 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 GPFRR. Because the budget is a policy document that serves varied objectives and may change over time, professional judgment is appropriate. Some organizations listed in the schedule should not be included in

the government-wide GPFFR because they meet neither of the remaining two principles (Ownership and Control). For example, organizations receiving federal financial assistance [footnote] in the form of a direct appropriation are sometimes listed in the schedule but meet neither the Ownership nor Control principle.

[Footnote] As defined by the Single Audit Act Amendments of 1996, federal financial assistance is assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance. Such entities also may be referred to as non-budgetary entities as that term is used in Analytical Perspectives.

Ms. Payne explained that Mr. Steinberg had questioned the exception language as drafted in the ED. He believes reliance on the Single Audit Act (SAA) definition of federal financial assistance is inappropriate because it includes a very broad group of entities. His goal was to find a way to be more specific. Staff does not believe this would result in a different outcome. Mr. Steinberg explained that the term federal financial assistance is used to determine which entities should be covered by the SAA. He explained he doesn't like to use a term that was developed for one purpose for another purpose. He believes his proposed wording is more accurate.

Mr. Jackson asked if the SAA defines entities. FASAB counsel, Ms. Hamilton explained the SAA covers payments from a federal source to a non-federal source. She explained a non-federal source is defined as a state, local government or non-profit organization and non-profit organization is further defined. Mr. Jackson noted he respectfully takes exception with Mr. Steinberg as federal financial assistance does not define the entity; it defines what is received or expended by the entity.

Ms. Bond explained she found Mr. Steinberg's point interesting and it may be a concern if we are mixing apples and oranges if we are using the SAA for different purposes. Ms. Bond asked what language he would propose. Mr. Steinberg explained he was comfortable with the term non-budgetary entities but Ms. Payne had worked on the final wording displayed and he was fine with it. Ms. Bond noted concern as it appeared both terms were still included in his proposal.

Ms. Payne explained that staff is not raising this as a technical issue or concern. She added that Mr. Steinberg was concerned that individuals (at OMB or that use budget documents) may not know what federal financial assistance is because they may instead refer to the entities to be excluded as non-budgetary entities as used in analytical perspectives. Ms. Payne explained because Mr. Steinberg wanted to change the term to non-budgetary entities, staff believed this term would not be understood by accountants and auditors that try to apply the standards. Mr. Steinberg's proposal is a complete re-write to replace paragraph 19.

Mr. Dacey explained the challenge with the re-write is determining what the threshold is for including or excluding. He explained he is trying to determine what the overriding principle is.

Chairman Allen agreed and stated although federal financial assistance may be considered broad, it is a threshold. Chairman Allen explained he was comfortable with the wording agreed to in paragraph 19. He doesn't object to considering alternatives but he needs to understand why.

Mr. Dacey asked Mr. Steinberg if he believed more or fewer entities should be considered, or what was the goal in the change. He was wondering if he believed the definition was too narrow or too broad.

Mr. Steinberg noted the definition for federal financial assistance is very broad. He also believes the term non-budgetary entity is more accurate. He added it isn't appropriate because the term is for SAA.

Chairman Allen explained it appears straight forward with the current language. Ms. Payne explained that staff advocates leaving it the way it is. Further to use the term non-budgetary entity may not result in the desired results if the definition is narrower or broader than intended. Mr. Jackson agreed as OMB documents such as A-11 may change periodically whereas the SAA is well known by federal agencies that prepare financial statements and it isn't something that will change easily.

Mr. Steinberg explained there is a definition for non-budgetary entity in the analytical perspectives. It states that it is an organization created by the federal government, but is primarily or wholly controlled by non-federal individuals or organizations. He added that the SAA definition is very broad and the goal should be to exclude those created by the federal government. Mr. Dacey asked if there was something listed in the budget that wasn't created by the federal government that we would want to exclude.

Ms. Payne explained that there is concern when looking at how the budget is worded today and how it might be worded in the future. For example, funds were directed to General Motors during the crisis. It might be possible that such cases as General Motors might or might not be listed in the budget in future years.

Mr. Showalter explained that Mr. Steinberg's proposed wording is very different than the current par. 19 and he asked if the problem was with the term federal financial assistance, why isn't the change just to that term. He asked why the paragraph was totally re-written. Mr. Dacey agreed and explained the new language doesn't appear to have a threshold.

Mr. Steinberg explained he would have been comfortable with replacing it with organizations receiving governmental payments to non-budgetary entities, with that term as defined in the budget.

Chairman Allen explained he was struggling to see the bottom line impact to make the change. The current wording in paragraph 19 seems stronger, especially since it doesn't begin with "generally" and when one considers the proposal requires the other tests, it is difficult to see how there could be a different result. Mr. Steinberg agreed that the impact is no different, but he believes the terminology and reasons in his proposed

language is more accurate because they are receiving governmental payments to non-budgetary entities.

Ms. Payne explained the reason one doesn't include these entities is because they are not owned or controlled by the federal government. Paragraph 19 wording is to offer an indication as to why an organization might be included in the budget, but not be owned or controlled. Therefore, the clue offered is some organizations receive federal financial assistance. Staff believed the definition of federal financial assistance was quite comprehensive—it includes other assistance, direct appropriation, and every type of assistance the federal government gives. Further, the safety catch is that these must still be tested against the other two principles—control and ownership. Staff does not see any value to changing the wording and that's why there isn't a completed staff package recommending the change. Staff is comfortable staying with the language in paragraph 19. Mr. Steinberg believes people would understand non-budgetary entities better than the language included in paragraph 19.

Mr. Jackson explained that perhaps it could be resolved by adding wording along the lines of:

“Entities covered by the SAA of 1996 but included in the budget are non-budgetary entities as defined by OMB Circular A-11. However these entities are subject to the control and ownership and control provisions in the standard.”

He added this gets away from the notion of federal financial assistance but still refers to the concept established within SAA.

Chairman Allen explained because we have approved wording that has been voted on and a proposal to reconsider a new option, it makes it difficult to consider new wording and whether it would be considered a third option or a change to Mr. Steinberg's proposal. Chairman Allen asked staff and Mr. Steinberg if they wanted to vote on how to proceed. He asked if it would be appropriate to vote on whether we should stick with the current wording or explore modifications.

Ms. Payne agreed—she believes the members should vote on whether we should stick with what we have or explore other alternatives. She wouldn't advise voting on any other alternative, as one must be careful with the wording when referencing the SAA or budget terminology in the standard language and so forth. She explained the language was crafted for federal financial assistance very carefully as to why the preparer would want to test the organization against the remaining criteria before excluding them.

Mr. Jackson noted by using the current wording in paragraph 19 and the term federal financial assistance (versus entities) it does great justice to the standard as other organizations may receive assistance. He referred to the example of the Chrysler Corp that received assistance of loan guarantees and one wouldn't want them to be pulled in for receiving the loans. Mr. Jackson explained he said this brings him back to support paragraph 19 as drafted.

LUNCH BREAK

Staff explained before the lunch break it was agreed the Board would vote on whether to stick with what is drafted in par. 19 (In the Budget, specifically for the exclusion) or explore other alternatives.

Member	Stick w/ Par 19	Explore Alternatives
Reger	X	
Allen	X	
Bond		X (quick w/staff doing off line and change should be up or down)
Dacey		X (he was comfortable w/par. 19 but if there is any better way to bring clarity to address concerns, he is open to consider those. But he isn't sure there is another way to do so in a principles based way.)
Schumacher	X	
Showalter	X	
Granof	X	
Jackson		X*(stated he is fine w/par.19 as it achieves the objectives but he doesn't have a problem w/revisiting if Board agrees to. Chairman Allen said he would place this vote in Explore Alternatives.)
Steinberg		X

Based on the above votes, the Board agreed to stick with paragraph 19. Chairman Allen explained if a Board member wants to draft language to consider, they may do so. Otherwise the issue is considered closed and par. 19 will remain as is.

The Board agreed to remove “to identify” from the beginning of the sentence in par. 19.

Staff directed the Board to page 8 of the staff memo and explained that staff incorporated language regarding legal entity into the Introduction. This has been an issue that has come up at various times and addressing in the Introduction would be a way to clear up any confusion. Staff explained it shows up on page 3 of the ED. Mr.

Dacey asked what is meant by legal status as this can be vague. Mr. Granof noted that legal doesn't have a real meaning. Mr. Dacey agreed and stated he doesn't have a proposal to fix it and understood it was trying to convey substance over form. He agreed with the concept but wasn't sure if the words were the best to use. Mr. Granof agreed but noted although we can't define legal, it is important and should remain. Mr. Dacey suggested that we say look at the substance of the relationship and not the legal form.

CONCLUSION: The following occurred at the December meeting:

- The Board agreed the title will change to "Identifying and Reporting upon Organizations to Include in the General Purpose Federal Financial Reports"
- The Board approved the draft language for recognizing core entities are federal entities for GAAP purposes without objection.
- The Board voted to maintain paragraph 19 (In the Budget) as currently drafted, with a minor edit by removing "to identify" from the beginning one sentence.
- The Board generally agreed to the other changes and revisions to the ED.
- The Board requested staff to modify language in the legal entity paragraph in the Introduction to say one looks at the substance of the relationship and not the legal form.
- If schedules permit, the Board anticipates Treasury and Federal Reserve representatives will present their interpretation of presentation and disclosures requirements based on applying the draft proposal at February meeting.

- **Federal Reporting Entity – Component**

Ms. Loughan directed members' attention to the first issue on pages 4-5 of the staff memo on the Component Entity at Tab C, which addresses the concern Mr. Dacey raised at the October 2011 board meeting regarding the completeness of the economic entity at the component entity level. Ms. Loughan stated that staff included two questions on page 5—one regarding whether the basis for conclusions should discuss the reasons for the limitation that "the statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity" and a second one concerning whether staff should revisit this area throughout the project to determine if there should be some additional principles developed in this area.

Mr. Reger responded that he wants to make sure everyone is well aware of the implications of this standard because he is not sure everyone is. Some of the current lack of totality of the financial reports is due to the exclusion of what is called "the General Fund." Another reason is the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal

agencies. Once Treasury begins tying the component entities with the consolidated entity, it is really defining who is going to participate in intragovernmental reporting, in whatever the automated solution is, in the General Fund category, in the authorization of the budget, and exchanging revenues and expenses between them so the implications of this standard goes beyond just financial reporting; it is the glue that is going to stick the whole organization that is going to represent the financial accounting community together. An organization is either going to be roughly a vendor or part of the entity when all is said and done. Mr. Reger cautioned the members that as they deliberate, to be cognizant that some of the issues raised in the memo are really seriously important to structural issues that are going to come up throughout the federal community over the next 20 years. He noted that it is not just reporting decisions that will be made as a result of this standard, but transactional processing and everything else will flow from this.

Mr. Allen asked Mr. Reger if it makes a difference that these component entities are not separate legal entities in most cases. Mr. Reger responded that, even in cases where they are separate legal entities, if we define them as part of the reporting entity, the consolidated federal reporting is going to have to flow from that.

Mr. Dacey added that, in essence, if an entity is a core entity, it's a core entity. That does not change depending on the reporting entity. If it is at a component level and it is a federal core entity that is not consolidated into a particular component, then it is intragovernmental. He said he still questions what you need to include in a particular component because the core entities do not change; they just become intragovernmental when you drop down below the consolidated level.

Mr. Allen noted that everyone will apply these standards, whether they are the consolidated governmentwide or a department, agency or sub-agency, but we have a limitation that the statements are part of a larger organization. In state government, one of the challenges in defining the assets and liabilities of an individual fund is that the assets and liabilities are those assigned by the primary entity. The individual funds do not have their own standing; the only standing they have is that assigned by the primary government, and he does not know if it is necessary to convey that, and if they decide it is, how that information would be conveyed.

Mr. Dacey said he believes that is disclosed now and we should keep doing that because it is important to tell the reader that the component entity is part of a larger entity. He said his question is, how do we determine what should be in a component entity; he asked "is it what the Office of Management and Budget (OMB) says it is." He then asked how the board should deal with disclosure if an entity report lacks components that one might think would be relevant. For example, when some of the costs of an agency are born by someone else (i.e., an entity is using equipment that is owned by a different entity).

Mr. Allen said that when a reader is reading the statements, he ought to realize that the statements are part of a broader or larger entity because the position that may be reflected in the financial statements is, to a large part, something that has been

assigned to that component by a larger entity; the component is not a free-standing entity. Mr. Allen said that if the reader can get that from the one sentence—“the statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity”—that’s fine, but he believes the board should go a little bit further and explain what that means. He said he does not know how much further the board wants to develop that concept or if they think the one sentence is sufficient.

Mr. Reger said, practically speaking, in application the principles-based determination is going to drive the individual preparer and their auditor to review whether they are in or out—whether they are in a component or whether that component should be in the consolidated. It is not that someone is going to have a magical list of everything that will tell everyone who is in or out. It is going to be driven by the knowledge of the people in those individual entities and an agreement between management and its auditors about the interpretation of our principles. He said he is cautious to think we can do anything with respect to a component entity that will not roll well with the component entity’s same interpretation. He said he thinks he is in the same place Mr. Allen is in agreeing that you have to be aware of your position, not only within a component, but within the consolidated statements, before you can reach a determination.

Mr. Allen added that he also does not want anyone to think that there is a financial position or results of operations that means anything more than showing the role that the component entity plays within the bigger structure.

Ms. Bond replied that she thinks the sentence does go far enough. In looking at the example of PBGC and the Department of Labor (DOL), there are good reasons why they are treated as separate entities, even though someone could argue that, technically, the Employee Retirement Income Security Act (ERISA) put PBGC under DOL. She said to actually show those statements together (PBGC and DOL) would actually cause her a lot of concern and that is what was pointed out in the letter to Linda Combs in the appendix of the briefing materials.

Ms. Bond continued that she thinks the sentence captures the spirit of their intent and it does go far enough in alerting the readers of the financial statements. She agrees with Messrs. Dacey and Reger that the principles need to be somewhat flexible to allow the entities to determine the proper reporting using criteria established by the board.

Mr. Allen stated that Ms. Bonds’ answer to staff’s first question—Does the board agree that the basis for conclusions should discuss the reasons for the limitation that “the statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity”—would be yes and asked if any of the members wanted to argue something other than yes to the first question. Mr. Allen said he voted yes but he wanted the sentence to go a little bit beyond that.

Mr. Showalter said he would say yes to the staff’s first question as well and he likes what Ms. Bond said but is not sure it is clear enough for the average reader to understand it. He also understands Mr. Reger’s point that there is not someone standing up and allocating all the assets down; it is pretty much a bottom-up analysis.

Mr. Allen asked if there were any other questions or comments on Question 1a. With no additional comments from members, Mr. Allen asked staff to address question 1b— Does the board agree the need for additional principles and/or explanatory language can be delayed until issues regarding inclusions principles, core/non-core, and related party have been resolved?

Ms. Loughan responded that question 1b is mainly stating that staff will remain cognizant of this issue as we go throughout the component entity phase—looking at the complete economic entity. We would not be making any additional decisions today but rather acknowledging that the issue is not totally resolved.

Mr. Dacey said he thinks they can defer further discussion but he still wants to raise the issue because he thinks that is the heart of the issue—a core entity is a core entity, period. That does not vary by who is reporting, except for the standpoint of what you consolidate into that entity, but it is a core entity with respect to the federal government. The question should be, how do we articulate, or do we articulate, what should be in a component. He asked whether it is simply whatever is assigned to that component. In addition, as he mentioned earlier, some activities that a reader may associate with a particular component may in fact be reported somewhere else. It would be important to point out where there are significant areas that may be related but are not technically consolidated as part of that entity because the government has decided to have that activity somewhere else.

Ms. Bond said she also questioned the need to defer. She asked, if we have principles, what is the need to come back to this later. She said she was surprised to see question 1b presented.

Ms. Loughan responded that staff wanted to leave the issue open because staff was not sure what type of issues might arise during the component phase; at this point, staff did not want to say that we looked at this in its entirety and there was nothing else to consider.

Mr. Allen noted that it is not a specific placeholder, just a generic placeholder. Ms. Loughan agreed, noting that the first paper is only looking at the “in the budget” principle.

Mr. Allen responded that it goes without saying that we always have that generic placeholder and directed staff to go on to question 2.

Ms. Loughan noted that the second question—Does the Board agree the exclusion or exception for federal financial assistance should apply at the component entity level?— is merely asking the board if they believe the exclusion for entities in the Budget because they are receiving federal financial assistance, an issue the board spent quite a lot of time discussing at the governmentwide level, should also be excluded at the component entity level. Ms. Loughan noted that staff is recommending that the same exclusions be included in the component entity standards as well.

Mr. Jackson said that if an entity is excluded from the governmentwide it should most certainly be excluded from the component that rolls up to the governmentwide.

Mr. Allen agreed, asking staff why this was a question. Ms. Loughan responded that staff needs to explore all issues and get confirmation from the board.

Mr. Jackson added that since Mr. Reger has reiterated that the governmentwide report should be merely a consolidation of the component entity reports, these decisions on exclusion principles really need to be made at the component entity level.

Mr. Allen asked if any of the members objected to the same exclusion for federal financial assistance at the component entity level.

Mr. Dacey responded that the answers to the exclusion principles should be exactly the same at the component entity level as they were at the governmentwide level.

Mr. Granof asked if there are any entities that may be included as a component of two or more different entities. Mr. Dacey replied that he is not aware of any entities that have dual reporting responsibilities for the same entity. Perhaps in some instances, certain functions that are related might be separately reported but there is no double counting. Ms. Bond agreed that she cannot think of any examples where an entity is reporting to two or more separate entities.

Hearing no objections to question 2, Ms. Loughan requested that the board move on to question 3—Other circumstances in which an organization identified in the budget should not be considered part of the larger organization—and referred members to the PBGC and DOL example that is included as an appendix to the briefing materials. Ms. Loughan noted that staff recommended that the component level standards provide a principles-based standard that would address these types of situations.

Mr. Dacey said this is the crux of the issue—when should an entity, for purposes of fair presentation, be presented in the reports of another core entity. He asked if that should be how it is set up or should it be based on a principles-based standard. If the board decides to develop principles to enable agencies that have an inter-relationship to not be consolidated, there should at least be some additional disclosure requirements that would help alert the reader to that fact.

Mr. Allen said he struggled with this issue because it does not seem that the board would be able to develop any principles to address situations like the DOL and PBGC example. Mr. Allen said the board acknowledges that OMB has the authority to grant waivers to the reporting requirements, but as far as developing a principle, he says he can see where there would be a lot of varied answers depending on the relationship between the component entity and the sub-component entity. He stated that he would love to come up with a principle but he struggles to believe that they could agree on one in the end. He said it seems to him that they already have the principle—in the budget.

Mr. Jackson said it seems to him that if a sub-component is in the component entity's budget, it would need to be included. If it is not, then you would go to the next level—ownership and control. He asked if there was something wrong with taking that approach.

Ms. Loughan said that is what staff is suggesting but they are trying to come up with a principle to exclude the ones that are in the budget but have been excluded for a reason other than federal financial assistance. She said she thinks they might have to tweak the control indicators somewhat at the component entity level to address the differences between governmentwide control and component control (e.g., appointing the members of an oversight board).

Mr. Jackson said, if an entity is included in another entity's budget, that principle cannot be overcome unless it is in the budget because they are receiving federal financial assistance.

Mr. Allen responded that is true at the governmentwide level but now they are looking at the component level and whether there are instances at the component entity level where an entity could be excluded from consolidation under a component because it is being consolidated at the governmentwide.

Mr. Jackson asked why they would want to do that—why would they want to try to find instances where an agency is in the budget of another agency, and find a reason why they should not be consolidated with that entity. He said he cannot imagine what instances might exist.

Ms. Loughan responded that DOL and PBGC is an example of that—PBGC is included in DOL's budget as a division, but it is not consolidated within DOL's statements.

Ms. Bond responded that PBGC is presented in the budget as a division of DOL, but it is not really a division of DOL. She said she struggles with seeing what problem the board is trying to solve by addressing this issue. She said she does not see where the board has to develop an exclusion principle for examples such as this, because the current process is working well the way it is. She struggles with what would be the implications of developing such a principle.

Mr. Jackson asked about the Tennessee Valley Authority and whether it appears in the budget of the Department of the Energy. Ms. Bond responded that it is separate in the budget. Mr. Reger responded that it is one of the 11 additional significant entities included in the governmentwide report.

Mr. Reger said there are 24 agencies, 11 additional significant entities (Export-Import Bank of the United States, Farm Credit System Insurance Corporation, Federal Communications Commission, Federal Deposit Insurance Corporation, National Credit Union Administration, PBGC, Railroad Retirement Board, Securities and Exchange Commission, Smithsonian Institution, Tennessee Valley Authority, and the U.S. Postal Service), and 149 additional entities included in the governmentwide report.

Mr. Jackson asked if those 11 additional significant entities appear within the budget of an individual agency. Ms. Hamilton responded that they are listed in the budget as independent agencies, except for PBGC.

Mr. Allen asked Mr. Dacey if there is a problem for the auditor because PBGC is not consolidated under DOL, or do they look at what the standard says and accept that OMB has granted PBGC an exemption from being consolidated under DOL.

Mr. Dacey said that the federal government allocates assets and liabilities to components as it believes appropriate.. He said he does not have a problem with whatever decision is made by the Board but the Board may want to enhance the disclosures to ensure that the relationships, as they have been established by the federal government, are clearly communicated to the reader.

Mr. Allen asked Mr. Dacey if the board is silent on the issue and the main principle is “in the budget,” would it not present a problem for the auditors. Mr. Dacey said the decisions about whether an entity should be consolidated under another component entity seem to have been based on policy decisions, and not the accounting standards.

Mr. Allen said he does not think it is possible for the board to develop criteria to address the issue but he also does not want to hang the auditor up. Mr. Dacey responded that he does not think it is an issue as an auditor. As an auditor, Mr. Dacey said he is concerned about one category they have not discussed at the consolidated level—which is special relationships with other core entities that might go beyond normal intragovernmental—where preparers should be providing additional information to the reader. He noted that traditional intragovernmental reporting may not go very far in reporting the nature of the transactions that are occurring; the reporting primarily consists of the balances of the transactions.

Mr. Steinberg stated that if an agency is in the budget of another entity but there is no ownership and control by that other entity—and he thinks there is enough in the letter from Linda Combs to indicate that DOL does not control PBGC—then the agency would not be consolidated under the component entity. That would be a principle.

Mr. Allen asked Mr. Steinberg if he believes that ought to be dealt with as accounting standards-setters or if that ought to be dealt with administratively by OMB. Mr. Steinberg responded that he thought Mr. Allen was looking for a principle to deal with such situations.

Mr. Allen responded that he does not think there is a principle because he does not know what it would be and he concluded they ought to be silent. Mr. Steinberg said he thinks there could be a principle built around the reasons in the letters to and from Linda Combs.

Mr. Granof said he agrees with Mr. Steinberg and asked why it is any different at the component level.

Mr. Steinberg said the only difference is that the conclusion at the governmentwide level is why an entity would be consolidated and the conclusion at the component entity level is why an entity would not be consolidated.

Mr. Allen said the goal is to define the entity at the governmentwide level; when you get to the component level, you no longer have an entity that you are defining. The component entity is what has been structured or defined by the component entity and a sub-component of the component is what has been defined by the entity. He said it is very important for the board to develop principles that are very inclusive at the governmentwide level but he thinks the board will get hung up if they try to develop principles at the component entity level that would say, for example, whether PBGC should or shouldn't be consolidated with DOL. Mr. Allen said he thinks that decision is administrative and not principles-based.

Mr. Granof asked how we avoid the situation then. Mr. Allen responded that, if the board is silent about it, and we apply the basic "in the budget" principle, and there are other administrative decisions that have been made that do not cause the auditor concern, then he does not think the board should pursue additional principles at the component entity level.

Mr. Steinberg asked Mr. Allen how what he just said is not a principle—if you are in the budget and then other administrative criteria are applied. Mr. Allen responded that the question is "shall we establish other criteria beyond whether you are in the budget that would provide some exemption for other organizations like PBGC" and his answer would be no; he does not think it would be practical for the board to do so.

Mr. Showalter asked if the board could just say that—an administrative ruling would in essence be a principle. Ms. Bond replied that she does not know how you define that. Mr. Showalter responded that he does not know how you can read it any other way if it does not give an exemption for an administrative ruling, as currently worded.

Mr. Dacey asked whether the administration should decide what information is reported in the reporting entity. Mr. Showalter responded that he thinks they can, but not the way the principle is currently worded .

Mr. Steinberg said they would not be defining the entity with such a principle but rather defining what would be included in a component reporting entity.

Mr. Dacey said DOL is a core entity and PBGC is a core entity and administratively it has been determined that they are separate reporting entities, is that all that the board needs?

Mr. Steinberg pointed out the administrative decision was made not just for reporting purposes; the letter from Linda Combs indicated seven different reasons why PBGC should not be included in the DOL reporting entity, e.g., DOL is not responsible for the financial losses of PBGC, and each one of those is an administrative control decision that could be the basis for a principle .

Mr. Dacey said he does not disagree with Mr. Steinberg; the question is, even if they use the same criteria in every situation, if OMB has decided what the entity is, and it may not be the way a preparer or auditor would view it, do we run with that and move forward. Mr. Steinberg said yes, if that is the way OMB wants the organization to be run.

Ms. Bond responded that the board needs simplicity and they have beaten this horse into the ground. They need to wrap it up because she is still struggling with determining what the problem is that they are trying to solve. She said both entities are already reporting into Treasury; she would like to see an example of where there is a problem. She agrees with Mr. Allen that the board should just be silent on the matter.

Mr. Allen said that is the answer to question 3a—should we come up with criteria or not—and he and Ms. Bond are saying no. He asked to go around the table for the other members' vote.

Mr. Dacey said Statement of Federal Financial Accounting Concepts (SFFAC) 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, talks about assigning elements to particular federal entities, so there is a bit of a foundation.

Ms. Payne affirmed that SFFAC 5 talks about assigning assets and liabilities so there is a basic construct. But her concern, in response to Ms. Bond's query into what the problem is, is that before the waiver was granted to PBGC, she was contacted by staff from OMB's Office of Federal Financial Management and they were convinced they could not grant a waiver to PBGC. Ms. Payne said she had to convince them that they had the ability to grant PBGC a waiver. She said she asked them for the reasons why they would grant a waiver to PBGC and do the reasons align with SFFAC 2, *Entity and Display*. She said the reasons did align with SFFAC 2, but she had to convince OMB staff that they could actually give a waiver. She questions how many times an auditor will wonder, now that it will be a standard, why there is an exception to the general rule. Ms. Payne said she does not think we should have seven paragraphs explaining the exception but she does think, as a GAAP body, we should at least mention that there are administrative ways to override the "in the budget" listing, which is more of a rule than a principle, when it is appropriate.

Mr. Jackson pointed out that the budget document itself is an OMB construct, and one would think OMB would have some latitude with regard to whether there is a more appropriate placement of an entity for financial reporting purposes.

Mr. Schumacher asked if we put language in the standard about administrative exceptions, might that not encourage entities, in some subtle way, to seek waivers if they so choose, for political or other reasons. By saying there is another way out, we would, in effect, create another exception. Mr. Schumacher said he would rather just be silent on the matter than create an exception.

Mr. Allen asked Mr. Dacey if the board should develop some criteria or remain silent. Mr. Dacey replied that he would prefer to remain silent because he does not see it as a major issue; it is rather stable at the moment.

Mr. Showalter said he would agree with Ms. Payne; he thinks remaining silent would put the auditor in a box. Mr. Allen said that was his first concern, but Mr. Dacey said he is not in a box.

Mr. Steinberg replied that we are talking about component level and Mr. Dacey does not do component level auditing. Mr. Showalter agreed, stating that there are private firms out there doing the component level audits.

Mr. Dacey responded that all he is saying is that he is not aware it is currently creating a problem unless it changes something we are doing now. Mr. Showalter pointed out that we are moving from a concepts statement to a standard and those are viewed differently.

Mr. Granof noted that if the board only addressed actual problems, instead of potential problems, their meetings would be half as long as they are. He said he thinks, in this situation, criteria are appropriate, and he thinks that could be accomplished by changing a few words in paragraph 19 of the governmentwide standards.

Mr. Jackson said he agrees with Mr. Granof.

Mr. Steinberg said he agrees with Messrs. Granof and Jackson.

Mr. Reger said he does not have a problem trying to tackle the issue but they are struggling with any concept at all and when he looks at the list of 149 additional entities included in the governmentwide statements, he thinks there were probably different criteria used for every single one of them. He said they have a practical list of reporting entities they can use currently; in the long-term it might be a good idea to think about criteria they can use for a principles-based approach but that is a long issue and is going to take some time to fight through; they can move ahead with what they have now.

Mr. Steinberg responded that Mr. Reger is talking at the governmentwide level. Mr. Reger responded that his issue is that, once you develop criteria, you either have to make all of the 149 entities core or make them part of a component entity, neither of which he likes. Mr. Steinberg said he does not think that would be the case. Mr. Jackson stated that they are all core but not necessarily part of a component. Mr. Dacey agreed, stating that they are their own component. Mr. Jackson summarized that, through the development of criteria, they would be trying to make the 149 entities not a part of a component, in a principles-based way. Mr. Reger replied that is exactly right.

Question 3a:

Member	Develop Criteria	Remain Silent
Allen		X
Bond		X
Dacey		X
Schumacher		X
Showalter	X	
Granof	X	
Jackson	X	
Steinberg	X	
Reger		X
Total	4	5

Mr. Allen summarized that the vote was 5-4 so it is close enough that, if one of the members that voted to develop criteria comes up with some wording that satisfies the others, the board can revisit that but right now the board is not directing the staff to come up with criteria.

Mr. Reger said he agrees with Mr. Allen—if someone wants to bring up a solution to this nonexistent problem currently, he would love to see it but he thinks it would be a waste of staff resources to spend a lot of time on it.

Mr. Allen moved on to issue 4—Other issues, noting that issue 3b relates to specific wording of the criteria which the majority of the board has voted not to develop.

Mr. Dacey reiterated that the board should address what disclosures should be required for important relationships that should be described to readers. He noted that the current disclosure requirements on intragovernmental transactions is very thin; there may not be much discussed at all. The general principle he is thinking about would be directed at what disclosures are necessary so as to (1) help the reader understand the relationships that are significant or (2) not to mislead the reader.

Mr. Reger said that Mr. Dacey’s issue relates to reporting on the transactions occurring between two core entities that are relevant, but he is even more interested in the things that are not components of a core but are reporting; he is not sure what they are.

Mr. Allen said another issue to consider is what the disclosure in question 1a should be for a sub-component that prepares standalone financial statements. He asked whether that disclosure should be that the statements should be read in connection with the higher component or in connection with the government as a whole. He provided the example of the Department of Health and Human Services (HHS) that has many

different sub-components preparing financial statements. He said it seems to him that the reports of the sub-components ought to be read in connection with the other components of HHS rather than with the government as a whole. Mr. Allen said it relates to what Mr. Dacey was saying—What is this entity and what is its relationship to other entities and what should you know about this entity when you are looking at its financial statements, and maybe it should also define any elements that have been assigned.

Mr. Allen asked if there were any other questions or comments from members.

Mr. Steinberg noted that there was a sentence at the beginning of the staff analysis that “all assets and liabilities must be reported at the component level before flowing into the consolidated statements.” He said he would ask to what degree, if any, this would address the general fund.

Ms. Loughan responded that the task force has a sub-group working on the general fund right now. They are working on a definition for the general fund and should address that question.

Mr. Steinberg asked if the intention is that there will be a portion of this standard that will address the general fund. Ms. Loughan replied that it probably will, but that remains to be seen. For the next step, staff would come back to the board with the group’s recommendation on the actual wording.

Mr. Dacey noted that, in theory, the balance of the transactions with the public for the general fund is booked in Treasury’s financial statements. What are not recorded in Treasury’s financial statements are all the intragovernmental balances, activity, and authority that are in the general fund. That may be part of the problem that is causing the intragovernmental imbalance.

Mr. Reger stated that, at least initially, it looked like the general fund was missing three pieces—the actual cash transactions, authority transactions, and the debt transactions (the federal government’s debt in total). However, debt is reported in the Bureau of Public Debt and is recorded in Treasury’s statements. In addition, cash is recorded by the Financial Management Service (FMS) in all cases and is recorded in Treasury’s statements. Authority appears to be nowhere, so authoritative transactions—transactions distributing budgetary authority to all the agencies—are the large missing piece. You cannot add up all the authority provided to agencies and track that back to the bills or laws that granted that authority. Mr. Reger said the other missing piece that they then started running across was the myriad of agencies that do transactions with the general fund—there currently is no general fund, so what is the validating source for those transactions, regardless of the agency—there currently is not one, so one would have to question how an auditor of an agency is looking at the agency’s statements when there is a huge plug number to the general fund and there is not a general fund.

Mr. Reger stated that hopefully, by September 30, 2012, Treasury will create the general fund, and it will be for the distribution of apportionment, the distribution of

budgetary authority. Mr. Reger noted that currently, when an agency records a transaction with the general fund, the other half of that transaction goes nowhere. With the creation of the general fund, a group of accountants in FMS will be able to see the transactions that have been recorded to a fund group that they control and they will be able to reject or explain those transactions. Mr. Reger said that although there are not many of these authority transactions, they are big, and agencies will now have the ability to do these transactions and all of the authority transactions will be distributed.

Mr. Allen asked if they will also move the debt out of Treasury's financial statements.

Mr. Reger said there has been a big discussion on that. Right now, Treasury's financial statements represent both the Department of the Treasury's activity and the U.S. Treasury. Sooner or later, either the general fund will get combined with the Department of the Treasury, or the Department of the Treasury has to decide what the Department of the Treasury statements should look like and remove those things that relate to the U.S. Treasury and consolidate those things directly in the governmentwide. Mr. Reger said he is continuing to work with the Department of the Treasury to determine what its statements should be. He said, internally within the Department of the Treasury, they have not yet come to an agreement on whether the statements should represent the U.S. Treasury or the Department of the Treasury.

Mr. Allen asked Mr. Dacey if the Government Accountability Office (GAO) would audit the general fund. Mr. Dacey said, at the moment, except for intragovernmental transactions, the auditor for the Department of the Treasury is auditing all of those accounts because they are on Treasury's balance sheet with an offset of "due to" and "due from." The question is when the general fund transactions become a statement, all of the intragovernmental transactions will be audited for the first time, and he is not sure who would be doing that audit; GAO has not yet talked about that.

Mr. Reger said that the first year, they are hoping to present at least a schedule of transactions for the general fund and subject that to limited audit procedures. By the first full year of operation—2013—he would hope that they would be able to generate a full set of statements for audit.

Mr. Allen thanked staff and asked the members to let Ms. Loughan know if they have other issues that they think should be addressed while she is developing the component level standards.

Mr. Allen called for a 10-minute break before addressing the next topic.

CONCLUSION: The following major decisions were made:

The Board agreed that the basis for conclusions should discuss the reasons for the limitation that "the statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity."

The Board agreed the exclusion or exception for federal financial assistance should also apply at the component entity level.

The Board decided staff should not attempt to develop additional principles for instances where an organization identified in the budget should not be considered part of the larger organization. The vote was 5-4 so it was close enough that, if one of the members that voted to develop criteria comes up with some wording that satisfies the others, the board can revisit.

- **Deferred Maintenance and Repairs**

Mr. Allen introduced the project by referring members to TAB F and asking Mr. Savini to begin the discussion. Mr. Savini began the presentation by noting that there were no technical matters open and then provided an overview of the changes contained in the document. The TAB F changes were primarily a result of incorporating certain respondent suggestions agreed to at the October meeting. The remaining member and staff edits were as marked – cosmetic or grammar related.

Staff noted that additional editorial changes were provided subsequent to the December 8th TAB F distribution by Messrs Allen, Showalter, Steinberg, and Synowiec (on behalf of GAO). Mr. Savini provided a brief overview of some these changes noting that the ballot SFFAS would incorporate remaining edits. Staff suggested that (1) because no technical issues remained open and (2) due to the nature of the edits, members consider balloting the draft SFFAS prior to calendar year-end.

Mr. Dacey asked members to review the second sentence in Footnote 9 on page 9. He questioned the appropriateness of the second sentence because entity management may involve discussions with third parties, such as auditors when determining whether an item is significant. Members concurred with Mr. Dacey's observation and felt that the second sentence could be deleted. Staff acknowledged the change and noted that identical language in the Basis for Conclusions A16 would also be deleted.

Ms. Bond acknowledged her satisfaction with the document and concurred with the recommendation that staff proceed ahead into the next topic.

Noting no objections, the Chairman agreed and asked staff to commence balloting procedures after the meeting and to move ahead to the TAB H Asset Impairment presentation.

- **Asset Impairment**

Staff provided an overview of the questions summarized on page 5 of the transmittal memorandum. The questions were discussed in the same order as shown in the memorandum.

Costs versus Benefits

Question 1(a) Does the Board believe that the suggested question (Q5) adequately frames the question that the Board perceives benefits to outweigh costs?

Q5. The Board believes that the benefits of implementing this Statement outweigh its costs. Benefits include: specific impairment guidance for federal G-PP&E, reporting impairments when they occur rather than through depreciation expense or disposal, discerning the cost of impairments and impact on the entity and the cost of services provided following the impairment, and lastly, enhancing comparability between entities. Refer to paragraph A21 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree that the benefits of implementing this Statement outweigh its costs? Please provide the rationale for your answer.

Staff noted that both the Chairman and Mr. Granof asked that we specify the types of costs that were being addressed in the question. In prior consultation with the Chairman, staff suggested that we clarify that these are administrative costs entities could incur in implementing the standard. Mr. Granof concurred. Noting no other comments or objections, staff then proceeded to Question 1(b).

Question 1(b) Does the Board agree with the perceived benefits listed within Q5 and paragraph A21 on page 28? Are there any that should be removed or changed? Are there others that should be added?

Mr. Jackson noted that an additional benefit derived from impairment accounting concerns funding. That is, an impairment loss could reveal what an entity might need in near term funding. Additionally, this standard elevates the prominence of information that might require near term attention. The listed benefits do not seem to expressly convey the thought that this information is useful for decision-making purposes.

Mr. Allen added that what we are really trying to achieve with this standard is an accurate cost of service. This is what we are primarily driving towards. Other than highlighting this, there does not seem to be a more pressing reason why the Board would be issuing an impairment standard.

Mr. Jackson replied that he questioned the ultimate impact of this standard because of the materiality assessments that will follow. However, in the case of deployed weapons systems, this standard could have a massive impact. Merely accelerating depreciation will not have nearly the impact that an accurately measured impairment loss would have. Further, the standard could provide useful information for capital budgeting purposes. As mentioned in the question, the significant benefit is that we now have at

the federal level an impairment standard that will save preparers substantial burden in developing impairment loss estimates.

Mr. Steinberg asked if this standard would apply to weapons systems.

Staff replied in the affirmative, noting that the standard applies to all G-PP&E remaining in use (except for internal use software).

In replying to Mr. Steinberg, Mr Allen noted that DoD may put forward a proposal that would in essence not treat some of their assets, presumably weapons systems, as capital assets.

Mr. Steinberg noted the uniqueness of weapons systems and the difficulty in accounting for them in a war zone. As such, the Board should consider adding a sentence that basically says that pending further study, this standard would not apply to such assets. As a minimum, we should ask the question if such a standard should apply to weapons systems.

Mr. Jackson replied that if in fact weapons systems were expensed, this issue would be moot. Members agreed with this statement.

Mr. Allen said that he would expect a very good discussion when the Board receives a formal DoD recommendation in this regard. A point that will come up is the issue of whether such assets should be expensed when they are deployed into a battlefield.

Mr. Steinberg then said that it would seem to make sense addressing this issue now (in the ED) noting the pending nature of this matter. He advises that the Board state that pending DoD's request, this standard would not apply to weapons systems.

At this point Mr. Showalter asked Ms. Payne about due process procedures if the Board were to accommodate Mr. Steinberg's advice,

Ms. Payne replied that by placing the question out in-front in the ED, it would give all respondents in addition to DoD, an opportunity to respond. The Board should avoid acting on a DoD proposal without giving others an opportunity to respond.

Mr. Allen noted that from a practical point of view, it would be difficult applying this standard to weapons systems. However, because they are assets, one could make the argument that they would be subject to impairment.

Mr. Showalter stated that the assets would not be impaired because they were destroyed, but because of other reasons such as obsolescence.

Mr. Granof then noted that we are not discussing individual assets such as a sole tank or fighter jet, but rather large systems worth billions of dollars. Technological advancements can certainly trigger impairment.

Mr. Allen concurred but noted that the presumption being made is that these large systems are in fact considered assets. He does not object to adopting Mr. Steinberg's proposal to exclude such assets from this standard, especially if it would reduce burden.

Mr. Granof stated that the real question surrounds asset capitalization and depreciation and not asset impairment. Impairment merely follows asset capitalization.

Mr. Dacey noted two points. First, in some cases, the lost service utility would need to be regained. Second, the question as currently written asks about costs versus benefits. However, we may want to ask respondents if they agree with (1) the listed benefits, (2) nature and amount of costs involved, and (3) the applicability of this standard to all asset classes/types and whether there are assets that this standard would be a burden to apply. We do not necessarily have to specify weapons systems.

Mr. Allen concurred noting that he liked asking respondents whether there are assets that this standard should not be applied to.

Mr. Dacey noted that he would prefer exposing a broader standard without exceptions and then making subsequent adjustments, if needed, based upon respondent input.

Mr. Steinberg concurred.

Mr. Allen then asked members if they objected to Mr. Dacey's recommendation to ask a more generic question. The Chairman noted no objections and asked staff to proceed to the next question.

Materiality

Question 2. Does the Board believe that the edits to Attachment 1 (page 31 for the flowchart and to each of the illustrations beginning on page 33) adequately address its concerns about materiality?

Staff asked members to turn to the decision diamond on page 31. Mr. Dacey had asked for the edit and subsequently, Mr. Steinberg has asked that we add the word "loss" to specify that we are referring to "an impairment loss."

Mr. Dacey replied that he disagreed with dropping the term "material" from the decision diamond but acknowledged that the majority agreed with that deletion. His current concern might be the term "recognized" (located in Paragraph 19) because without the term "material", it implies that the next step requires reporting.

Mr. Schumacher noted that under Step 2 of the impairment test we do discuss significance (located at Paragraph 16a).

Acknowledging Mr. Schumacher's observation, Mr. Dacey noted that he understands that he is still in the minority over the issue of dropping materiality as a consideration in the decision diamond.

Staff then asked Mr. Granof if he still objected to using “material” in light of Mr. Dacey’s comments and the fact that the flowchart is not part of the standard.

Mr. Granof replied by saying that he still does not see a need for the term “material” and that in fact, if it were going to be used, it would be in the beginning of the process and not the end.

At this point Mr. Showalter offered a possible solution to break the impasse. He suggested changing the question in the decision diamond to coincide with the paragraph 19 bold title (G-PP&E That Do Not Meet the Impairment Test) within the body of the standard. He proposed that the new question read, “Is the impairment test met?”

Mr. Allen noted that a problem still remained for him inasmuch as the magnitude of the decline was significant regardless of the asset’s materiality per se. That is, he agrees with Mr. Dacey’s point in this regard. Materiality is a factor at the financial statement recognition level; not at the individual asset level.

In referring to the box to the right of the decision diamond, Mr. Dacey noted that as a result of excluding materiality, management does not in fact have discretion.

Mr. Granof questioned the use of that entire box.

Mr. Dacey disagreed noting that the box does provide guidance if the answer is “No” to whether we have an impairment loss. The operational effect if the answer is “Yes” is that the loss needs to be booked.

At this point Mr. Jackson noted the difference between recording and reporting.

Mr. Steinberg agreed stating that the loss should be booked but not necessarily reported.

Mr. Dacey noted that we should better draw that distinction in the standard.

Mr. Jackson agreed and said that the box on the bottom of page 31 does not say record, but “Report.” He suggested that the term be changed to “Recognize.” In this way we also avoid insinuating that a discrete impairment loss (line-item on the financial statement) would need to be reported.

Ms. Payne clarified that you cannot report something that was not recognized. She would endorse Mr. Showalter’s suggestion to link the question in the decision diamond back to the impairment test.

Mr. Showalter noted that the flowchart should follow the document.

Ms. Bond also concurred in adopting Mr. Showalter’s suggestion. She further noted that she agreed with Messrs Allen and Dacey that references to materiality seemed helpful as she did not need to struggle as much in working through the flowchart when it was included.

For clarification purposes, Mr Allen then asked what the replacement question would be.

Staff replied, "Is the impairment test met?" Staff then asked Mr. Dacey if he would in fact strike "Subject to management's discretion" from the box to the right of the decision diamond.

Mr. Dacey replied in the affirmative.

Ms. Payne stated that she thought it was confusing to keep the GASB distinction between recognized and reported within the document because for federal reporting purposes we focus on program costs and not unique line items.

Staff replied that this is not so much a GASB distinction as it is basic accounting inasmuch as some transactions or journal entries are recorded in the books but not separately reported. The point is that if an immaterial impairment exists, the underlying PP&E ledgers should be accurate regardless of whether the impairment amount gets reported.

Messrs Jackson and Schumacher concurred. Mr. Jackson went on to say that in the case of an immaterial impairment, the books would be adjusted and the loss would in fact be reported.

Staff clarified that the reporting would occur but not as a discrete line item on the face of the statements.

Mr. Jackson concurred.

Mr. Dacey raised a question over paragraph 19's (G-PP&E That Do Not Meet the Impairment Test) conditional clause concerning future service utility and that it does not specifically address reporting or disclosure requirements when such an event occurs.

Ms. Payne reminded members to keep the distinction clear. That is, "reporting" – having a discrete line item as compare to "recognize" – reported in some line item.

In addressing Mr. Dacey's concern, Mr. Jackson noted that "recognize" would be more appropriate than "report" in the last box on page 31.

Mr. Schumacher noted that "disclosure" would also be acceptable.

Mr. Dacey suggested that staff could fix either paragraph 19 or the box.

Staff stated that it would make a revision in the next updated document.

In addressing the decision diamond, Mr. Steinberg explained that the basis for his request to include "loss" was because the previous diamonds dealt with determining if impairments existed and that this last diamond seemed to answer whether those

impairments resulted in a loss. As a result, by not including “loss”, why do we even need this last diamond?

Ms. Payne responded by stating that the reason for this last diamond rests in the fact that we are measuring the impairment and determining whether it is material. Immaterial losses would not have to be reported.

Mr. Steinberg then noted that the top box on page 31, which reads “Estimate potential impairment loss”, should be qualified to read, “if any.”

Ms. Payne concurred.

Ms. Bond suggested that the Board adopt Mr. Showalter’s suggested language and to have staff re-work the language within the boxes on page 31.

Mr. Jackson reminded staff to use the term “recognize” because “report” would infer a discrete presentation.

Messrs Showalter and Steinberg concurred noting that paragraph 19 uses “recognize.”

Staff acknowledged Mr. Jackson’s advice and then turned to the next question.

Magnitude of the decline in service utility

Question 3(a) Does the Board agree with adopting the proposed language in par. 16a?

Staff reminded the Board that Mr. Steinberg offered the following language at the last meeting. It was agreed that we would revisit the language at this meeting. Staff recommended adopting Mr. Steinberg’s language:

“The costs associated with previous service utility are significantly greater than the costs that would otherwise be associated with the new expected service utility.”

There were no objections to the language as proposed.

Staff then raised an issue that Mr. Granof first broached at the last meeting concerning whether depreciation should be a cost that an entity considers when measuring the magnitude of the service decline. Mr. Granof considers this to be a sunk cost that is irrelevant. Staff does not believe that members can reach an agreement over this issue and proposes eliminating references to “depreciation.” In this way, the second sentence in paragraph 16a would be limited to referencing operational and maintenance costs – leaving it for the entity to decide whether to include depreciation.

Staff proposed the following language, “As a minimum, such costs should include operational and maintenance costs.”

Messrs Allen and Jackson both noted that “As a minimum,” begs the question what other costs are there to be considered?

Messrs Granof and Showalter each agreed that the sentence should not include “As a minimum,” and simply begin with “Such costs...”.

Members agreed with the following, “Such costs should include operational and maintenance costs”. Staff confirmed the use of “should” (as opposed to could) and members responded in the affirmative that “should” is the Board’s word choice.

Staff then proceeded to the last question on the agenda noting that the changes were proposed by Messrs Schumacher and Showalter.

Question 3(b) Is the language in par. A10 of the Basis for Conclusions sufficient?

Mr . Dacey asked what is meant by the phrase, “...management acts to address the situation...”

Staff replied that in working with GASB concerning this language, they too struggled with its meaning. However, according to the GASB project manager who worked on GASB 42, their Board did not want to specify what actions or acts management might take. They believed that this was best left up to management to decide.

Mr. Allen asked why we included “management inaction.” It seems to him that management might be preoccupied with other matters and not able to focus on the impairment.

Mr. Reger concurred with Mr. Allen further saying that there might not be enough funding available for management to take action.

Ms. Bond disagreed noting that the language is conditional as it says, “Management inaction...may be an indication that the decline is not significant...” Furthermore, it seems that there could be cases when an impairment is in fact insignificant and the asset can continue being used without any remediation.

Mr. Allen replied that he does not believe that management inaction is evidence of anything substantive. The problem is that most managers have more requirements than they do resources or time and inaction could very well be reflective of these matters and nothing more.

Mr. Dacey stated while he sees nothing wrong with the language, he believes this meaning should be clear .

Similarly, Mr. Schumacher noted that it’s not wrong, but asked if it was necessary to include in the standard?

Mr. Showalter made the distinction that we are really addressing decisions that were made. If management decides not to deal with a decline in service utility that seems legitimate. The wording in these two sentences should be changed to reflect decisions and not actions.

Mr. Reger agreed with Mr. Showalter's suggestion to rephrase the two sentences.

Mr. Allen concurred.

Mr. Showalter stated that he would work with staff on revising the language.

Staff summarized the meeting by stating that he would make the desired changes so that we could begin pre-balloting.

Mr. Allen agreed and asked staff to move the draft as quickly as possible using email.

Ms. Payne noted that the next document would be a pre-ballot draft and that all editorial comments would need to be identified at that time.

Mr. Steinberg noted that the flowchart on page 31 seemed to cause the most discussion.

Accordingly, Ms. Payne replied that we could send that single page out for comment once the edits have been made to get consensus and then later, send out the full document for pre-balloting purposes.

Mr. Allen then concluded this portion of the meeting thanking staff and members.

- **Steering Committee Meeting**

The steering committee met briefly and acknowledged the uncertainty of future year budgets. No follow-up actions were requested.

Adjournment

The Board meeting adjourned for the day at 4:30 PM and, there being no remaining business, cancelled the brief session originally scheduled for December 20th.