

**FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD**  
**December 16-17, 2015**  
**Room 7C13**  
**441 G Street, NW**  
**Washington, D.C. 20548**

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***Wednesday, December 16, 2015***

**Attendance**

The following members were present throughout the meeting: Mr. Allen, Messrs. Dacey, Granof, McCall, Reger, Showalter, Smith (with a brief absence on the afternoon of December 16<sup>th</sup>), and Steinberg. Ms. Ho attended on December 16th and was represented by Ms. Davis on December 17th. The executive director, Ms. Payne, and general counsel, Mr. Marchand, were also present throughout the meeting.

## Agenda Topics

- **Tax Expenditures**

Mr. R. Alan Perry, of the Government Accountability Office (GAO), and the following members of the task force joined the Board to discuss the draft introduction section of the tax expenditures exposure draft:

Regina Kearney	Office of Management and Budget, Senior Advisor
John McClelland	Department of the Treasury, Office of Tax Analysis, Special Assistant to the Director
James McTigue, Jr.	Government Accountability Office, Strategic Issues, Director
Dan Murrin	Ernst & Young, Partner/Greater Washington Society of CPAs; Federal Issues & Standards Committee, Member
MaryLynn Sergent	Government Accountability Office, Strategic Issues, Assistant Director
Jamie Taber	Office of Management and Budget, Economist
Alexandra Thornton	Center for American Progress, Tax Policy, Senior Director

The Board received the task force's final report and welcomed the task force members.

The task force made recommendations in four areas. The recommendations were:

1. To include an introduction section drafted by the task force to educate readers of the Board's exposure draft regarding tax expenditures
2. To require narrative disclosures regarding tax expenditures within notes regarding the Summary of Significant Accounting Policies and federal revenue as well as the management's discussion and analysis (MD&A) section. These disclosures should include:
  - a. the definition of tax expenditures,
  - b. their general purpose,
  - c. their impact on and treatment within the federal budget process, and
  - d. their impact on the government's financial position and fiscal sustainability.
3. To require the use of hyperlinks to alert readers to the location of more detailed reports including estimates and explanations of each tax expenditure
4. To address reporting of estimates, the task force offered three options:

- a. Other Information: To encourage the inclusion of tax expenditure estimates published annually by Treasury's Office of Tax Policy within the Other Information (OI) section of the government-wide financial report.
- b. Required Supplementary Information: To require the inclusion of tax expenditure estimates published annually by Treasury's Office of Tax Policy within the Required Supplementary Information (RSI) section of the government-wide financial report.
- c. Narrative per Recommendation 2 with No Estimates: To not require the inclusion of tax expenditure estimates in the RSI section or encourage the inclusion of these estimates in the OI section at this time.

Both Ms. Payne and Mr. Perry acknowledged the excellent work of the task force and thanked them for meeting tight deadlines. Some task force members were not able to participate in the Board meeting but were actively engaged in developing the recommendations. Overall, the task force has been extraordinarily supportive.

Mr. Perry led the discussion of each recommendation. Regarding Recommendation 1 – the introduction section – members questioned whether the audience for the proposal would read such a detailed introduction. A member suggested relying on a condensed introduction with the full draft as an attachment. Members agreed that a single-page introduction would be preferable.

Moving to Recommendation 2 – Required Narrative in MD&A and Disclosures - Mr. Perry inquired whether members had any questions.

One member asked about (1) the specificity of the recommendation and noted that the Board generally uses flexible terminology to allow the preparer to exercise discretion and (2) the criteria the task force used to decide what information should be in the notes.

A task force member explained that he viewed this requirement as a starting point, providing for minimal disclosure at the earliest stages with the possibility of adding more information later. Ms. Payne recalled that the task force member initially proposing note disclosure expressed that tax expenditures relate to revenue; absent disclosure regarding their relationship to revenue there would be an incomplete revenue disclosure. Regarding the first question, she explained that she did not ask the multidiscipline task force to craft wording for the accounting standard.

Mr. Dacey asked what principle the task force is trying to convey because the reader can look at the Office of Tax Analysis (OTA) and the Joint Committee on Taxation (JCT) for tax expenditure information. However, Mr. Dacey felt that if one started off with taxpayers' absolute gross income in terms of the tax code and then worked towards a final tax amount, the principle should guide which details were reported in the notes or OI. Mr. Dacey thought that some factors in getting to the final taxes paid seem to be tax expenditures but other factors are not.

Mr. McClelland noted that the task force focused on tax expenditures, and that meant some things may have been perceived as out of scope. However, the illustrations do imply that Treasury has the option of including relevant information, such as the loss of revenues due to noncompliance (the tax gap).

Mr. Dacey indicated that was helpful, but he wondered about the broader revenue picture, including personal exemptions and other policy decisions. He noted that if we are trying to communicate to the reader policy decisions allowing adjustments to gross income then tax expenditures may be a major piece, but not the only piece. He emphasized that his question related to the principle of what we are trying to communicate to the reader, and if tax expenditures is a subset of a broader issue.

Ms. Payne noted there is a potential project regarding the broader issue in the 2016 Three-Year Plan: a review of revenue reporting. The project could consider questions regarding the current revenue recognition standards and related note disclosures (and whether they provide the readers what they need to know about our tax system, including the balance of revenues from different sources). She expected the issues Mr. Dacey raised would come up in a broader project. Ms. Payne noted that the task force worked with the information currently in the report and tried to integrate tax expenditures information therein -- a much narrower approach.

Mr. Reger expressed concern that addressing one piece may pose problems. He asked whether it would be better to address the topic holistically.

Mr. McClelland noted that the group started with tax expenditures because, even in tax expenditures, the law is somewhat unclear as to the counter-factual baseline one is measuring against. Even though the estimation of tax expenditures assumed a progressive rate schedule, he opined that tax expenditures and tax gap covers everything. The progressive rate schedule has important consequences because as tax rates increase, tax expenditures also increase in size. It is this murky idea of what exactly the tax base is for purposes of identifying departures that qualify as tax expenditures that should be acknowledged. There are disagreements, and they should be acknowledged without going into the weeds of exactly what all those disagreements are. He suggested that members should be aware of this challenge, and that the task force tried to handle it in the best way it could.

Mr. Reger noted that he thought the report was rather remarkable work. He simply wondered where it would go in the future.

Mr. McClelland acknowledged this as an important point, indicating that the group did start with the tax expenditures and accepted a lot of baggage that goes along with this term. He also acknowledged that it is legitimate to question if this information really meets the needs for what one wants in the financial statements. The task force did not tackle that question head on.

Mr. McTigue referred to Mr. Dacey's concerns regarding the report as possibly not being the complete picture and acknowledged that as a given. Mr. McTigue asked the

Board if it was striving for perfection or simply trying to make the financial report a little bit more informative and complete in order to inform users as to the decisions that have been made. He reminded members that forgone revenue is over a trillion dollars and that the estimates are not perfect, but unless the task force begins to take steps it will not make the financial report a more informative document.

Mr. Smith noted that he believed the proposal accomplished the goal of filling a very large void. The Board knew that defining tax expenditures was a challenge and decided to accept the Treasury definition. By bringing light to the large piece missing from reporting, the Board will further the dialogue.

Mr. Dacey noted that he hoped for a discussion of the broader context of what the task force is trying to communicate to the reader. He did not envision a lengthy calculation, but more of a discussion of the existence of other relevant tax policy decisions and the fact that these were not included in tax expenditures.

Mr. Reger added that he would like to have clarity regarding the long-term goal. Are we simply presenting available estimates or are we striving to improve upon those estimates? He noted the relationship of auditors to these numbers and how improvement in the numbers remains unclear.

Mr. Murrin responded that the analog for FASAB is what the Board did with the trustee projections. It is not a perfect analog because the numbers have not remarkably changed in connection with the audit process, but they did migrate from OI through RSI to the principal financial statements. He expounded that for tax expenditures, when we peel back the details around some of the projections, they do not seem to have exactly the same rigor as the trustee report. They are intended to be suitable for their purpose and that purpose was not for presentation in audited financial statements with any significant rigor applied. He continued explaining that if we pulled the tax expenditure projections into the back of the book and subject them to rigor, some of those numbers might fail in a way that we would not have thought the Social Security or the Medicare estimates would have failed.

Mr. Reger reminded the members that there were clean opinions on social insurance projections until we had a change of law, and then just the uncertainty of the effects of the law change caused a disruption in that process. He stated that it would be unfortunate to run that same course, taking information that is helpful and displaying it until suddenly the Board finds itself in the same position.

Mr. Allen supported putting the tax expenditure description in the note disclosures. He felt there should be something about their impact on the government's financial position and sustainability. He asked how the magnitude of the estimates might be conveyed to readers. He also thought that, over time, there should be more and more assurance regarding the numbers. He supported the task force's recommendation regarding the note disclosure.

Mr. Showalter returned to Mr. Reger's discussion of the social insurance estimates and noted that the audit process raised the question about whether the assumptions made sense. In that regard, he thought the audit did add value; without the disclaimer of opinion on that financial statement, the public would not have been informed as well about those assumptions.

Mr. Showalter asked Ms. Payne whether she anticipated the task force putting together an exposure draft for the Board or just expected task force members to give the Board information. He thought the answer might help the Board weigh the sequence of the questions and whether it was necessary to decide on a note at this point.

Ms. Payne explained that the task force was asked to advise the Board but not to write an exposure draft. The task force received the existing financial report and some introduction to the sections of the financial report. This introduction included the auditor's relationship with the sections, the hard or soft requirements for sections that have them, and then the role of OI. The task force discussed with Mr. Dacey and Mr. Engel (GAO, Managing Director, Financial Management and Assurance) the audit of each section. In that context, she stated that members should take literally that the task force is recommending MD&A and the notes. She thought they understood that the note was a required component and how it relates to the existing notes.

Ms. Payne stated the future role of the task force would be to continue advising the Board as their recommendations are converted into an exposure draft. However, there are some nuances to the wording of standards that task force members should not be burdened with crafting (particularly around the hyperlink recommendation). Members asked about the hyperlink issue and audit burden arising from referencing other material. Ms. Payne indicated that the task force did not intend to trigger auditor association with the referenced material. A similar concern arose when the Board developed standards for the reporting entity and developed a requirement that did not result in incorporation of other material by reference.

Mr. Dacey noted that the wording the Board has used in other standards, such as: "The information regarding the availability of further information on the subject and how that information can be obtained," seems appropriate (and is consistent with Recommendation 3).

Regarding auditor association with such information, members commented:

1. It is puzzling that the audit community, together with the legal community, cannot figure out a way to have a statement in reports which absolves the auditor of responsibility for other materials referenced.
2. This is an area generating a lot of litigation for auditors of public companies.
3. The audit emerging issues task force is working to develop a tag line that appears in every set of financial statements regarding information that is

referenced and is not incorporated in the reports. The hyperlink process is new and has not previously been thought through.

4. The reason this is difficult is that the business model for the accounting profession is to issue opinions to someone that has no contractual arrangement with them but can sue them.

5. One way for a standard-setter to address this is to require an unaudited note that has a specific explanation of its audit status. The alternative is for every audit report to contain a tag line that says, "The auditor has no association with any hyperlinks contained in the report."

6. Typically, generally accepted accounting principles (GAAP) address things that are audited. So, it is unprecedented for the standard-setter to require anything as unaudited material.

7. Picking a number out of the President's budget, for example, and making a statement that this number came out of an unaudited document is considered problematic.

8. The auditor's opinion does not extend to stale hyperlinks, so a link that is later changed or removed is not a concern.

9. It is reasonable to support the hyperlink but not the inclusion of estimates (Recommendation 4, Option C), because it is important for the reader to be able to access a comprehensive report on tax expenditures.

With regard to the question of disclosing an audited "total" versus referencing materials and external information that are unaudited, it was noted that the number is important enough to provide context but cannot be provided with precision. This raises a question as to whether the number is important enough to warrant the development of recognition and measurement accounting standards for these estimates and having them be audited.

Ms. Thornton noted that we are dealing with all kinds of issues today because of the internet, digital economy, et cetera. She expounded that perhaps the standards have to evolve to reflect that fact; otherwise, people will get this information anyhow by browsing the internet, perhaps getting the wrong information, and/or going to the wrong source.

Mr. Dacey affirmed that members were not suggesting that the Board cannot tell the reader where they can go to find information. However, proper wording is critical.

Mr. Allen wrapped up the discussion of Recommendations 2 and 3 by polling. All members supported these recommendations.

Mr. Perry then directed the members to Recommendation 4 and noted the robust discussion beginning on pages 7 and 8 about the different options available. Option A would be to encourage quantitative information about tax expenditures as OI. Option B

would be to require the inclusion of tax expenditure estimates in RSI. Option C would be to neither require nor encourage tax expenditure estimates in the financial report. Note that those who support Option C still support Recommendation 3 to make the resources available to a user to find those estimates outside of the financial report.

Mr. Allen suggested that it was challenging to select an option without considering the long-term goal first.

Ms. Ho asked what the incremental value is between Options A and C because the distinction seems to be only regarding placement of information.

Ms. Taber indicated that Option A provided more visibility to the amounts. It summarizes the 20 largest tax expenditures instead of having to go through a list of close to 200 tax expenditures in small print. She concluded Option A makes the information more available and visible.

Mr. McClelland noted that, as an advocate for Option C, he did not find it difficult to follow through and find a complete – rather than a partial -- listing. Furthermore, he felt that selecting a piece of the full list may tilt the perception of everything. He also noted that the decision to use the existing definition is critical. If the tax expenditure definition used for budgetary purposes is not what the Board wants for the financial statement, Option C seems to give the most distance. He concluded by stating that there is a definition of tax base that people should be aware of, but the Board has not incorporated that directly into the financials.

Mr. Allen asked Mr. McClelland if he saw room for progression from Option C to RSI in the future.

Mr. McClelland noted that he could conceptually see the importance of narrowing the tax base via tax expenditures and the importance of that information for the financial report. He could imagine a measure that would be useful to include in the financial statements, but he does not think it is tax expenditures as they are currently measured.

Mr. Granof asked what the task force means by “encourage” because it seems with only one preparer – Treasury – the department will either do it or not.

Ms. Payne and Mr. Dacey both pointed out their experience with existing “encouraged” items such as tax gap and tax burden. These two items are now provided. Further, Mr. Dacey noted that if the Board encourages OI and there is not a reasonable attempt to provide that information in the statements, the Board may revisit that at some point in the future. Members discussed a progression over time and some noted a desire to avoid lengthy delays by establishing an expectation regarding progression. Some members preferred that the Board express a view on the need for the information by encouraging its presentation as OI.

Ms. Ho asked why the people supporting Option A did not support Option B.



She explained that those supporting Option A noted the estimates are soft and require supplemental information, which requires additional audit coverage. The information is important (perhaps the most important aspect is whether the tax expenditures are having the desired effect) and the amounts are quite large. While the estimates may not be auditable at this time, the presentation of estimates combined with the required context in the notes and MD&A would fill a large void that may be better filled in the future by progressing to RSI or recognition. However, some supporting Option A do not support progressing to RSI because of the challenge of correcting existing problems that may not be reasonably fixable. For example, experts have disagreed for a long time on the definition of tax expenditures and the appropriate tax baseline against which they are measured.

Those supporting Option B noted that there should be a way to get to Option B and a delayed effective date should be considered. An analogy was drawn to fiscal sustainability information; reasonable people can differ but an audit provides some check on the reasonableness of the estimates. Getting such estimates precisely right is impossible but there are many subjective and challenging estimates currently in the financial statements. Further, a key factor is that tax expenditures are growing, and the trend is likely to continue. Having some audit scrutiny over the estimates could, therefore, be even more beneficial and warranted.

Mr. Murrin (who supports Option A) noted there is a lot of work for FASAB as they consider how tax expenditures would be defined for financial reporting purposes. He saw value in knowing more about tax expenditures than the single year estimates. However, one must ask is the existing definition the right definition for financial reporting purposes?

Mr. Reger agreed and noted that by moving ahead to be transparent about these numbers, the Board accomplishes a lot. By the same token, the interrelationships still need to be explored. Before we actually incorporate this as part of the statements with audit assurance, Mr. Reger felt that the Board really needed to spend more time and effort finding those relationships and clarifying the context.

Mr. Allen polled the members regarding the option each supports.

Option A was supported by Messrs. Allen, Dacey, Reger, Smith, and Showalter.

Option B, but comfortable with Option A, was supported by Messrs. Granof and McCall.

Option C was supported by Ms. Ho, who also noted she was comfortable with A.

A member asked why those supporting progression from Option A to Option B did not immediately support Option B. Members said:

1. there is still a great deal to be understood regarding the definition and its fit for financial statements, and

2. to be appropriate for RSI and auditor review, management would need to express a great deal of confidence in the estimates -- confidence that is not evidenced today.

Mr. Allen indicated that the majority supported Option A. He also thanked the task force members for their help and willingness to continue. He noted that it is helpful that the task force has different opinions because the Board learns from each other and the task force as it shares different opinions.

**Conclusions:** The Board tentatively adopted the three consensus recommendations with the qualifications noted above. The Board tentatively approved Option A to address Recommendation 4. A working draft of the exposure draft will be discussed at the next meeting.

- **Risk Assumed**

At the December meeting, Ms. Gilliam appeared at the Board table twice. First, she presented the Insurance Programs exposure draft and then she made final edits and received ballots for exposing the proposed standards.

Ms. Gilliam presented the following final edits:

1. Used the term expected cash flow versus expected value:

Ms. Gilliam explained that staff recommended using the term expected cash flow because that is the terminology used by the Financial Accounting Standards Board's (FASB): *Statement of Financial Accounting Concepts No. 7* and by most accounting literature.

The Board agreed.

2. Updated wording to allow for any methods that achieve an expected cash flow to estimate future losses:

Ms. Gilliam explained how staff updated the standards for measuring the liability for losses on remaining coverage in order to clarify what methods are acceptable to use to obtain an expected cash flow. Staff referenced FASB's Concepts No. 7, which provides the flexibility to use any statistical method that implicitly or explicitly incorporates the characteristics of expected cash flow.

Mr. Dacey was concerned with singling out expected cash flow for estimating the insurance liability in relation to how other liabilities are estimated. As a result he added the following basis for conclusions:

*A17. A member expressed concern that the requirement to first use*

*expected cash flows discussed in (basis for conclusion) paragraph A16 was too limited and may inappropriately exclude estimates of cash flows calculated under other methods that better reflect estimated cash flows. Specifically, the member believes that the entity should be able to use any method that provides a reasonable estimate of cash flows, based on all available information existing at the balance sheet date, including experience with previous trends, and, as appropriate, the views of independent experts. Also, the member expressed concern that the focus on expected cash flows is narrower than measurement options allowed for other liabilities and that there was not a clear reason expressed for the different treatment in this proposed standard. The Board agreed to add question 4b to seek comments from respondents on the proposed methodology for calculating the liability for losses on remaining coverage.*

Staff made the update. There were no objections by the Board.

3. Updated “feasible and appropriate” to “practical and appropriate” to determine when an agency may use a single most-likely amount instead of an expected cash flow method:

Ms. Gilliam reviewed the following from the October 2015 meeting: 1) briefing material that required that an agency could only use another method if expected cash flow was not feasible and appropriate; and 2) members’ discussion as to whether to use the term practical instead of appropriate. Ms. Gilliam explained that practical means “can it actually be achieved,” whereas feasible means “is it easy to accomplish,” and appropriate means “is it right for the purpose.” Staff recommended removing feasible and replacing it with practical.

The Board agreed that an agency should only use a single most-likely amount if it is not practical and appropriate to use an expected cash value method.

4. Updated paragraph 27 for unearned revenue:

Ms. Gilliam noted that Mr. McCall requested an update to the wording in paragraph 27:

- from “Premiums should be recognized as revenue when earned in proportion to insurance protection provided;”
- to “Premiums should be recognized as revenue when earned over the period of the contract in proportion to insurance protection provided.”

Mr. McCall said that he was concerned that paragraph 27 did not include information relating to the period of coverage. He noted that FASB’s Financial Accounting Standard-60 included the following definition: “Premiums are recognized as revenue over the period of the contract in proportion to the amount.” He recommended

including verbiage from that definition in order to update paragraph 27 to recognize the contract period.

There were no objections by the Board.

5. Made minor changes to A12 to clarify revenue recognition examples:

Mr. Allen and Mr. Dacey requested that the example in A12.a be updated for clarity. Staff used a number of events as an example of what was covered during the period and what amount of revenue was unearned at year-end according to the event that did not yet occur. Mr. Allen and Mr. Dacey noted that it was the period of coverage and not the number of events that was covered and requested that this example be updated to reflect that and moved to A12.b.

Staff made the update. There were no objections by the Board.

6. Updated insurance in-force:

Members requested that the following sentence be added to the insurance in-force disclosure for the component entity reports and consolidated financial reports for clarity: “An explanation should be included that avoids the misleading inference that there is a more than a remote likelihood that claims equal to the entire insurance in-force amount will be filed at the same time.”

Staff made the update. There were no objections by the Board.

7. Updated the following Questions:

- a. Additional Questions – Mr. Dacey requested that two additional questions be added after Question 1 for respondents to provide comments about whether they agree with the definitions—other than “Insurance Programs”—and if they think these definitions will provide consistency in reporting.
- b. Question 4 (Q4) - Mr. Dacey requested that Q4 be updated to include two additional questions for respondents to provide comments about whether the expected cash flow approach presented would prevent use of any other method they believe should be used and whether the measurement standard would allow them to use the method that they are currently using.

Staff made the update. There were no objections by the Board.

**Conclusions:** The Board requested that staff return the next day with a ballot draft for review and vote.

- **Department of Defense Request**

Ms. Batchelor began the DoD Guidance Request session by explaining the objective was to approve the exposure draft, *Establishing Opening Balances for General Property, Plant and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35* for issuance immediately after the meeting. Ms. Batchelor explained that she had left an updated version of the exposure draft at the table for each member. The updated version included comments received to date from Board members.

Ms. Batchelor explained that before discussing the issues, she thought it was important to discuss the schedule detailed in the staff memorandum. She explained that the exposure draft would need to be approved for issuance by December 21st to meet target milestones. This also would include the exposure draft having a shorter (45-day) comment period with the intent to issue the Statement by September 30, 2016.

Ms. Batchelor explained the Chief Financial Officers (CFO) Act includes a requirement that accounting standards addressing capital assets be reviewed by Congress for 45-days of session prior to their issuance. While the 45-day period will run concurrently with the sponsor's 90-day review period, Congress is in recess during the month of August and for two weeks in July. Therefore, based on staff's review of the Congressional calendar, the Statement would have to be forwarded to Congress by May 11, 2016. This schedule would allow comments to be considered at the February and April 2016 meetings.

Staff explained the importance of adhering to the proposed schedule because any delay would not allow the final Statement to be issued by September 30, 2016. Ms. Batchelor explained that decisions have to be made at this meeting, and we have to move quickly to issue the exposure draft. She explained that the Board will have the comment period to consider things further. In addition, the Board will have the February and April Board meetings to deliberate issues.

Mr. Allen asked if the Board members were comfortable with the proposed schedule and opened the floor for discussion.

Mr. Steinberg expressed concern in trying to follow the schedule, especially with attempting to address land as part of the project. As indicated in the subsequent paragraphs, whether to remove land from the balance sheet is a major issue. Proposing that change to help a single agency, and particularly an agency with material balances, will damage our due process. Mr. Allen noted that was a fair concern and it related to the first topic for discussion. He asked if there were any other comments regarding the schedule, but there were none.

### Land

Ms. Batchelor explained that the Board discussed the accounting for land in October. The Board did not make a final decision; they agreed staff should focus efforts on

further developing recommendations that would allow for a zero balance or an assigned value per acre. Staff was asked to focus efforts in the following areas: (1) determining if there is information available by state or for the country, (2) further developing recommendations that would allow for a zero balance or an assigned value per acre, and (3) assisting the Board in determining whether a DoD-centric approach should be applied to the government-wide level or whether this issue should be deferred for a broader government-wide land project.

Ms. Batchelor explained that to meet the target dates established and to develop the pre-ballot for the Board's consideration at the December 2015 meeting, Domenic Savini assisted with performing the background and research work in the land area. Ms. Batchelor explained Tab C2 provided the results of Mr. Savini's research regarding Board questions and concerns raised at the October 2015 meeting concerning land. Tab C2 contained relevant statistics and information on DoD and government land holdings, followed by staff's preliminary research into questions and concerns raised by Board members about consideration of land more broadly. It addresses whether the options under consideration should be applied to the government-wide level or whether this issue should be deferred for a broader government-wide land project.

Ms. Batchelor explained that allowing a reporting entity to exclude land with adequate disclosures is most practical. Further, it would be least costly and would provide more reliable and relevant information with benefits exceeding the cost. Given the tight deadlines and limited resources, one may question the benefit in diverting resources to determine the best value and then the associated audit cost.

Ms. Batchelor explained that further research is required before the Board can be fully equipped to answer what approach should be applied to the government-wide level. This would enable the needed research for applicability at the government-wide level, such as agency best practices that have evolved over time. Staff suggested that the Board move forward with this proposal and begin a project on land that would review existing standards and consider a consistent approach. Staff explained that, based on the results of the land project, the decisions made for opening balances and future acquisitions of land in this proposed standard may be revised.

Mr. Allen opened the floor for discussion. Mr. Allen began by noting that it is a tough topic because the Board needs to fully explore this significant issue, and that will take time. However, this project is to assist with opening balances. Mr. Allen explained that it seems the Board should approach it to do the least harm while accomplishing the goal until it completes the broader project of land. Mr. Allen explained that excluding land with disclosures in these limited circumstances would provide a means to move forward until the Board explores the broader issue of land.

Mr. Steinberg explained whether to put land on the balance sheet or not and for a single agency versus the rest of the government is perhaps one of the most important issues that this Board can take on.

Mr. Savini explained that he understands member concerns and that staff is always concerned about due process and the integrity of the system. He noted that the Board has spoken to many of these issues indirectly in some cases, and maybe even directly, through its conceptual framework and some of the other standards that it has issued.

Staff explained that it is important to point out that we are dealing with opening balances in very specific or discrete situations. Staff explained that allowing a reporting entity to exclude land and to disclose information with a reference on the balance sheet does mean a zero balance for land, but zero in and of itself does not mean nothing. Instead, staff views this as a marker that a relevant and reliable value has not been assigned and the disclosures provide meaningful information.

Ms. Ho explained that she wants to have meaningful valuation assertion. She believes that ultimately the question is whether having a valuation arbitrarily assigned based on different, unreliable ways is more meaningful than simply having zero. She also considered the risk of an asset overstatement. Therefore, she agreed with the staff position that it did not make sense to spend millions of taxpayer dollars to come up with a figure that is not meaningful.

Ms. Ho believes it is important to keep the context in mind; the disclosures are more meaningful than a number that may not be.

Mr. Steinberg explained that he did not support including any approach on land in the exposure draft. He felt that doing so may result in DoD going down the road of potentially making system changes and so forth. Then when the Board begins the land project at the government-wide level, it may come out with a different conclusion. He explained that may result in DoD needing to make additional system changes to meet the new standards.

Mr. Steinberg explained that this is a major change regarding land that should not be made in two days, especially when other agencies in the federal government have done what is necessary to determine the cost of their land. Mr. Savini noted that we cannot overlook that the DoD mission is different when it comes to land in particular—it is often blown up or destroyed.

Ms. Payne explained that the Board is putting out an exposure draft for public comment on the proposal. The current standards direct DoD to go forth and find the historical cost value. With this proposed amendment, the Board is making a policy statement that it wants DoD to spend money to either ascertain the fair value or estimate the historical cost of the land that it acquired in order to support general property, plant, and equipment (PP&E). She concluded by stating that the Board has an opportunity to make a different statement.

Mr. Steinberg stated that the Board should issue the exposure draft with all the areas except land. He explained that DoD will be busy addressing equipment and building while the Board addresses the land issue. He explained that he does not want DoD doing additional work that may not be necessary.

Mr. Dacey noted concern with recording land at zero, while determining if it is worthwhile for DoD to consume resources to value other PP&E. Staff noted there is a difference between land and other assets, in that other assets affect the income statement, whereas land does not. Further, the Board has said the cost of land does not flow through and impact the cost of services, unlike the other PP&E.

Mr. McCall noted concern that one agency would be allowed to record land at zero when other agencies have been very diligent to keep good historical records, but he acknowledged that at this point that is out of his control right now. Therefore, his concern is how to address acquired land going forward. As the members noted, it does not run through the operating statement. Mr. McCall explained the focus should be on acreage, and that would start the process. He noted that at least DoD would know where its land is, and if the Board says it is not going to go to some other cost basis, at least DoD would know where its property is in terms of each location.

Mr. Allen explained that most of the land that the federal government owns is valued at zero so he does not see any harm in not requiring DoD to do a lot of work to provide the exclusion with disclosure information as a placeholder until the Board explores the broader issue.

Mr. Dacey explained that he agreed that the Board should begin a broad project on land. He noted that land is less than 2 percent of DoD's PP&E assets and even less at the government-wide. Therefore, it is a very small amount from a materiality standpoint for DoD and government-wide. However, he is concerned with writing off \$10 billion worth of land on the balance sheet and later having the Board decide that there is a different valuation basis for land. He added that if the Board decided no valuation for land as a separate standard, at least there would be consistency. He believes if the Board is seriously questioning the valuation basis for land across the whole government (not just DoD), then land should be pulled out of this project and the exposure draft move forward without it.

Mr. Reger asked for the DoD's representatives' input on the effect of the Board not deciding to deal with land.

Ms. Jenkins, Assistant Deputy Chief Financial Officer for DoD, responded that DoD has been moving toward accounting for the land acreage, as explained in the previous Board meeting. She explained the challenge with valuation is that DoD does not have a methodology like it does for the other types of assets. She added that for the other types of assets there is a business need behind the methodology used. Ms. Jenkins explained that she was not sure what the purpose or methodology for land information is, but that DoD has a commitment to address all assets. Therefore, if the Board does not do anything or waits, it poses challenges because it takes a long time for DoD to implement things.

Staff explained that if the proposal is silent then the current standards would apply, affirming that existing standards are to be applied. In essence, it would be a decision to tell DoD to estimate historical cost for land. Mr. Dacey noted that DoD may be able to



prove that land is immaterial. Mr. Granof explained that one of the points of this project is to relieve them of that obligation.

Mr. Steinberg suggested the Board say land is not being addressed temporarily. Ms. Payne explained that doing so would be like admitting the Board has a flawed standard, so DoD could do whatever it likes until the Board fixes it.

Mr. Showalter explained that he believes DoD will be in a box no matter what because it is subject to change when the Board completes the land project. He expounded that if the Board allows DoD to go forward now, DoD must have an understanding that the Board is going to address land in a broader project and thus is subject to change.

Ms. Batchelor asked if the question for respondents could be expanded to gather more feedback to address the concerns. Mr. Steinberg stated that would be indicating that the Board has, at this time, agreed to the approach proposed in the exposure draft. He believes the Board should do more work before putting out an exposure draft that results in a specified accounting treatment, while stating that it will work on a project that might require a different accounting treatment. Mr. Allen explained that the exposure draft could explain that the majority of the Board believes this approach should be taken, in these limited circumstances, until the Board completes the land project.

Mr. Reger explained that it is a difficult position because the Board wants to move ahead, but this is a circumstance in which the existing standard does not give the Board space where it needs to go. At the same time, it is not in a place to rewrite the standard.

Ms. Payne explained that when the Board first issued the standards, PP&E was very controversial and how the Board treated land and what the valuation basis was created a challenging area. There was no conceptual grounding for it except preventing the costs from being distorted on the statement of net costs when people acquired land and the hope that someday the Board would recognize the cost of capital based on the asset base.

Ms. Payne explained that the only argument for sticking with the current standards seems to be that everybody else had to do it. Ms. Payne noted that currently we have inconsistent, irrelevant information that is not conceptually defensible. She believes if the Board takes Mr. Steinberg's approach, it is acknowledging that it has standards that are not the greatest, yet the Board wants DoD to live with them while it is trying to meet congressionally-mandated deadlines.

Mr. Allen agreed and said that he believes a land project could be a five-year project. Mr. Dacey added that he was not sure it would be that long because it seems there could only be a couple of options—such as cost, deemed cost, or take it off the balance sheet and provide accountability in another form, such as through acreage.

Ms. Payne pointed out that there was significant push-back in the original standards against fair valuing land because if the government starts selling massive amounts of land, that is not the right fair value anymore. She explained that one cannot really

assess the fair value of such a large holding of land and expect to be able to sell it. She expounded that we also, as a government, do not typically sell at fair value, so there are some peculiarities when you get to that point.

Mr. Reger explained that the Board should be doing everything to move this forward. Mr. Allen agreed and suggested members provide their position on land between the (1) staff recommendation that land categorized as general PP&E may be excluded from the opening balances of general PP&E with a note reference on the balance sheet that discloses acreage information and (2) something else, such as not including guidance on land in the exposure draft.

All members, except Mr. Steinberg and Mr. Dacey, agreed with the staff recommendation. Mr. Steinberg explained that he believes that the exposure draft should go forward without land addressed. Mr. Dacey agreed that any changes should be deferred until the project on land was completed but suggested that he may support adopting an alternative valuation methodology for land included in general PP&E, such as deemed cost. Mr. Smith had to leave early, but stated he would agree to the staff recommendation although he was concerned with the inconsistency with the government-wide. He also hoped that the broader project would be started sooner versus later.

Ms. Batchelor asked, before moving off the land topic, if the members had any comments on the disclosures or the question for respondents. The Board offered several small recommendations and edits to improve the clarity of the question for respondents regarding land. For example, it was suggested to add a question if respondents disagree to allow an exclusion of land from opening balances, if they prefer to value land holdings based on existing requirements, a set amount per acre of land, deemed cost, or another valuation method, or another approach. It was also suggested that it be clearer that the results of the land project, the decisions made for opening balances, and future acquisitions of land in this Statement may be revised. Most of the changes were agreed upon at the meeting and certain suggestions were requested for the ballot draft that was anticipated at Thursday's meeting.

Mr. Steinberg noted concern regarding the timetable. Comments are due February 4 and the February Board meeting is on February 24; this leaves very little time for staff to analyze and to prepare the materials, especially considering Board materials are supposed to be distributed two weeks ahead of time. Mr. Steinberg stated he believed this would put staff under tremendous strain to accomplish. Mr. Steinberg reiterated that he believed the whole schedule is abbreviated and may not be possible. Ms. Batchelor explained that staff analyzes the comments as they come in and would have to work on the binder distribution in this case. Mr. Allen also explained that if the comments came in divergent, then clearly that could change things.

#### *Government Property in the Hands of Contactors*

Ms. Batchelor explained that a challenging and longstanding problem area for DoD relates to government property in the hands of contactors. This may include government

furnished equipment (GFE) and contractor acquired equipment. Current accounting standards are consistent with general PP&E since there is no conceptual difference.

At the October meeting, DoD representatives provided a briefing on government property in the hands of contactors and described some of the challenges that DoD faces in this area. They requested that the Board consider some other relief for this type of property. The Board did not make a decision regarding government property in the hands of contactors. Instead, the Board requested that staff consider other options and rationale based on information DoD may now have available.

Ms. Batchelor explained that, since the October Board meeting, staff has held several meetings and teleconferences on this matter. She explained that summaries of the meetings and other pertinent information are included in the binder materials. She expounded that the Air Force meeting results could provide specific data that could be used as a reliable basis for an alternative approach for government property in the hands of contactors for all of DoD.

Ms. Batchelor explained that staff recommends that the Board not change the standards and that the treatment for government property in the hands of contractors continue to be consistent with general PP&E.

Mr. Allen explained that he supported the staff position, even though he was concerned that the Board was not offering assistance. He noted that there is no good option, and time and their effort would be the only way to ameliorate the situation.

Mr. Allen asked if any member had any objections to the staff recommendation.

Mr. Dacey asked for confirmation that these assets would be expected to be clear in a couple of years. Ms. Batchelor explained that was her impression based on the information from DoD and the new provisions in the contracts. She referred to the last box on page 3, attachment D of their proposal, which shows the contracts. Ms. Batchelor requested that Mr. Tkac or Ms. Jenkins explain the percentages further.

Ms. Jenkins explained that the figures should not be considered solid or final. DoD has had to prioritize their efforts thus far. She explained that first DoD will make sure that all new contracts have the right clauses to capture the equipment. The second step would be to ensure contracts that close before the end of Fiscal Year 2017 capture GFE. She explained that they will have some contracts that are going to have GFEs that will not close by the time DoD goes into audit. Ms. Jenkins explained that DoD will need to do an assessment to determine the materiality of what is not recorded.

Mr. Tkac confirmed what Ms. Jenkins explained by stating that much of the data was based on work performed by the Air Force and other offices. He explained that most of these types of contracts have about a four-year life cycle. In addition, a lot of the data shows that most of the property provided to contractors is below the capitalization threshold. He explained that his concern was being able to show completeness. Mr.

Tkac explained that was why DoD recommended that they start at a certain point and move forward.

Ms. Payne explained that the independent public accounting firm representatives' feedback suggested that there would be ambiguity in applying any exception for GFE. In particular, ambiguity would center around what qualifies for the exception, sorting between what should be in and what should be out, and making sure everything that should be out is out. She explained that it was suggested that it could be more expensive.

Mr. Dacey explained that there is still the concern of demonstrating that what is not accounted for after three or four years is immaterial. Mr. Allen noted that they should have some total number of contracts they started with, or there should be some analytics that could help with that.

Mr. Allen asked if the Board was comfortable with the staff recommendation that government property in the hands of contactors be treated consistently as general PP&E. All members agreed, with the exception of Mr. Steinberg who abstained.

#### Rescission of SFFAS 35

Ms. Batchelor explained that at the October meeting, the Board agreed to propose rescinding SFFAS 35, *Estimating the Historical Cost of General Property, Plant and Equipment: Amending Statements of Federal Accounting Standards 6 and 23* because this new Statement incorporates the relevant portions and would provide comprehensive guidance in SFFAS 6 for establishing opening balances. She explained that certain Board members believed that there may be more information that should be gathered; therefore, the Board agreed to expand the question for respondents on this topic and the basis for conclusions to solicit the necessary information.

Ms. Batchelor explained that the questions for respondents and basis for conclusions was expanded to solicit comments from respondents about the potential impact or other information regarding the rescission of SFFAS 35. The Board's tentative decision to rescind was based on several factors, but also because they would have the opportunity to consider responses during due process.

Ms. Batchelor noted that she did not receive any feedback or changes to this area. Mr. Allen asked if there were any member concerns. Hearing none, he asked what the next steps would be.

Ms. Payne suggested moving the document to a vote -- that members take the version provided at the table home for a final review and ballot Thursday. This would also allow staff to work on the small edits discussed during the meeting, so the Board could review and approve those during the meeting tomorrow. The Board members agreed.

Ms. Payne asked if the two members who had opposing views on land wished to prepare an alternative view, or if they were comfortable with the question in the

exposure draft. Mr. Steinberg stated that he did not want to slow things down, so he would not vote. Both members were comfortable with expanding the question and would review the language at Thursday's meeting.<sup>1</sup>

Ms. Batchelor requested that any members with editorial suggestions provide them by the end of the day so they may be included in the ballot draft provided to members at Thursday's meeting. It was agreed that Ms. Batchelor would return on Thursday with a ballot exposure draft for the members review and vote.

**Conclusion:** After reviewing the exposure draft, titled *Establishing Opening Balances for General Property, Plant and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*, the Board agreed to the staff recommendations which included the following information:

- Land categorized as general PP&E may be excluded from the opening balances of general PP&E with a note reference on the balance sheet that discloses acreage information.
- A reporting entity electing to exclude land from its general PP&E opening balance should continue to exclude future land acquisition amounts (for example, expense future land acquisition amounts) and to provide the note reference.
- Government property in the hands of contactors should be treated consistently as general PP&E. (Therefore, the application of the alternative valuation method -- deemed cost -- would be applicable in establishing opening balances.)
- The question for respondents and basis for conclusions solicits comments from respondents about the potential impact, or other information, regarding the rescission of SFFAS 35.

The Board also generally agreed with the other questions for respondents and other additional language to the basis for conclusions to clarify certain areas. During the meeting, the Board approved certain wording changes and also requested certain edits be made. The Board requested staff return Thursday with a ballot draft for review and vote.

- **Leases**

Ms. Valentine opened the lease discussion by stating that the objective for the current session is to update the Board on the progress of the lease project. The Board had previously directed staff to use the Governmental Accounting Standards Board (GASB)

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<sup>1</sup> Messrs. Steinberg and Dacey subsequently provided wording for the basis for conclusions and questions to elicit views on the appropriateness of proposing the exclusion of land from the balance sheet without further deliberation by the Board.

lease proposal as a platform for developing the FASAB standards on non-intragovernmental leases. GASB is in the final stages of finalizing its exposure draft and expects to release it for comment in early February 2016. Staff also noted that the Financial Accounting Standards Board (FASB) plans to release its final lease standard in early 2016 with an effective date of 2019.

David R. Bean, GASB's Director of Research and Technical Activities, added that GASB plans to hold one public hearing on the lease proposal in June 2016 in San Francisco, California. He also noted that GASB expects to have a 120-day comment period for the lease exposure draft to end in May 2016 and possibly a final standard at the end of 2016 with an effective date of 2019. Mr. Bean noted that even though the Preliminary Views (PV) document was effective in getting the community's perspective and raising additional issues, GASB expects to get even more of a response from the lease exposure draft.

Ms. Valentine noted that staff's goal is to have FASAB's exposure draft available for comment by mid-2016. She also noted that staff will be holding a task force meeting in late-January 2016.

Chairman Allen noted that he read an article on the General Services Administration (GSA)'s lease holdovers in the FASAB clippings. The article stated that GAO recently released a report that noted that fifty-four percent of GSA's Public Buildings Service's long-term leases were recently held over or extended. He asked Mr. Bean if holdovers are an issue for GASB. Mr. Bean noted that the issue of holdovers was raised during the PV stage. GASB proposes to view holdovers as month-to-month leases because there is no legal document to bind the lessee to a longer lease period. Mr. Allen suggested making assumptions to record the asset and liability. Mr. Reger noted that without a binding lease agreement, the lessee could terminate the lease at any time. Ms. Valentine noted that lease holdovers were discussed at a previous task force meeting and staff plans to address holdovers in the exposure draft. Mr. Bean noted that real property lease holdovers are more complex because of their materiality.

Chairman Allen stated that FASAB should look towards meeting jointly with GASB again sometime in 2016. Incoming FASAB Chairman Showalter noted that planning had already begun for a joint meeting between FASAB and GASB in 2016.

There were no additional issues raised on the lease project update.

- **Steering Committee Meeting**

The panel discussed activities planned for 2016 and the 2015 Annual Report.

## **Adjournment**

The Board meeting adjourned for the day at 4:10 p.m.

***Thursday, December 17, 2015***

## **Agenda Topics**

- **Educational Session**

### Overview

Long-term projections of debt held by the public are important for reporting on the government's financial condition. The Board held a panel discussion to help determine what information is needed for reporting on the government's financial condition. The discussion panel included:

- Barry Anderson, Independent Consultant on U.S. and International Budget Issues, and former FASAB member; and
- Julie Topoleski, Chief, Long-Term Analysis Unit, Congressional Budget Office (CBO).

The panel emphasized the need for long-term projections when assessing the government's financial condition. Mandatory spending is two-thirds of the budget and growing, and the nation is facing significant intergenerational demographic issues.

Panel members noted that the CBO graph of Federal Debt Held by the Public is an effective tool for communicating the government's financial condition with the public. It provides a long-term projection of debt as a percentage of gross domestic product (GDP) and helps users consider historical aspects, as well as the future direction of the debt. Also, to help ensure that the public understands the information, panel members discussed the need for simplicity and using pictorial representations of data.

### Discussion

Ms. Topoleski provided a presentation entitled, "The Long-Term Budget Outlook." The presentation showed the CBO's projections for federal debt, spending, and revenues and indicated that, over the long term, budget deficits will rise and federal debt held by the public is projected to exceed 100 percent of GDP by 2040. Ms. Topoleski noted that, because of the aging population, spending for major health care programs is projected to exceed the decline in noninterest spending, and net interest costs are projected to grow as interest rates increase. The following helps explain the projected growth in federal spending through 2025:

- the aging of the population, accounting for about 60 percent of projected spending growth;

- healthcare spending per capita, accounting for about 17 percent of the growth; and
- enrollment in Medicaid under the Affordable Care Act and the number of individuals receiving subsidies for health insurance purchased through the exchanges, accounting for 21 percent of the growth.

Regarding social security, the projections assume that full benefits are paid regardless of the amount of funds in the trust fund.

Ms. Topoleski's presentation also included the following:

- **Projected Spending Compared with Past Averages.** Components of projected spending through 2040 are compared with the averages experienced over the past 50 years. Projected social security and major health care program spending will rise to more than twice the 6.5 percent of GDP average. The higher than average spending is due to the baby boom generation retiring and collecting benefits. Also, other noninterest spending will decline from an average of 11.6 percent to 6.9 percent of GDP.
- **Components of Federal Revenues.** Federal revenues as a percentage of GDP will rise over the next 25 years. Individual incomes are expected to grow faster than inflation and more income will move into higher tax brackets over time.
- **Projected Revenues Compared with Past Averages.** Components of projected revenues through 2040 are compared with averages over the past 50 years. Revenues from individual income taxes will rise while other receipts are projected to decline as a percentage of GDP.
- **Projected Spending, Revenues, and Deficits Compared with Past Averages.** Projected spending, revenues, and deficits are compared with averages seen over the past 50 years. By 2040, the deficit would equal more than twice its average of 2.7 percent of GDP. We will experience, on average, a different deficit than what we have seen in the past.



- Federal Debt Held by the Public. Federal debt held by the public is a CBO favorite. A reader can see how debt as a percentage of GDP compares historically. Debt peaked during World War II, around 100 percent of GDP, and the projection for 2040 is close to that level. If the projection extended beyond 2040, the debt level does not decline.
- Federal Debt in 2040 Under Various Scenarios. Federal debt under various budget scenarios shows what the debt in 2040, as a percentage of GDP, would be under different fiscal scenarios. The extended alternative fiscal scenario is one of four scenarios presented, and it shows that the debt would be 175 percent of GDP if other non-interest spending did not decline.
- The Federal Debt Given Different Rates of Mortality Decline, Productivity Growth, Interest, and Growth of Federal Spending on Medicare and Medicaid. This presentation shows estimated budgetary outcomes with four key factors, varying by amounts based on their past variation as well as future developments. If all the factors varied simultaneously to increase projected deficits, federal debt in 2040 would rise to 144 percent of GDP. However, if all the factors varied in a way that lowered deficits, debt in 2040 would equal 76 percent of GDP.
- The Size of Policy Changes Needed over 25 Years to Make Federal Debt Meet Two Possible Goals in 2040. This is a new CBO presentation that summarizes the estimated 25 year fiscal gap. It shows that Congress would need to increase revenues by 14 percent of GDP or reduce noninterest spending by 13 percent per year for debt in 2040 to equal its 50-year average of 38 percent of GDP. Also, it shows how much Congress would need to increase revenue or reduce spending to maintain debt in 2040 at 74 percent of GDP (its current level).

Ms. Topoleski noted that CBO does not present long-term estimates in nominal dollars because, in the agency's judgment, such a presentation can be misleading. Rather, it expresses such estimates as a percentage of GDP. Also, CBO has not quantified the budgetary effect of catastrophes, natural disasters, climate change, and changes in natural resources but has written about them in the Long-Term Budget Outlook. In addition, CBO provides a quick reference slide presentation, which readers like. It is challenging to present long-term information to constituents, and the CBO is constantly looking for better ways to deliver the information.

Mr. Anderson explained that the three basic financial statements - the cash flow statement, the balance sheet, and the income statement - are not sufficient to provide the public with the information needed to assess the complex, long-term factors that are

instrumental in determining the government's financial condition. The federal government has several unique aspects such as:

- the sovereign power to tax;
- the ability to establish the nation's fundamental means of exchange through the printing of money or to directly set and influence most other interest rates;
- entitlement programs such as Social Security, Medicare, and Medicaid; and
- the obligation to defend the country from external threats.

Consequently, long-term, intergenerational projections of spending and revenues (including notations of the risks inherent in the projections) should be added to the financial information provided in the three basic financial statements. The projections should:

- extend at least 25 years and explicitly state the demographic and economic assumptions on which they are based;
- be accompanied by sensitivity analyses that illustrate the impact that those assumptions have on the projections; and
- be made as understandable as possible. Measures that report the long-term financial condition in terms of accruals or fiscal gaps may be understandable to technicians and academics, but not to the general public. Trying to compress long-term assessments into a single number risks adding confusion. The CBO chart showing the federal debt held by the public as a percentage of GDP is effective.

With respect to the description of financial condition in Statement of Federal Financial Accounting Concepts (SFFAC) 1, paragraph 180, the examples of information needed for reporting on financial condition should include important risks that can impact long-term projections, such as:

- The risks from *major* natural disasters - earthquakes, tsunamis, floods, fires, freezes, droughts, blizzards - that may occur only rarely but still often enough to be included in some form in long-term projections.

- The financial risks that stem from the implicit and explicit financial guarantees that the federal government can provide to complex long-term financial arrangements, such as:
  - those that support government-sponsored enterprises,
  - deposit and other forms of insurance, and
  - public-private partnerships and social impact bonds that involve the federal government.
  
- The potential impact of different levels of immigration on not only federal spending and revenues but also on aggregate output.
  
- Perhaps more importantly, the potential impact of a wide range of tax and spending proposals designed to promote long-term economic growth, such as:
  - tax policies to encourage more savings and investment, greater participation in the labor force, even programs that promote the development of clean energy.
  - spending proposals to increase spending on such things as infrastructure, education, health and other research and development, even programs to reduce obesity.

Mr. Anderson encouraged the Board to consider the long-term budget projections of other Organization for Economic Co-Operation and Development (OECD) countries, particularly Australia. He noted that an *OECD Journal on Budgeting* article he co-authored, “Fiscal Futures, Institutional Budget Reforms, and Their Effects; What Can Be Learned” lists the long-term fiscal projections published by other OECD countries. Also, Congress has already begun to demand long-term budget projections of policy proposals. For instance, in 2010, they required CBO to do 20-year estimates during the consideration of the Affordable Care Act and, more recently, the House passed a rule requiring CBO to consider the “dynamic” economic impact of certain major policy proposals.

In discussions with other countries, it appears that the involvement of accounting standards is stronger than in the United States. The United States has multiple accounting standards bodies – FASAB, FASB, and GASB – while other countries may have only one. Also, other countries are more structured so that there is a firmer relationship between the accounting standards body and those developing long-term projections. Accounting appears to look at the past to get a view of the current situation and inform future actions. However, budgeting looks at the future. Thus, the link between accounting and budget is the current year.

Charts, like the CBO's Federal Debt Held by the Public, are helpful when communicating with the public. Long-term projections help show the long-term impact of the decisions that Congress is making. Also, they can provide the public with a perspective on the country's fiscal history. For instance, over the past 180 years, we have had deficits to fight wars or for major economic downturns and as soon as these events ended, we started paying down the debt. However, this has fundamentally changed today. Also, presentations should be simple and an explanation should be provided to help readers understand how their future standards of living would be impacted – higher interest rates or higher inflation.

When asked how to define financial condition, Ms. Topoleski noted that financial condition should be something that a number can be assigned to and measured. There are many important items that cannot be measured and are not in the long-term projections; however, the CBO does develop narrative discussions about them. FASAB should consider how to make its presentation digestible to the public – find ways to make the information salient. The Federal Debt Held by the Public chart tells a story, and readers can look at it to determine both the low and high points and the future path of debt. Debt is the most easily understood measure of financial condition.

Mr. Anderson agreed and noted that once debt exceeds 90 percent of GDP, negative effects start to occur. Although the economic community has not decided on a single number, a range could be considered. Since FASAB began developing standards, conditions have changed. Mandatory programs are over two-thirds of the budget and growing, and the government is facing substantial intergenerational demographic factors that it has not faced in the past. To provide a fair assessment of conditions to constituents, FASAB needs to provide more information than that presented in the traditional financial statements.

Ms. Topoleski added that a trend of debt would be more useful than a single number because debt summarizes what has happened previously and a trend would provide a stream of numbers enabling the reader to see the direction of the debt. Also, to reduce the risk of accusations that the Board is taking a political position, sensitivity analyses should be presented – to show what would happen under a range of assumptions. Mr. Anderson added that a sensitivity analysis on immigration would be helpful in informing current political debates.

Mr. Anderson also spoke about information that would be helpful for reporting on intergenerational issues. He noted that the Board could prepare assumptions on everything except Medicare to show that if the government wants to keep current programs at their current levels and provide the elderly with their benefits, Americans' taxes would have to increase by "x" dollars. Ms. Topoleski noted that CBO provides distribution analyses by ten-year birth cohort so one can see benefits and payroll taxes across different generations.

- **Reporting Model**

#### Overview

The Board discussed the concept of financial condition and selected a framework to guide development of an ideal reporting model concepts statement. FASAB determined that the existing concept of financial position was important for reporting on the government's financial condition and the concept applied to both the financial report of the U.S. government (FR) and component reporting entities. However, financial position for a component has a different meaning. Components generally receive appropriations, rather than direct revenues, and use the funding to provide programs and services rather than to accumulate assets. Also, the Board determined that the role of FASAB, with respect to the concepts of financial position discussed in SFFAC 1, may need to be refreshed in light of more recent conceptual guidance.

In addition, the Board agreed that long-term information is important for reporting on the government's financial condition, and members acknowledged that the Board has already issued standards that require long-term projections. Although SFFAC 1 discusses the need for information about the national economy and society, the Board did not believe this discussion would limit their efforts to develop an ideal reporting model.

Regarding a framework to guide development of an ideal reporting model concepts statement, the Board believed that a comprehensive framework is needed. As the statement is developed, the Board can then deliberate specific concepts and decide what to revise or remove and the order of the topics. Also, concepts for an ideal reporting model would be in a single concepts statement rather than multiple concepts statement. Accordingly, the Board selected a framework that Mr. Steinberg proposed, which included new and existing concepts and topics that members have suggested over time. Staff will use the framework to begin developing the concepts statement.

#### Discussion

##### The Current Concept of Financial Position and Its Importance to Reporting on the Government's Financial Condition

Board members agreed that the existing concept of financial position is important for reporting on the government's financial condition and the concept provides helpful guidance for developing standards. SFFAC 1 states that financial position is a point-in-time snapshot of an entity's economic resources and the claims against those resources. Members discussed this concept and some proposed a definition of financial condition. Comments included the following:

- Mr. Steinberg explained that the terms “financial position” and “financial condition” cannot be used interchangeably. In the case of the government, financial position is the difference between its liabilities and assets. Mr. Steinberg proposed that financial condition refers to the projection of the change in financial position as a result of the monies coming in and going out over “x” number of years. Investments in research and development, human capital, and nonfederal property show how the country is doing and could be considered another level of reporting.
- Mr. Granof noted that financial condition is more than the dollar amount of inflows and outflows. Financial condition has to be assessed in relation to other conditions that change, such as demographic conditions and other events (both foreseeable and unforeseeable). The question then becomes, what is the role of the Board? The Board cannot get involved in all the possible areas.
- Mr. McCall proposed that financial condition is the qualitative and quantitative impacts of federal programs and policies on the health, safety, and welfare of citizens now and in the future. However, the challenge would be describing the impact of the federal government. The federal government may contribute to the nation’s health, safety, and welfare, but may not be directly responsible for them.
- Mr. Dacey expressed that financial position is an important component of reporting on the government’s financial condition, and the public is interested in knowing what the government owns and what it owes. Also, the reporting objectives concern financial reporting rather than financial statements. Consequently, the Board will need to consider its role in relation to the reporting objectives.
- Mr. Reger noted that existing financial reports appear to present the information that the public needs, and charts and graphs are important for presenting that information. The CBO presentation on debt and other sources uses pictures to tell a story.
- Ms. Davis then reiterated her comments expressed during the educational session: information should be presented so that readers can understand it.
- Mr. Smith indicated that the Board should first focus on what information should be presented consistently to the public. Next, the Board should consider whether it is auditable and how the information should be presented. With respect to financial condition, the Board could think of financial condition as a bar that the government is trying to move. Thus, the government could say where the bar has moved and what it has cost to move it. Value judgments can then be made regarding whether it was worth the cost of moving the bar or whether the bar should be at its present point.

Mr. Allen expressed that financial condition should involve items that GAAP can address and measure. Consequently, we have financial position, financial condition,

and other financial indicators, such as investments in research and development. The Board could acknowledge that it may not have a GAAP project on the other financial indicators.

#### The Current Concept of Financial Position and Its Application to Component Entity Reporting

The Board generally agreed that the current concept of financial position applies to component entity reporting as well as the government as a whole. However, financial position for a component may have a different meaning from that of the government-wide. Agencies generally receive appropriations rather than direct revenues, as in the case of the government-wide.

Mr. Allen noted that, generally, a reader should be able to look at an entity's financial statements and to assess improvement or deterioration from the previous reporting period. However, the fact that an agency's net assets have increased may indicate that it has not provided the grants or funding that it should have provided and has not met its performance goals. In contrast, if an agency has performed well and provided the funds it intended, its financial position may have decreased during the period. When an agency has not done its job in providing services and has more funds than it did in the previous period, does this indicate an improvement in financial position?

Mr. Dacey commented that agencies explain the changes in their financial position in the MD&A section of their financial reports. Also, other members noted that if financial position is the difference between the entity's assets and liabilities and agencies have assets and liabilities, agencies have a financial position. Measuring assets and liabilities on a consistent basis from year to year facilitates understanding of whether the agency's financial position has changed.

Mr. Reger added that financial position applies differently at the component level than its application at the government-wide level. There should be a concept of financial position at the component level because an agency's financial position should not be viewed in the same manner as the government-wide's financial position. The Board could consider reviewing the MD&As of agencies, identifying those items that the agencies discuss as determiners of financial position, and expressing its views on the financial position for those agencies.

#### The Current Concept of Financial Position and the Role of FASAB

The Board believed that its role with respect to the current concept of financial position could be refreshed. While SFFAC 1 discusses financial position, the Board subsequently issued SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*. SFFAC 5 provides conceptual

guidance for assets, liabilities, and net position. Consequently, the Board could revisit the financial position concept in light of SFFAC 5.

#### The Importance of Long-Term Information for Reporting on the Government's Financial Condition and the Role of the Board

The Board agreed that long-term information is important for reporting on the government's financial condition, and it has already issued standards that require long-term projections. Therefore, it is not necessary to revise the conceptual guidance to explain the Board's role.

#### Information about the National Economy and Society and Its Importance to Reporting on the Government's Financial Condition

Board members acknowledged the difficulty of measuring the effects of policy decisions on the economy. Also, some members did not believe the information was important for reporting on financial condition. However, in general, members did not believe that the concept affected the Board's efforts to develop an ideal reporting model.

Mr. Granof commented that the information about the economy is outside of the Board's scope. However, the Board should consider whether the information is essential to the understanding of the financial statements.

Ms. Payne informed the Board that the concepts were written broadly for financial reporting. However, GAAP may require the same items of information as other financial reporting sources.

For example, our long-term projection standards require GDP information. Ms. Payne suggested that a preamble to the concept statement could provide a general discussion of the Board's role that delineates it from other financial reporting.

#### Overall

Members did not appear to identify a need to revise the overall concept of financial condition.

#### Framework for an Ideal Reporting Model Concepts Statement

The Board discussed outlines of conceptual guidance for an ideal reporting model. Each outline would provide a framework for developing a concepts statement and included topics that the Board could deliberate as the project progressed and more detailed concepts were prepared. Consequently, some topics could ultimately be revised or removed and the order of the topics changed. The framework options included:



- Option A-1, proposed by Mr. Steinberg, which included concepts that Board members have suggested over the years. It was comprehensive and included new and existing concepts.
- Option B focused on discussing new concepts.
- Option C included new and existing concepts, but was not as comprehensive as Option A-1.

Board members preferred Option A-1. Option A-1 included several concepts in a single document, minimizing the need for Board members to consult multiple concepts statements. Also, the Board could determine what changes need to be made to existing concepts statements after the comprehensive statement is completed.

**Conclusion:** Staff will use framework Option A-1 to begin developing a concepts statement.

## **Administrative Matters**

### **Approval of Minutes**

The minutes from the October meeting were approved prior to the meeting.

## **Agenda Topics**

- **Internal Use Software**

The proposed Technical Release (TR) 16 *Implementation Guidance for Internal Use Software* (IUS implementation guide) was discussed and approved by the Accounting and Auditing Policy Committee (AAPC) for release to FASAB for issuance. The document went through a lengthy review process by the Committee and FASAB staff. The review process included a 43-day exposure draft comment period. As of November 12, 2015, AAPC has received 12 responses from the following sources: 10 from federal preparers and financial managers, one from a user, and one from an auditor. Of the 12 responses, nine supported the proposal. The remaining three offered comments. FASAB staff made editorial changes suggested by the respondents and provided the Board the updated version for review. During the meeting, the Board concurred on the content presented in the updated implementation guide and approved the IUS implementation guide issuance.

The next step for the document is to provide the Board with a 45-day review period to determine whether or not a majority of the members object. If the review is successful, the TR will be issued.

- **Department of Defense Request -- Follow Up on Items Pre-Balloted**

Ms. Batchelor explained that she was presenting revisions to the exposure draft, *Establishing Opening Balances for General Property, Plant and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*, for member approval. She explained that the changes were based on the discussion at Wednesday's meeting and that the goal was to issue the exposure draft immediately after the meeting (contingent upon receiving the required number of ballots).

Ms. Batchelor explained that the three main areas for the Board's review pertained to the following information:

- Question 2 for respondents regarding land categorized as general PP&E may be excluded from the opening balances of general PP&E. Staff clarified this question based on feedback from the Board.
- The basis for conclusions discussion for land categorized as general PP&E that may be excluded from the opening balances of general PP&E was elaborated to be consistent with the question and to explain that two members preferred that this exposure draft be issued without guidance on land.
- Paragraph 19, which states, "Reasonable estimates are permitted in the preparation of financial statements subsequent to the rescission of SFFAS 35." Though all of this is explained in the basis for conclusions, this was added to the standards.

Ms. Batchelor explained that the floor was open for questions on the revisions and any other topics. The Board generally agreed with the staff recommended edits but made minor edits at the table.

Mr. Showalter asked about the reasoning behind adding paragraph 19. Ms. Batchelor explained that it was based on a recommendation from Mr. Dacey, who felt that if the Board believes estimates are acceptable before and after this standard, if Board members only put it in the basis for conclusions, others may not pick up on it. Mr. Dacey further explained that he was open for other members' comments on the issue. He expounded that if the Board's intent in the basis for conclusions is to tell the reader that reasonable estimates are permitted, then he believed it should be included in the standard. Mr. Showalter explained that including estimates in the basis for conclusions still means that it is a standard-level item. Mr. Dacey agreed and said that there appears to be a significant amount of confusion over this issue.

Ms. Batchelor explained that there was one other item that needed to be discussed. She explained that she included it in the marked ballot draft as it relates to feedback from Mr. Dacey and whether the Board wants to elaborate on what the term “line item” means when used. Mr. Dacey noted that in SFFAS 48 the decision was made that it was an all or nothing for inventory. Ms. Batchelor explained that line item is used in the Statement because it is much broader than inventory, and one could elect for software or a type of PP&E by a particular year. Mr. Allen explained that it is difficult to clarify line items because we do not have standards that dictate categories for PP&E.

Mr. Dacey explained that he believed it was important to be clear what the Board’s intent is -- whether it is the total general PP&E or the components one may find in the footnote.

The Board discussed the issue and came to the conclusion that the preparer decides which line items he or she wishes to consistently define and to present. For example, DoD may wish to show disaggregated information to show progress in the general PP&E area. Mr. Dacey suggested if there is confusion, it may warrant a sentence in the basis for conclusions that explains the reporting entity can determine components of general PP&E. The Board agreed it does not warrant an explanation in the standard. The following sentence was added to the basis for conclusions: “The presentation of line items may be more or less detailed. For example, components of GPP&E such as land may be a separate line item or there may be a single line item for all GPP&E.”

Mr. Granof asked if an auditor could present an opinion on a single line item, particularly plant and equipment. Mr. Dacey explained that they can and do because the auditing standards allow it. Mr. Dacey explained that DoD’s Financial Improvement and Audit Readiness (FIAR) Plan dictates that each assessable unit would follow a progression from identifying issues, resolving the issues, determining whether this assessable unit is auditable, and then proceeding to an audit. Mr. Dacey also explained that the schedule of public debt, which is a line item on the government-wide financial statements, is separately audited.

Two Board members explained that they would like to provide additional wording (a sentence or two) as to why they preferred that the exposure draft be issued without guidance on land. The members explained it would not change the overall meaning of what had been stated in the exposure draft document. Staff requested that the language be provided by the end of the week so the exposure draft could be issued within the timeframes established. The members agreed. The other Board members did not have a problem and provided their ballots at the meeting.

Therefore, staff received the required ballots to release the exposure draft, *Establishing Opening Balances for General Property, Plant and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*, and anticipates issuing it for public comment the week of December 21, 2015.

**Conclusion: The Board approved the exposure draft, *Establishing Opening Balances for General Property, Plant and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*, to be released for comment.**

- **Risk Assumed**

Ms. Gilliam reviewed revisions to the exposure draft from Wednesday’s session. In reviewing the updates to the subsequent event standards and examples in the basis for conclusions (A-19), the Board decided that subsequent events should only apply to the liability for unpaid claims.

Mr. Dacey does **not** believe that subsequent events should apply to the liability for losses on remaining coverage because, according to paragraph 33, this liability is “based on all available information existing at the balance sheet date.” For example, this includes events that were known at the balance sheet date. Mr. Dacey is concerned that if we include subsequent events for this estimated liability, then agencies would have to keep updating the estimate through the report date.

Staff noted that this was the audit issue that the Federal Crop Insurance Corporation asked the Board to address— that having to update future estimates between the end of the reporting period and publication date created an additional burden on agencies and their auditors.

Ms. Payne recommended that staff add the following phrase to the liability for remaining coverage: “Subsequent events should not be recognized, but may be disclosed in accordance with SFFAS 39.”

Mr. Dacey noted that the subsequent event standard **did** apply to the liability for unpaid claims. He noted that with unpaid claims there are actual losses at the balance sheet date that need to be estimated.

Ms. Payne recommended moving the subsequent events section so that it appears in the sections to which it applies and does not appear in sections to which it does not apply.

Subsequent events will apply to both the liability for unpaid claims and liability for future policy benefits for life insurance programs because new information may present itself that could materially affect already existing estimates between the end of the reporting period and publication date.

The Board agreed and staff made the appropriate updates.

Conclusion: The Board approved the Insurance Programs exposure draft to be released for comment.

## **Adjournment**

The meeting adjourned at 3 PM.