

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
October 21-22, 2015
Room 7C13
441 G Street NW
Washington, DC 20548

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Wednesday, October 21, 2015

Attendance

The following members were present throughout the meeting: Mr. Allen, Messrs. Dacey, Granof, Showalter, Smith, and Steinberg. Mr. McCall attended by phone. Ms. Ho attended with the exception of the afternoon of October 22nd and was represented by Ms. Davis during her absence. Mr. Reger attended until mid-day October 22nd with the exception of brief absences during which he was represented by Ms. Kearney. The executive director, Ms. Payne, and general counsel, Mr. Marchand, were also present throughout the meeting.

Administrative Matters

Approval of Minutes

The minutes of the August meeting were approved prior to the meeting.

Agenda Topics

- **Reporting Model**

FASAB discussed concepts for an ideal reporting model. The Board continued its deliberations on a draft ideal reporting model concepts statement and members noted that the draft appeared to repeat existing concepts. Rather than determine whether to focus on new concepts and amend the existing concepts as needed, the Board decided to first ensure that they have identified all the concepts that would help them develop standards for an ideal reporting model.

The Board agreed that the ideal reporting model concepts statement should discuss: GAAP-based reporting and its relationship to other information being reported; the need for financial reports to explain the relationship among financial statements; the need for program level information and the attributes of a program for financial reporting purposes; an updated definition of financial condition; and budgetary information, including budget to actual comparisons, the role of the Board with respect to budgetary information, and an explanation of budgetary resources. Board members will review an outline of the concepts determined to date and suggest changes.

Whether to Focus on New Concepts

Board members discussed whether the concepts statement would focus on new concepts and amend existing concepts as needed or whether the ideal reporting model concepts statement would be a stand-alone document that includes all the concepts for an ideal reporting model. Given the trade-offs of the different approaches and the current stage of the project, the Board decided to focus on discussing 'what' concepts should be included in the ideal reporting model concepts statement and address how or where to present them later. Views expressed include the following:

Mr. Showalter noted that if the ideal reporting model document simply focused on changes, it might present a challenge for respondents. Respondents will need to follow numerous references numerous existing concepts to understand the impact of the changes.

Mr. Reger noted that the current draft concepts statement expresses some concepts one way, while existing conceptual guidance expresses them another way. It is not clear whether the ideal reporting model concepts statement should

provide a holistic view of the Board's thinking or present new concepts that respondents need to consider.

Mr. Granof noted that the document needs to clearly state the changes from the existing concepts so that respondents can provide feedback to the Board. If it is only one area that changes, existing concepts can be amended. However, if it is more, the ideal reporting model document would supersede existing concepts.

Ms. Ho noted that she would prefer a holistic picture. Cross-references could be used to indicate the items that exist in earlier concepts and the nature of the changes.

Mr. Dacey suggested that the Board decide on the content needed and whether it would be easier to add a few items to existing concepts. He noted that the ideal reporting model document appears to be covering some of the same topics as presented in existing concepts statements. However, the ideal reporting model document may use different wording. Mr. Dacey expressed concerns about the different approaches for proceeding:

- If the Board proposes a document that includes all the concepts that the Board believes is needed for an ideal reporting model, the Board could extract concepts from existing concepts statements. However, this approach would leave gaps in the existing concepts documents.
- Existing concepts include topics that are not in the ideal reporting model concepts document and the ideal reporting model concepts document includes items that are not in existing concepts. So, how does the Board get all the concepts in one place and where is that one place?

Mr. Allen expressed concern about the impact of potential changes, such as narrowing the broad definition of financial condition. If the Board decides to narrow the definition in the ideal reporting model concepts statement, the existing concepts statements, such as Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, will have a different definition.

Mr. Steinberg noted that the concepts statement should be useful to the Board and discuss the kind of reporting model that the Board believes would be ideal. Upon completing the document, the Board could compare the new concepts with the earlier concepts and determine the extent of the changes. The Board could determine that definitions written 20 years ago are no longer accurate or relevant.

Ms. Payne noted that financial condition is a tipping point issue on placement because financial condition is woven throughout the reporting objectives document, SFFAC 1. So, if the Board decides to revisit and refresh or change the approach to financial condition in SFFAC 1, the Board must review the complete

document and make it consistent. Otherwise, constituents will not be able to understand what the Board is saying about reporting objectives such as stewardship.

Mr. Smith noted that at this point, the Board should not be concerned about whether a statement exists in other concepts. He suggested that the Board determine what it would like the new model to be and, if it is determined that concepts already exist in other documents, the Board can remove them.

Discussion on GAAP-based Reporting and the Relationship between Financial Reports and Other Sources

Board members generally supported Figure 1: Information for Assessing Accountability and for Decision-Making, presented in the ideal reporting model concepts document. The figure illustrates the relationship among financial statements, disclosures, and RSI and other sources of financial information.

Mr. Showalter noted that other organizations are creating information. Thus, the concepts document should discuss FASAB's role in relation to others who are creating information. Also, the chart in SFFAC1, on page 39, focuses on accounting rather than financial reporting. Figure 1 of the ideal reporting model document focuses on financial reporting.

Mr. Granof noted that the ideal reporting model concepts statement should clearly state what government accounting should do rather than describing what exists today. Readers should understand what concepts the Board is proposing and what concepts the Board is changing.

Mr. Allen noted that the concepts statement should define what is meant by a GAAP-based report and the role of the Board in relation to others reporting information, and the Board will later decide on the placement of the discussions.

Mr. Dacey noted that one overall chart would be helpful. SFFAC 1, page 39 includes an illustration that is relevant to the ideal reporting model discussion as well as Figure 1 presented in the ideal reporting model concepts document. Also, it would be important to highlight the new concepts.

Management's Discussion and Analysis (MD&A) Including a Discussion on the Relationship among the Financial Statements

The Board agreed with the principle that a discussion on the relationship among financial statements should be included in financial reports. Regarding placement, staff suggested, to be consistent with the level of detail in concepts statements, that the discussion, including narrative and graphic illustrations, could be presented in sections of the report other than MD&A.

Program Level Information

Board members agreed that the ideal reporting model should provide information about programs. Mr. Reger encouraged the Board to define the attributes of a program for financial reporting purposes. Mr. Steinberg noted that users want information about the cost of programs and if the concepts will say that the cost of programs should be reported, the concepts should include the definition of the term program. Ms. Ho suggested that the document use the term program consistently. Mr. Steinberg explained how and why the terms program and service get used interchangeably, and that the issue of the differing scopes of programs can be addressed by acknowledging that programs have sub-programs and sub-sub-programs as well as other lower level aggregations.

Financial Condition

The Board agreed that the term financial condition should be updated. Mr. Allen noted that the reporting objectives indicate that one should be able to assess financial condition. That means there are some definable and measurable items within the definition of financial condition. Mr. Dacey noted that the definition needs to be updated to reflect fiscal sustainability reporting. Fiscal sustainability reporting provides an overall measure of where we are now versus the previous year. Mr. Showalter noted that financial condition needs to be defined within the context of FASAB's role and responsibility.

Budgetary Information

The ideal reporting model concepts statement should discuss a budget to actual comparison and clearly depict the role of the Board with respect to budgetary information. Also, the concepts should explain budgetary resources to help readers understand budgetary financial statements.

Conclusion: Staff will provide Board members with an outline of the new concepts being proposed and Board members will provide comments regarding: 1) concepts that should be added to the outline; 2) concepts that should be deleted; and 3) the sequence that the concepts should be presented.

- **Department of Defense Request**

Ms. Batchelor began the discussion of the DoD Implementation Project by explaining that staff had provided the Board with several documents at the table: Department of Defense (DoD) Proposal for FASAB Consideration for Government Owned Equipment in the Possession of Contractors, FY 2014 Government-wide General PP&E Note, and a copy SFFAS 35, *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23*.

Ms. Batchelor explained that the objective of the meeting would be to review a draft 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*. She explained that staff developed it based on board decisions at the August Board meeting.

Ms. Batchelor explained that consistent with the approach used in SFFAS 48, the draft uses deemed cost as a surrogate for initial amounts and an acceptable valuation method for opening balances for general PP&E. She explained that permitting a reporting entity to apply alternative valuation methods in establishing opening balances for general PP&E would be most appropriate through the implementation guidance. Also consistent with SFFAS 48, the alternative methods are permitted when presenting financial statements, or one or more line items addressed by this Statement, following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board either (1) for the first-time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method. Staff explained that the application of this Statement based on the second condition is available to each reporting entity only once per line item addressed in this Statement. Staff explained “once per line item” is due to the multiple items included within general PP&E and the reporting entity may choose to assert at different times on different categories of general PP&E presented as individual line items.

Ms. Batchelor explained that she had received comments from several Board members. While there are certain suggestions that will be addressed in the next version, there appears to be support from those that responded.

Mr. Allen asked if any other members objected to the overall approach of addressing this in a manner similar to SFFAS 48 and also including the guidance through implementation guidance as appropriate. There were no objections from the Board, therefore the approach will provide implementation guidance to allow a reporting entity to apply alternative valuation methods (deemed cost to establish opening balances of general PP&E and prospective treatment of land and internal use software) in establishing opening balances for general PP&E.

Land

Ms. Batchelor explained that the Board discussed land in August and the tentative decision was to provide for a prospective treatment for land and disclosures would reveal the acres of land and changes in those acres over time. Staff explained that the proposal is based on the cost associated with establishing a deemed cost amount for existing land.

Ms. Batchelor explained that certain members were concerned about the change for a large department, its consequences on the government-wide statement and whether this issue should be considered more broadly. Staff explained that a proposed question

on the issue was included in the ED (see question #2 for Respondents) and further explanation of the issue was included in the basis for conclusions.

Ms. Batchelor explained that she believed this may be an area the Board considers further. She explained that she provided the Government-wide PP&E Note from the FY 2014 financial statements. She explained that DoD land is near half of the government-wide total so if the proposed standard were to provide for excluding land that would also be removing it from the government-wide statement. Staff suggested the Board may want to consider this implication as it makes the decision.

Mr. Allen explained that he understands how this category is a bit different because it does not self-correct through depreciation. However, he is concerned with handling it prospectively. Mr. Allen explained that he would either do all or nothing. If the Board chooses to exclude then he would not recognize the future purchases. Mr. Allen believed it would be misleading to include a small portion of any line item in a financial statement. He also noted the treatment of land does not affect cost of service information on an ongoing basis. Mr. Dacey explained that he was DoD focused when considering land and was not focused on the government-wide. He believed there were other entities reporting land in accordance with the standards, but he did not see that as part of the project. Mr. Reger agreed and explained that it is important to do what is necessary to get DoD audited and in the government-wide financial statements, even if that means providing a footnote to explain what was done.

Mr. Smith explained that while he understands that the Board wants to assist DoD and provide a practical way to apply the standards, he believes there should be consistent methodology.

Mr. Showalter explained that it should be a conceptual discussion framed around the cost of services, cost/benefit and consistency for justification of the approach for land. Mr. Showalter discussed they should be mindful of those entities that have spent resources to follow existing standards.

Mr. Steinberg explained that DoD stated they could come up with the number of acres, so it seems the issue is really determining the dollar value per acre, such as fair value. Mr. Dacey explained that deemed cost offers several alternatives for general PP&E which could be applied to land. Staff agreed that approach could work; and the Board discussed this at the last meeting and directed staff to research this at the last meeting. However, there are no county by county or other fair value data. Instead valuation of land is heavily based on location, use, and economic conditions so it would vary greatly. As discussed at the August meeting, all of these are very costly to determine. The Board discussed the difficulty with determining the fair market value for land as it differs greatly and this did not seem a likely alternative.

Mr. Smith suggested that DoD develop an estimate and the justification be that they are unique. He explained they could develop it as long as it was reasonable based on taking samples of property. He explained that it would not be perfect, but it is better than part of the government capitalizing a value for land and some part of it not. He believes

DoD's represented value could be their best estimate and the Board could provide for that in the standards.

Mr. Granof asked if we would recommend this approach for DoD, why not suggest that DOI do the same for their land? It was pointed out that much of DOI's land is Stewardship Land that is treated differently and serves a different purpose.

Staff explained that under the current standards, land has to be acquired for operational purposes to be reported on the balance sheet; so technically there is some (public domain lands that DoD converted to military bases) that is used for operational purposes but not included on the balance sheet. Mr. Showalter suggested that it is somewhat inconsistent treatment for land and it would appear that more federal government land may not be recognized on the balance sheet than is. Mr. Smith stated if that is true, it may be more consistent to not report land for all and provide the reasoning. Mr. Showalter agreed and stated he would support that as well.

Mr. Allen agreed and stated he would support either zero or \$XX per acre as long as the number of acres are provided.

Mr. Granof explained that normally he would suggest an estimate because it is closer to the actual, but in this case, he does not see any value in the number. Mr. Allen suggested that a small number may be misleading.

Ms. Batchelor suggested a note reference could be provided on the face of the balance sheet with the note providing the acreage so there is accountability. The Board agreed that providing accountability is important.

Mr. Steinberg asked if making the change broadly would be an audit challenge for other agencies to provide the acreage information. Mr. Steinberg believed that switching from dollars to acreage for the agencies may not be a positive change. He suggested that another option would be to give those agencies the option.

Mr. Granof explained that he believes any changes to land broadly should be a separate project. He feared the Board may make a change without due consideration. He believes the Board can make a recommendation for DoD to establish a baseline. Mr. Showalter explained he did not see how to separate the two decisions.

Ms. Payne thought it might be a good opportunity to poll members on approaches so the scope of options could be narrowed. Ms. Payne asked if any members wanted DoD to search for the historical cost of the land and no members wanted this approach. Next, she asked if any members wanted DoD to determine the fair value dollar amount per acre based on specific location and use and no members wanted this approach.

Therefore, it was narrowed to the Board either wanted DoD to apply zero or an assigned value per acre. She asked the Board if they wanted more information to determine whether this is something that should be applied to the government-wide level or if they still would rather defer for a broader project and only include the question

in the exposure draft. Staff also suggested that they could gather some information on the impact to agencies as well as invite speakers on land valuation in the statistical sense. Ms. Payne explained that staff could move forward with this, but she believes the Board should keep this proposal on target.

Mr. Allen confirmed that if the Board selects zero then future acquisitions prospectively would be zero but if the Board selects an assigned value then future acquisitions would be capitalized.

Mr. Smith asked if staff could research if there is a document that shows average value per acre by state. He explained that this could be considered the deemed cost. Staff suggested that USDA provides certain information about agricultural land. Staff also pointed out that the question in the exposure draft was based on information provided from a Federal Reserve report. Mr. Smith stated he did not see concern with the USDA report although it is agricultural in nature because DoD owns such a vast amount of land and it is not necessarily the value but the use that makes it unique. Mr. Showalter noted concern because he said an average is still an average. He also noted that there is a question about what the information is going to be used for. He said based on the fact that there is more land not reported, it seems misleading to include any land at all.

Mr. McCall suggested that he would support an assigned value that was based on something reasonable. Mr. Granof asked if the assigned value was something that FASAB is to provide. Mr. Allen suggested that FASAB could assist in developing the reasonable base and put that source or document that could be used for the dollar per acre in the standard. The Board discussed that if this approach is used, it should be simple because most things would average out across the country.

Mr. Dacey explained he would be open to discuss a value per acre approach.

Mr. Granof stated he believes it should be DoD's option based on deemed cost.

Mr. Steinberg stated he would also give DoD the option based on deemed cost. He noted if the Board does not agree, he believes any further guidance provided by the Board should be more detailed than the country or state average value.

Ms. Ho questioned what the difference would be between the Board and DoD making the suggestion. Mr. Allen explained that the Board providing it in the standard provides justification for the approach in audit.

Mr. Allen explained that it appears both approaches could be theoretically justified and it appears the Board supports staff moving forward considering the options discussed above and will provide the Board additional analysis and recommendation. Staff agreed to research available reports and data further to determine if there is information available by the county, state or country. Staff will also consider this and further develop recommendations for a zero balance or an assigned value per acre.

Government Property in the Hands of Contractors

Ms. Batchelor explained that government property in the hands of contractors was identified as an issue area by DoD. She explained that previous Boards believed the accounting treatment for such assets should be consistent with general PP&E since there is no conceptual difference. Ms. Batchelor explained that there was not a reason to justify a different treatment than the application of the alternative valuation method or deemed cost that is applicable to general PP&E under the draft ED.

Ms. Batchelor explained that DoD representatives are present to explain the issues to the Board and provide more background. DoD representatives (Ms. Sumpter and Mr. Tkac) briefed the Board on the challenges in this area. See the attached briefing slides. In summary, their briefing provided that:

- The majority of Contractor Acquired Property (CAP) has not been recorded as general PP&E or in government accountability property records.
- Property in the hands of contractors has grown exponentially in the past 10 years due to the war. There is a bit of uncertainty as to what makes up much of the equipment returned from our in-theater contractors as a larger part of it is still in shipping containers. A significant number of Army contracts in-theater had CAP associated with them.
- Previously, the majority of CAP equipment related to design, tool and test equipment. This type of equipment must be accounted for (mandate by Congress) and most still remain in DoD custody and must still remain in a DoD accountability system. Tooling and test equipment often remains in contractor stewardship until an item is out of production.
- Previous contracting rules did not address how to get the property on the books of the federal government, but changes began in 2013 to correct this. The new rules require the contractor to report the equipment to the federal government, not only for capitalization but for property accountability. Some are done at intervals while others are done at contract close out.
- DoD believed the acquisition value to be approximately \$100 B.

Ms. Sumpter explained that DoD is not seeking relief from accountability, they request relief from accounting. She explained as contracts are closed out, the accountability aspect will be addressed.

Mr. Dacey asked for information about payment. Ms. Sumpter explained that DoD generally pays for CAP through contract overhead, not direct costs (subject to the specifics of the contractor's accounting system).

Mr. Allen explained that he hoped DoD could still approach this with deemed cost and considering materiality it would reduce the population to a manageable amount.

Mr. Tkac noted that before one can assign a deemed cost, you must have the population of assets. He explained that assigning the value is the easy part but the existence and completeness is the more difficult part for these assets. Mr. Tkac explained that most likely the majority is fully depreciated but it is difficult to support

when there is an issue with completeness. He does not believe the impact on the balance sheet is substantial but he cannot prove it.

Mr. Showalter asked how the process and contract changes are working. Ms. Sumpter explained that they are not where they need to be as of yet, but there has been progress. She explained that the Air Force has shown the most success because it had top leadership involvement. The Air Force identified \$8B in additional general PP&E through the process thus far. The Air Force started earlier, because it was in response to an audit report, that they could not locate property that was in the hands of contractors.

The Board discussed that there should be a method for DoD to determine the material contracts that need to be reviewed. Ms. Jenkins, Director of Financial Improvement and Audit Readiness from DoD's Office of the Under Secretary of Defense (Comptroller) joined the Board discussion and explained proving that is challenging in an environment that as Mr. Tkac explained has known issues with existence and completeness.

Ms. Sumpter explained that not all the contracts have the appropriate clauses. Ms. Jenkins suggested that even using a conservative approach, not all contracts will have the required clause by 2018.

Ms. Jenkins explained that DoD suggested doing a data call to all contractors for a list, but this has an associated cost and the data may still require further validation. Ms. Jenkins explained that it appears there is a completeness issue either way so she is seeking assistance. Mr. Showalter stated that if DoD has nothing to dispute with what the contractor gives them, then it should be sufficient for completeness as long as it meets other requirements.

Mr. Allen suggested that he does not see it as an unknown universe because DoD is aware of their contracts, so it seems that could be used to narrow or define the population. Ms. Sumpter explained that there are over 70,000 contracts with CAP associated that need to be closed out.

Ms. Ho stated DoD said they were not seeking relief from accountability and the issues pertained to completeness; it seems those need to be addressed for accountability. Ms. Jenkins agreed and explained that DoD needs to know what they have. Ms. Jenkins explained that the request is based on the audit timeline because it may take many years for the accountability records to be updated.

Mr. Dacey explained that he was trying to understand what DoD may know about the CAP when the contract is awarded. Mr. Dacey asked for clarification regarding option A. He noted that option A states "For all new contracts on a go forward basis, GFE/CAP will be tracked when acquired and recorded on the balance sheet." Mr. Dacey explained that CAP has been paid for through overhead and used for a certain amount of time. Ms. Jenkins explained that they planned to use deemed cost. Mr. Dacey asked if it was a new contract, would DoD record the acquisition value or residual value? Ms. Jenkins explained that with new contracts they would be recorded when they are billed

or delivered in place for the CAP, thus they would not need to use deemed cost for these. Mr. Dacey noted that the contractors were the ones splitting the expense and capitalization costs in the contracts.

Mr. Showalter asked if there has been enough work in this area to determine what percentage of the equipment comes back on the records or is not fully depreciated. He wanted to know if there was something that could be extrapolated to the population.

Ms. Sumpter explained that she believes a small percentage are over the capitalization threshold. Mr. Tkac stated this is based on the Air Force data.

Mr. Allen suggested that DoD could consider presentation of general PP&E held by DoD versus that held by others as separate line items if the flexibilities of deemed cost do not provide them what they need.

Ms. Jenkins explained DoD's intent was to assert for all of PP&E and the entire balance sheet. She requested the Board to reconsider DoD's option A. Mr. Allen explained that it is difficult for the Board to view CAP as not DoD's property. Ms. Sumpter explained that an issue has been that most do not want to bring it on the books too soon because they believe it may be premature if they decide to dispose of it.

Mr. Allen explained that was why Mr. Showalter had suggested that DoD perform an analysis to determine those sort of things, to ensure it can be supported and then apply it. An approach such as that would be justified versus stating the assets are not DoD's.

Ms. Jenkins understood that but she still had difficulty with the completeness aspect. Mr. Allen suggested that it seems DoD should be aware of the magnitude of contracts, their major contracts, and based on discussion it appeared there had been some work to determine certain percentages that could be applied if DoD believes it reasonable.

Ms. Jenkins' contractor that accompanied her, Mr. Chad, explained that conceptually it may sound like a good idea but DoD is made up of several components that are implementing policies at different times and being audited separately. Mr. Chad explained that he believes taking a narrow study performed by the Air Force and applying it to other components may be questioned by most auditors.

Mr. Allen explained that as DoD closes out more contracts they will continue to better their information and DoD can determine when they believe they have the information to apply the data. He also explained that the more that is closed out, the closer they are to determining materiality and other analytics.

Mr. Chad explained that the Army and Navy have a lot more contracts than the Air Force and the Air Force spent several years going through 12,000 contracts. The Army has not started their review, and if they started today there may be comfort in four to six years.

Mr. Allen suggested that if DoD wants to accomplish a full audit, they have issues that should be considered and that some agencies will be ready and others will not.

Ms. Ho commented that for assets, from the audit perspective the risk is overstatement. She suggested that if the Board is considering excluding land from the balance sheet because of the cost to determine the value, she wondered what the difference is in this case and why the same argument cannot be made.

Mr. Allen noted that is a valid point. Staff explained these assets are no different than other general PP&E that we provide guidance on whereas for land there was much discussion as to why land is somewhat different but the proposal still provides accountability.

Mr. Allen stated the Board may need to consider this further and asked if the Board's decisions affect DoD's actions. Ms. Jenkins explained that it does affect their actions because it determines if the Army, Navy, and other components need to modify their contracts to request an inventory listing versus going with option A that allows them to wait until the contract closes or when a contract modification occurs to identify CAP.

Mr. Allen thanked them for that information and explained that would be considered as the Board considered the options.

Mr. Dacey explained this as a difficult area but a potential option would be to only record prospectively to allow assets to be put back on the books without having to account for all the contracts. Mr. Dacey stated that he does not know what the average contract life or useful life may be, but that may be an option if a case can be made similar to that of software which the Board will be discussing next.

Mr. Tkac explained based on the limited data available from the agencies that had performed contract reviews, the useful life was 5.5 years. The Board noted similarities with the next topic, internal use software and thought the notion of prospective treatment could be explored further by staff. [Staff note: see additional discussion of CAP at end of IUS and at end of Rescission of SFFAS 35.]

Internal Use Software (IUS)

Ms. Batchelor explained that at the August meeting, the Board agreed to allow for prospective treatment of IUS. The recommendation was based on several factors, including a specific request submitted by DoD for this treatment for this specific category. Staff's analysis in August explained that a similar treatment that was provided when SFFAS 10 was established may be justified. Ms. Batchelor suggested it would be cost-beneficial for prospective treatment of IUS because it has a shorter useful life, and this is a soft asset that is harder to inventory when compared to tangible assets.

Ms. Batchelor explained staff determined it would be best to provide flexibility within the proposed language for this area because there might be component reporting entities that currently receive clean audit opinions, charge rates, or may not want to apply the

prospective treatment. Therefore, the Statement allows for alternatives in establishing opening balances for internal use software, by allowing for deemed cost or prospective application. In addition, if the reporting entity elects prospective treatment, the reporting entity should choose between excluding all internal use software or excluding IUS in service from the opening balance but include amounts related to IUS under development at the opening balance date.

Ms. Batchelor explained that she had heard from several members indicating support for the IUS area of the Statement. There were some wording suggestions that will be included in the next draft.

Mr. Allen explained that his comment for IUS was similar to those in other areas, he believes the treatment should be all or zero. Mr. Allen asked why the proposed Statement also offered the option of deemed cost for IUS. Ms. Batchelor explained that proposal allows for components that may be at different stages. DoD had certain components (working capital funds, intelligence agencies) that have been audited and may want to apply deemed cost to this area. In addition, the Statement would also be allowed for new reporting entities that may have IUS so the Statement should provide for an alternative valuation method of deemed cost that is consistent with general PP&E.

Mr. Allen asked the Board if they agreed with the staff recommendation of alternatives and related disclosure in establishing opening balances for internal use software. The Board agreed.

Mr. Reger asked if the same reasoning or principles for allowing prospective application could be considered for the property in the hands of contractor. Ms. Batchelor explained when considering IUS, staff believed prospective treatment was a reasonable option for several reasons. Ms. Batchelor explained that software has a shorter useful life, typically about 5 years and is a soft asset that is harder to inventory and is less likely to walk away when compared to tangible assets. She also explained that there was precedence in this area when the Board established SFFAS 10, they in effect allowed for prospective treatment.

Ms. Batchelor explained that information regarding the contractor held property is constantly evolving as DoD explained there is a completeness issue. Ms. Batchelor explained this was the first time that FASAB had heard an estimated useful life of 5.5 years for this type of property and previously in the IPA roundtable meeting it appeared that there were questions about the useful lives of assets.

Mr. Tkac explained that the useful life information was just recently determined based on the data from the Air Force. Mr. Reger stated that based on his understanding, DoD believes the equipment held by contractors would not be a material amount based on the reviews by the Air Force and contracts closed thus far. Additionally, it appeared the equipment held by contractors may be impaired or would be fully depreciated by the time it is provided back to the federal government.

Rescission of SFFAS 35

Ms. Batchelor explained that staff believed moving all implementation guidance for general PP&E, with the exception of certain provisions applicable to internal use software, to SFFAS 6 would provide a more inclusive approach and comprehensive guide for users. Therefore, staff proposed amendments to SFFAS 6, SFFAS 10, and SFFAS 23. Staff also proposed to rescind SFFAS 35 but ensured any pertinent guidance was included in the SFFAS 6 proposed Implementation Guidance. The purpose of SFFAS 35 was to establish a cost effective method to comply with SFFAS 6 by allowing reasonable estimates that were in accordance with SFFAS 6.

The one portion of SFFAS 35 that staff did not find a place for in the guidance was the explicit statement that estimates could be used going forward. However, staff believed that goes without saying. Staff explained that reasonable estimates are permitted in the preparation of financial statements, with or without the existence of SFFAS 35. Just as the previous Board included this explanation in the basis for conclusions, it is also included in the proposed Statement basis for conclusion.

Mr. Dacey asked if rescinding SFFAS 35 sends a signal that we no longer believe it is acceptable. He questioned if the intent is clear.

Ms. Jenkins explained that she understands the Board's intent and that DoD is working towards having systems in place but that is many years out. She is concerned for military equipment and the difficulty with determining costs in contracts associated with it. Ms. Jenkins explained there needs to be flexibility because they will need time to be transaction based and full cost compliant. Ms. Jenkins explained that if SFFAS 35 is rescinded, she would request that similar language be added in the new Statement.

Ms. Batchelor explained that the basis for conclusions of the proposed Statement includes a discussion that estimates are still allowed so that should help address DoD's concern. However, Ms. Batchelor explained that reasonable estimates should still be in compliance with SFFAS 6. Mr. Tkac explained that DoD is continuing to develop and mature their estimates. Mr. Tkac explained he would like to keep it simple by maintaining SFFAS 35 and leave it to DoD to force components to a system-based implementation of SFFAS 6. He explained that they currently have a plan in place to address certain issues (such as construction in progress) through the use of estimates so DoD would need SFFAS 35 in place. Ms. Jenkins explained that they have several areas that need to be addressed before they will have systems in place and they rely on SFFAS 35.

Ms. Payne indicated that staff would like to do a sweep of other FASAB guidance such as Technical Releases to see if there are any other implications. Ms. Payne explained that there is guidance (Technical Releases) to assist in the areas the Ms. Jenkins described such as accumulating, allocating, and reporting the cost of G-PP&E when there is not a detailed cost accounting system. Ms. Payne suggested there are resources other than SFFAS 35 to help with these kinds of issues.

Mr. Allen asked if staff believed there would be harm in retaining SFFAS 35 or would there be a conflict with the proposal. Ms. Batchelor explained that staff also viewed it as helping to ensure DoD stays on the path forward developing systems and controls. Also, there has been some indication that SFFAS 35 has been interpreted to be more than what was intended and they may not need to keep records or have systems because they could rely on SFFAS 35.

Mr. Dacey asked if there were other agencies relying on SFFAS 35. While he understands that estimates are allowed, he is not sure if others are not interpreting it that way or would interpret it differently. Mr. Dacey explained he is concerned that the Board may not have all the information needed.

Ms. Payne explained her concern is the overreliance on SFFAS 35.

Mr. Allen suggested that staff bring the issue back at the next meeting. Ms. Payne explained that the milestones had planned for issuing an exposure draft in December but there are several outstanding issues.

Mr. Allen suggested that the proposal could state the Board is considered rescinding SFFAS 35 and ask respondents for their concerns. Ms. Batchelor noted that we have a question for respondents on this, so we could include more on the implications. Mr. Showalter agreed and stated that the Board can expose to rescind, and ask the question then, if needed, it allows the Board to change.

Mr. Reger asked if staff considered an approach similar to IUS with the contractor held property if that would be feasible for DoD. Mr. Tkac stated that if there was similar language it would be helpful. Staff explained that as noted before much of this information is evolving and has just been brought to FASAB's attention. The information regarding the useful life and completed studies had not been available. Staff had viewed it as different because these assets are out there and we were under the impression the contracts and lives were longer. Also there was not much information regarding the status of the equipment. Ms. Payne explained that staff is open to exploring other options and rationale for the contractor held property. It may be the best option is what is practical and what is most cost beneficial.

It was agreed that the Board will discuss the issues further in December. Ms. Payne suggested that the community may not be available to respond until after the holidays so the target may be to issue after the December meeting. It may be the exposure period needs to be cut down from 90 days to 60 or 45 days. She explained that she is remaining cognizant of the fact it will be subject to Congressional review.

Conclusion: Board members provided ballots and approved Statement of Federal Financial Accounting Standards 48, entitled *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*. It will be submitted to the sponsors for the 90 day review period and if there is no objection, it will be issued on January 27, 2016.

After considering the draft 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*, the Board agreed to:

- The general approach to provide implementation guidance in SFFAS 6 to allow a reporting entity to apply alternative valuation methods in establishing opening balances for general PP&E.
- The alternatives (selecting between (1) an alternative valuation method of deemed cost that is consistent with that provided for all general PP&E and (2) prospective application) and related disclosure in establishing opening balances for internal use software.
- 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 Statement incorporates the relevant portions and would provide comprehensive guidance in SFFAS 6 for establishing opening balances. The Board stated the question and basis for conclusions may need to be expanded to solicit the necessary information.

While the Board did not make a final decision regarding land, 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 directed to research available reports to determine if there is information available by state or for the country. In conjunction with this, staff should provide analysis to assist the Board in determining if this approach should be applied to the government-wide level. Alternatively, it could be deferred for a broader government-wide land project.

The Board did not make a decision regarding government property in the hands of contactors. Instead, they requested that staff consider other options (such as prospective treatment) and rationale based on information DoD may now have available.

- **Leases**

Ms. Valentine opened the lease discussion by stating that the objective for the current session is to update the Board on GASB's progress on their Lease project. The Board had previously directed staff to use the GASB Lease PV as a platform for developing the FASAB standards on non-intragovernmental leases. The GASB continued redeliberations of the Leases project, taking into consideration public hearing testimonies, comment letters, and field test responses received during due process from the November 2014 Lease Preliminary Views document.

Ms. Valentine provided the Board with excerpts from the tentative GASB Board meeting minutes from their September 1, 2015 lease discussion. The following GASB lease topics were presented to the Board.

- Airport Leases and Related Issues
- Lessee Disclosures
- Lessor Disclosures
- Short-Term Lease Exception
- Lease Terminations and Modifications
- Subleases and Leaseback Transactions

Ms. Valentine also mentioned to the Board the tentative issue dates and effective dates for the final lease standards from IASB and FASB, as well as the proposed release date for the GASB lease exposure draft. IASB is expected to release their final standard before the end of 2015 with an effective date of 2019. FASB is expected to release their final lease standard in early 2016. GASB is expected to release their exposure draft in early 2016 and a final standard in late 2016 with a proposed effective date of 2018.

Mr. Allen reiterated the Board's plan to follow closely the GASB approach for the non-intragovernmental leases and use the operating lease approach for the intragovernmental leases. Mr. Granof asked staff if there were areas that have not yet been discussed where we may differ from GASB's approach. Ms. Valentine noted that once the GASB exposure draft is issued staff will go through the draft and identify those areas that may facilitate differences.

Mr. Allen mentioned the GASB issue of conduit debt as it relates to leases and noted that although conduit debt is a significant issue in the state & local government sector, it is not relevant in the federal government sector.

Ms. Valentine asked the Board if they had any issues with the GASB decisions from their September meeting. No issues were raised by the Board.

Mr. Reger asked staff what are the next steps on the project. Ms. Valentine noted that we will wait until the GASB exposure draft is available to begin discussions on our proposal. Mr. Reger asked if late spring/summer 2016 was a reasonable timeline for the release of our exposure draft. Staff agreed.

Mr. Showalter questioned the other standard setters' need for such long effective date periods given what seems to be a relatively simple transition to put the leases on the balance sheet given all leases are accounted for anyway.

Mr. Allen asked Mr. Granof if GASB reconsidered extending the short-term period beyond 12 months. Mr. Granof noted that GASB did discuss the issue during their deliberations, however decided not to extend short-term beyond 12 months.

Mr. Allen asked the Board and staff if there were any other discussions needed for the lease project for this meeting. The Board and staff both responded no.

- **Appointments Panel and Steering Committee Meeting**

The panel discussed activities planned for 2016 and the annual report.

Adjournment

The Board meeting adjourned for the day at 4:30 PM.

Thursday, October 22, 2015

Agenda Topics

- **Public-Private Partnerships**

At the October 22nd meeting, the Board considered a ballot draft of SFFAS 49, Public-Private Partnerships: Disclosure Requirements. After a brief staff introduction and overview, the Chairman recognized Mr. Dacey and asked if there were any issues that he would like to raise prior to balloting. Mr. Dacey thanked the Chairman and expressed the following concerns asking Members for their thoughts:

1. Use of the term “expected life” in two places without also including a definition of that term.
2. Reference in paragraph A41 to a period beyond the contract period, which he believes to be subjective and costly to apply and challenging to audit. He suggested that disclosures should be limited to the contract period.
3. Whether due process was sufficient in not allowing for respondents to the exposure draft (ED) to respond to the term “expected life”.

Members first discussed whether due process (Item 3 above) was sufficient regarding references to the expected term of P3 arrangements or transactions in connection to the contractual period or the expected longer-term relationship involved in P3s. After a review of the Exposure Draft and related due process procedures, the members generally concluded that the revision noted at footnote 10 at paragraph 16 was further clarification of the definition and would not be considered a substantive revision.

In addressing his other 2 concerns (Items 1 and 2 above) Mr. Dacey suggested that we need a clearer definition of what expected life is and whether expected life should extend beyond the contract period as illustrated at paragraph A41. It seems to be very subjective, and management would be charged with determining whether or not a contract would be continuing after the end of the contract period. Mr. Dacey went on to say that he was not sure how subjective judgments would be audited and questioned the costs that would be involved noting that it could be an expensive challenge. Lastly,

he expressed concerns about the fact that he does not think there is a commitment involved (beyond the contract term) noting that if in fact there is a significant investment by the private sector party, he thinks the contract would protect their interests if they are at a real risk of their loss under the contract and that if we record assets and liabilities with respect to P3s, it would probably be under the lease standard which he thinks would be driving towards an inconsistency.

At the Chairman's invitation to hear from other members, the following dialogue ensued.

Mr. Smith said, I understand your (Mr. Dacey's) point, and I guess you have got somewhat of a distinction but because of this project and the scope, I think it is important that we look at the expected life and not what you can get out of the contract period. I understand what you are saying is that one first starts with the contract term and says this is all that you are contractually responsible for and then can go and say here is what would happen if you extend. However, I like the idea of starting with the expected life first and saying that is what we are going to disclose and then note what it costs to get out of the P3 and related obligation. This is because the expected life concept is where we really believe we are going to be and as such, I think that in the majority of these P3s we are going to be closer to the expected life concept than what we are from the original contract period.

Mr. Dacey asked, is there a way that you could characterize that in a verifiable sense in terms of how you want expected life to be determined? How would you define expected life or put parameters around it in a way that it was consistently determinable? I do not think we have a clear definition at this point.

Mr. Smith responded, we are looking at this from a risk standpoint so I would look from an audit standpoint and go through and say start with where the client's estimating and let us say 50 years is where we are going now even though the contract agreement is less. I would ask is it reasonable that they would have terminated the contract in the original period and by looking at the economics and substance, you get client representation in what is driving the exposure. That is, I would almost take it from a common sense view by asking whether you really believed that someone would easily walk away from this at the end of the first contract period, because I am looking and saying the audit problem is going to be that the entity is trying to use a shorter period and not a longer one. Now, that is where I believe that the audit exposure is going to be. Therefore, you would have to look at what they give me to support that they would actually walk away from this at the end of the contract period and if you believe that their support is not reasonable, I would be looking for them to go and extend that to the point that the economics and substance suggest that they could easily replace this agreement that quickly. Lastly, because this is a disclosure I believe that you can get your arms around it from an audit standpoint.

Mr. Dacey suggested that it would be hard for the standard to clarify or codify that so that it could be applied in a consistent manner. The Board could provide judgments that one should make or consider. This could lay out some discussion about how you go about determining that expected life.

Mr. Smith suggested that clarifying the standard may be bridging between writing an auditing standard and an accounting standard.

Mr. Showalter said, it is his understanding the reason we have identified five years is because it is a contractual term/limitation. Most people probably would not go into these transactions if they would be bound to only five years because the economic life does not make sense financially. If we go back to what started this discussion; that is if we go with the five year contract term then we are not going to have any P3s reported and we all know that. So, when the parties entered into the transactions, they had a timetable in mind because they did a calculation to see if they were going to make money. So the parties have an expectation of how long this arrangement is going to last way beyond the contractual agreements which the federal government limits to 5 years. Therefore, replying to Mr. Dacey's point, there was something if not in the agreement itself, but the conversation and/or negotiation about how long the parties think they are going to be in this arrangement. We can add some clarity about what are the questions to ask, and I think Mr. Smith is right that the audit risk is going to be that agencies may be inclined to understate. It would be helpful if there is a way to develop some criteria to help flesh out how to assess expected life. However, if we do not go down the expected life route and use the contract terms/period instead, we are going to gut the standard because we are not going to have any P3s.

Ms. Ho said, from a practical application perspective, implementing this standard is going to be challenging due to the degree and exercise of judgment. It will be very challenging to implement this in a way that is consistent because judgments are not applied consistently. I appreciate having a principles-based standard and I also agree that there should be some flexibility in looking at the economic life of these arrangements. However, I think there will be challenges.

Mr. Smith noted we are already there regarding judgments. Take for example insurance reserves or when we start talking about allowance for bad debt reserves, we have all kinds of ways that people have to make judgments to get to financial statement presentation. We have already accepted that and the fact that they have got to come up with methodologies to be able to make those estimates. I do not think we want to get to the point where we say that the financial statements have got to be so direct formula that no one is exercising judgment. We would never say that or else we would be back at a cash basis set of financial statements with historical numbers. That is the only way we would get to the point if we would say we do not accept the fact that people cannot make judgments and cannot come up with methodologies to get to these numbers.

Ms. Ho clarified, I am not saying that there is no judgment at all but these arrangements are not typical transactions.

Mr. Smith noted that the judgment was exercised before they entered the transaction. Coming back to Mr. Showalter's point, no one is going to go into a contract like this if they have not done any analysis and looked at what the return period is. You are going to do calculations in ranges that say I have got to be in this arrangement for this long a period. The question becomes one of comfort with auditing and being able to get the

information. I believe that you can audit these arrangements and get comfortable with the estimates because the people making the judgements to enter into the arrangement have done the work.

Ms. Ho indicated that the people accounting for the transactions are different people from the people who are entering into these transactions.

Mr. Smith offered that you have got to have both if you are going to get it right. You have got to talk to the people that are entering into the arrangement and it cannot just be at the accounting people.

Ms. Ho agreed. I am just raising the challenges with the implementation and not to say that you do not do a standard because implementation is difficult. But I think it is a real challenge at the government-wide level to make sure that it is consistently applied. Also, I think I understood the example a little bit better after talking with Mr. Savini during the break and I made some suggestions in terms of clarifying. However, I agree that some criteria are needed to help ensure that people understand how they can think about this. I think that implementation for this standard will be quite challenging.

Mr. Steinberg explained that in government our contracts are limited to five years and this happens to be an arbitrary period of time picked by the contracting community that in managing the government we have got to live with. The way I view this matter is that accounting is always done on a going concern basis, and therefore, to me, the expected life is going to be much more relevant than the arbitrary contract life. We estimate estimated life all the time. For example, depreciation is based on estimated life and there is judgment applied as well. As Mr. Smith stated, financial statements are filled with judgment so what we are saying is that the accountants will judge when to figure out what is the estimated life of this project, and that is what the reporting will be based upon. I think it is fairly easy to audit how you arrived at a judgment. We are requiring that all the time now. Basic internal control assessments done by the auditors is a determination of the soundness of internal controls used and the judgment the preparers put into place in order to align the internal controls. As such, I am okay with expected life. I am not even sure I understand where you would put in more criteria to figure out what is estimated life. I think those are two pretty good examples at paragraph A-41 and I think the auditors will be able to audit that judgment.

Mr. Granof offered that this is the classic question of going with a number of five years which you know is wrong, or picking some longer number which is based on an estimate which is a lot closer to reality. You can either elect to go with a number that is supposedly verifiable by a contract or you go with a number that is relevant to decision-makers.

Mr. Reger indicated that before I answer I would like to ask Mr. Smith a question. This seems to turn more on whether all the things that we correctly need to estimate an estimated life is based on making it available and logically calculable. Now, depreciation is fairly definitive and you can make that calculation. In this case is the time frame or the lack of us defining a time frame or, alternatively, if we did define a time frame, if we said

it may be a five-year contract, but we are going to define the time frame in that contract for these determinations, how do we get to that? You know, with everything developed and a lot of these are estimates and guesses, especially liability. I keep thinking about two things just to use as examples. One is housing because we know we have P3s now where military bases have contracted with other companies to build housing, and we ask them what the useful life is and they say 99 years but we do not know how long those houses are going to be there and what we are going to use them for. The other example is our DoD friends from yesterday discussing all the equipment coming back from Iraq in containers. I am curious to what in those two examples we pick as the useful life to make our calculations.

Mr. Smith responded I would not want us to have a standard that is formulaic. That is, we could say these are the things to consider but not a formula to get the numbers because you want preparers to get what is their best estimate and not some formula to get to a number. Moreover, I would say the depreciable allowance for fixed assets is not that easy and we have probably made it easier because as a profession we have allowed preparers to pick the wrong numbers. We allow preparers to use 40 years for a building or for a car they can select 3 to 5 years but we would be better off as standard-setters if we said no, think along the lines of how long do you think that car's useful life as opposed to a number you are supposed to use. If we did this we would have better financial statements than we have currently. The fact is we have a standard that instead of using some cookie cutter approach uses a number that follows judgment on a case-by-case basis.

Mr. Granof asked are there criteria that we could recommend. I am just not sure outside of contract period how we can do that. I am not saying it cannot be done but I do not think that we may have given people enough of a framework.

Mr. Allen noted early on Mr. Smith made a point that I think is very germane to Mr. Granof's concern. The incentives of those federal agencies who will prepare these P3 disclosures is to minimize the periods reflected. That is, the last thing in the world you are ever going to see is 99 years. Their incentives are going to be for opting for short periods. While it is a valid concern that if it is totally open-ended, there is this built-in incentive that the longer it is, the more work they are going to have to do. However, as I think both Mr. Showalter and Mr. Smith have pointed out, the real audit issue is going to be whether agencies have chosen reasonable periods without going out too long in order to be reasonable; not necessarily a 99-year period. I think that should help with some of Mr. Granof's concerns.

Mr. Dacey expressed appreciation for this candid, thoughtful discussion. One of his concerns was that the amounts disclosed over the expected life may not rise to the level of a commitment; the reason for disclosing future payments. These are payments we expect to make which for the most part would be expensed in the year they were paid, and therefore he is struggling a little bit with what are we representing that number to be, because I do not know that there is commitment anymore.

Mr. Smith noted the only reason he is okay with that, if in the federal space you could go and say the contracts would be a period of when someone expected they would have it, then I would think the contract period could make sense because a person would say, well, if I know I am going in for 25 years, I would sign a contract for 25 years and then that is the period to use. Then you would say to go longer than the contract period of 25 years would involve someone making a decision of whether they want to go forward or not, and then you could have a point to go and discuss the commitment. But if we just stopped at the contract period, we almost know that other than the contracting vehicle, we expect payments to be longer than that and for this only reason is why I am okay with the expected life period and going longer than the contract period.

Mr. Showalter agreed the payment is not a commitment because if it was a commitment we would not be writing this standard; we could fall back to another standard.

Mr. Dacey noted we do not have a good standard on commitments.

Mr. Showalter expressed sympathy with Mr. Dacey's concept of getting some idea what we mean by expected life; whether that is in a footnote or definition or basis for conclusions. We would not define long term but rather expected life.

Conclusions: Members continued discussing the best placement for clarification concerning the term "expected life." In conclusion, although the majority of the members present favored going forward with the ballot draft as shown at TAB I, in order to get broader member satisfaction with the guidance, they generally agreed to adding language to footnote 10 at paragraph 16 to provide preparers with things to consider when assessing the expected life of a P3 (that is, clarifying the expected life concept). Members generally agreed to conduct this process via email wherein the Board will be provided language for the footnote and re-ballot accordingly.

- **Tax Expenditures**

Mr. R. Alan Perry of GAO and the following members of the task force joined the Board to discuss the draft introduction section of the exposure draft:

Robert Bixby	The Concord Coalition, Executive Director
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	EY, Partner/GWSCPA; 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
Robin Valentine	KPMG LLP, Partner
David Weiner	Congressional Budget Office, Tax Analysis Division, Assistant Director

Mr. Perry noted that the task force is formulating its recommendations and will provide a report in December. One of the recommendations will be to have an introduction section to the exposure draft to inform potential respondents about this complex issue. The task force members have worked very hard through several rounds of revisions to comprehensively address this topic. The goal is a relatively plain language introduction addressing key topics in a neutral manner. The task force is here today to answer any questions that you might have about the document. He also noted that both Mr. Showalter and Mr. Steinberg provided written editorial suggestions.

Suggestions discussed at the meeting included:

1. The background section appears to provide a definition but that definition differs from the definition section's legal definition. Also, the wording implies a tax expenditure is a loophole but some view tax expenditures as a policy choice that is intended to motivate behavior while avoiding a budgetary outlay. In revising the paper, members suggested the task force consider:
 - a. Having the definition early but consistent with the legal definition and explain it in plain language
 - b. Explaining how to interpret "losses" because it may imply something was due but not paid; a tax expenditure is not "due" but may be a revenue reduction
 - c. Removing the phrase "ensuring more money" is available
2. Consider adding examples to bring the discussion to life for a lay reader. For example, identify a high quality estimate and an estimate for which data is hard to obtain.

In discussing tax expenditures with the task force, the following thoughts and ideas were raised:

1. Accelerated depreciation is a tax expenditure and is considered a "deferral." It is not currently one of the largest twenty but sometimes is due to changes in economic activity.
2. Payroll tax preferences – such as not paying taxes on small amounts paid to household workers – are not included. Only income tax preferences are included.
3. Controversies regarding tax expenditures relate to:
 - a. Selection of the baseline tax system – there is no statutory definition and different government agencies make different judgments and parties outside the government also disagree.
 - b. The tax expenditure budget is not designed to predict how much revenue the government can raise by certain actions but some interpret it as such.
 - c. It is easier to identify new tax expenditures by evaluating the legislative change than it is to identify as tax expenditures provisions that have been embedded in law for a long period of time. As an example, the second largest tax expenditure is imputed rent on owner-occupied housing. There is no legislative change that put that into place because this imputed rent has never been taxed and some argue that it is administratively infeasible to do so it.

- d. Regarding reasonable assurance that the estimates would be reasonably accurate, it is important to note the variation in quality. The characteristics of tax expenditures vary dramatically. Some are directly observable off of tax returns and the estimates are of very high quality. Others are not directly observable and Treasury is not using tax data for these estimates. Also, you may question what the counterfactual is. Even if you can observe the current behavior, you may wonder what the counterfactual really looks like. That is, what would behavior be if the provision were removed.
 - e. Regarding auditability of the estimates, the auditor would consider representational faithfulness. He or she would ask is this estimate worthless on its face and therefore you should not shine a light on it and pull it forward into the document? If it is worthless on its face, then you should not pull it forward and shine a light on it. On the other hand, can you provide sufficient context regarding the quality of the estimates and variations in the quality to arrive at numbers that are good enough.
4. Refundable tax credits are reported by Treasury as tax expenditures to the extent that they offset revenues. This is consistent with the legal definition's focus on preferences leading to revenue losses. Amounts paid to tax payers (beyond offsets of revenue) are not reported as tax expenditures but are reported as outlays in the budget.
 5. Net imputed rental income relates to the positive economic taxable income accruing to you because you have this benefit of living in the home you own and you would otherwise pay rent to live in it. Everyone who owns a home is presumably benefitting in the long run from having access to this tax expenditure. In terms of incentives for people to invest in different kinds of assets, the value that you are not taxed on, rental income imputed on your house, is an incentive. The economic substance is you have a \$500,000 house and you do not have a mortgage. You could have invested the \$500,000 in securities and paid taxes on the interest or you could invest it in a house and live in it effectively without having to pay any taxes on the rental value.
 6. Members expressed concern regarding expiring tax provisions. The current estimates are based on tax law as of July 1st of the fiscal year being reported upon. Whereas accountants focus on the economic substance of events, the tax expenditure estimates assume current law is stable. The context of the current tax expenditure budget is the President's Budget; which advocates for what the President wants to accomplish in the future including tax changes. The budget does not presume legislation not yet enacted will be. While estimates for expiring provisions are sometimes possible, judgments would be very hard to make in many cases. Also, some provisions are deliberately temporary, like the payroll tax cut during the recession, and one would not want to extend that permanently when there was no intent to do so. Some suggested estimating the current year amount for provisions expiring during the year.

Ms. Payne noted that she had been unsure whether FASAB had the resources to support the project when it began. However, the extraordinarily talented team of people

has really made it easy thus far. She commended Mr. Perry for his clear communication and excellent writing. She thanked them all for their contributions to this important project.

Mr. Allen agreed. He noted that one should be able to look at the financial statements of the government and make some assessment of whether the financial condition of the government improved or deteriorated as a result of current year activity. He asked how you can possibly do that without some discussion of tax expenditures. He thanked the team.

Conclusions: The task force will provide its report for consideration at the December meeting.

- **Risk Assumed**

- I. The following was discussed in relation to the updated language for the liability for losses on remaining coverage:

Ms. Gilliam reiterated that during the June 2015 meeting, the Board voted to require expected value first and then the most likely amount or another method, such as a regression model, in the event that expected value is not feasible or appropriate for the settlement for losses estimated to occur during the remaining open contract period as of the end of the reporting period. Staff worked with Mr. **Dacey** to update the liability for losses on remaining coverage language presented to the Board.

Mr. Allen asked if any member disagreed with paragraphs 29, 30, and 31. The Board affirmed that paragraphs 29, 30, and 31 were acceptable.

- II. The following was discussed in relation to what option was preferred for the alternative measurement method for the liability for losses on remaining coverage: (a), (b), or (c).

Ms. Gilliam reminded the Board that paragraph 31 was approved as follows:

An entity should estimate the amounts to be paid to settle future claims during the remaining open contract period using the expected value of future claims based on all available information existing at the balance sheet date, including experience with previous transactions, trends, and, as appropriate, the views of independent experts. Expected value is the sum of all possible values each multiplied by the probability of its occurrence.

She then presented the following three options and staff analysis to determine the best wording to allow use of a method other than expected value (EV):

(a) An entity may use a method other than expected value, such as a regression model or most likely amount, if the method is expected to provide a more reasonable estimate of the amount to be paid to settle future claims for the open

contract period. The alternative method should be based on all available information existing at the balance sheet date, including experience with previous transactions, trends and/or current conditions, and, as appropriate, the views of independent experts.

Staff Analysis: Staff is concerned about the use of the word “more” in (a) because the agency may have to produce an estimate using the expected value and an alternative method to prove to the auditor why the alternative method is a “more reasonable estimate.” This may be burdensome and timely, requiring significant experience with both methods to resolve.

(b) An entity may use a method other than expected value, such as a regression model or most likely amount, if the method is expected to provide a reasonable estimate of the amount to be paid to settle future claims for the open contract period. The alternative method should be based on all available information existing at the balance sheet date, including experience with previous transactions, trends and/or current conditions, and, as appropriate, the views of independent experts.

Staff Analysis: The word “more” was removed from option (b). This would permit the preparer to select a suitable alternative method that produces a reasonable estimate of the settlement. This option does not clearly state why an agency would or should choose an alternative method of estimation.

(c) An entity may use a method other than expected value, such as a regression model or most likely amount, if the expected value is not feasible or appropriate to estimate the amount to be paid to settle future claims for the open contract period. The alternative method should be based on all available information existing at the balance sheet date, including experience with previous transactions, trends and/or current conditions, and, as appropriate, the views of independent experts.

Staff Analysis: Staff prefers option (c) because it would allow an agency to explain to an auditor why the expected value is “not feasible or appropriate” without the burden of calculating two different methods.

There was a significant discussion among the members as to what the Board wanted to achieve. Per their vote in June, members agreed that expected value should be first only if it was feasible and appropriate, and then, if not, an alternative method may be used. Mr. Allen was concerned about how flexible (c) allows the agency to be if circumstances are not appropriate to calculate expected value. Members did not want agencies to have to do the mechanics of expected value to prove to their auditors that it was not feasible or appropriate. The Board wanted to make sure that the criteria is very clear, where paragraph 32 does not reverse 31 and proclaim an either-or criterion.

Mr. Allen asked each member to discuss which option they preferred.

Mr. Showalter preferred option c, because it is clearer.

Mr. Steinberg chose (b) because he prefers flexibility.

Ms. Gilliam noted that none of the options offer flexibility. Paragraph 31 states that expected value should be used; each option then offers a different qualifier to allow use of an optional model. Mr. Steinberg noted that he does not read (b) as you cannot. Ms. Gilliam reminded them that for (b) staff removed the word “more.”

Mr. Dacey preferred option (b), noting the following concerns about option (c). It is always feasible to calculate EV whether you can do it reliably or appropriately is not the question. Stating that he did not know when it would be not appropriate to use an expected value calculation. Mr. Dacey asked if we have an agency currently using a regression model. Mr. Smith asked if the regression model is noted because the agencies that use it cannot do expected value.

Ms. Gilliam noted that Crop insurance uses a regression analysis model due to the extreme uncertainty of estimating crop damage—mother-nature does not align to the government’s reporting year end. Therefore, they specifically asked that regression model be included as an appropriate model. That information was provided during the education session in December 2014. Crop noted that regression analysis was an approach that provided information to arrive at an estimate like expected value and that changing to expected value would not provide any extra value or make their estimate any better. Ms. Gilliam further noted that staff will include a discussion in the Basis for Conclusion as to how we came up with adding that model per a request by Mr. Steinberg.

Mr. Granof chose (c) based on the theory that EV was really the preferable method that they have to use unless it is impractical and not feasible. If the Board decides that regression is an equally good method then he would choose one of the other options. Mr. Granof noted that we can use expected value which would technically be the base model, we can use most likely which is the single most, or you could use a range with a minimum, maximum or average value. Mr. Gilliam reminded the Board that the range was removed as an option by the Board. Mr. Granof said he was not suggesting to re-include it, but he did ask why expected value is the preferable method.

Mr. Allen noted that expected value is the first choice because it is well defined in accounting literature. Ms. Gilliam reminded members that the Board was concerned that the most likely amount might often lead to \$0, and therefore concluded that the expected value was the best way to estimate these uncertainties, such as a Katrina or Sandy.

A number of members requested that a regression model be explained in relation to expected value.

Mr. Dacey explained that regression analysis uses historical information for estimating relationships among variables to determine the amount. The EV is a mechanistic

approach that assigns probabilities to different outcomes. For example: \$100, \$70, \$50, \$20, are each assigned a probability of occurrence—based on subjective judgment—that must equal 100%. Each is multiplied by their probability and then added together for the expected value.

A number of members agreed that EV is a formula that comes up with an objective single amount. Mr. Dacey agreed but noted that using regression analysis does not necessarily preclude an expected value approach. That it is one way of reaching an estimate. He also noted that commercial insurance considers a number of things to determine the best estimate. But it is not always driven by a model.

Mr. Smith liked (c) better but questions what the difference is between most likely amount and expected value.

Ms. Gilliam explained that the most likely amount is a single amount, whereas for the expected value they have to assign a probability to the estimated settlement amounts to calculate the total settlement amount. Mr. Dacey added that most likely would be looking at historical patterns and trends and apply judgement to determine the single estimate that they believe will continue into the future. Expected value model is a weighted average.

Ms. Payne said that she thought that most likely amount was for a small population of contracts. She asked if a most likely amount can be converted to expected value. Mr. Dacey noted that we defined expected value very narrowly; the problem with a small universe is that we do not know what is going to happen which makes it hard to figure out the probability.

Mr. Smith noted that the standard should clearly say that an alternative model is reasonable if you cannot do expected value. Mr. Showalter and Mr. Allen agreed. Mr. Smith suggested rewording it to say “if you cannot do expected value first because it is not practical, then you can use these alternatives.” Mr. Granof offered—an entity may use a method other than expected value, such as regression, only if the expected value method is not feasible. Ms. Payne noted that moving the qualifying phrase to the front puts it in better context. Mr. Smith agreed and said that it is clearer but drives a harder line.

Mr. Showalter agreed noting that the wording of (a) and (b) would always require an agency to calculate the other estimate to see if it is more reasonable. Mr. Dacey said that option (b) would not have to require a calculation of both, which is why he preferred (b). That (b) would allow management to explain that they understand expected value, but that they could come up with an estimate using a regression model easier than expected value, as long as it is reasonable.

The argument would be a theoretical one in relation to what provides the better estimate. Mr. Showalter agreed pointing out that they would have to explain why it is a better estimate.

Ms. Payne noted that (c) is the tightest version, because the key argument is it is not feasible or not appropriate. They probably can convert the regression model to an expected value but with an effort, but why would we want them to. Mr. Smith added that it is not practical and therefore will use an acceptable approach. Mr. Dacey said that because expected value is mechanical, there should not be any situation where you could not use it. EV may just not come up with the best outcome.

Mr. Smith and Mr. Allen discussed whether “appropriate” or “practical” is the best word for option (c). Mr. Allen thought the word “appropriate” was the middle hurdle. Mr. Smith noted that an agency can get over a hurdle of “practical” much easier than they can with “appropriate.” The word “appropriate,” does not clearly say whether an agency can or cannot do EV. It may not be practical to do EV due to the effort an agency has to go through. Therefore, the word “practical” in the requirement would clearly state that an agency may use an alternative method because it is not worth the additional effort. Ms. Payne reiterated that “practical” is the reason that they would not be following EV and instead use an alternative model.

Conclusion: The Board requested that staff research both meanings to see which one to present in December.

Ms. Gilliam directed the Board to the memo page 8 of 10 (d)—to discuss the standard which requires the agency to disclose the basis and methods for why they are using that model. Mr. Dacey noted that this allows them the flexibility. Ms. Gilliam agreed.

Ms. Davis (sitting in for Ms. Ho) prefers (c) under the premise that we do expected value first and then if EV is not practical, allow another method.

Mr. Allen preferred (c). He noted that most members preferred (c).

Conclusion: The Board directed staff to write it up with the qualifier first and present it again in December.

III. The following was discussed in relation to streamlining disclosures

Factors for Determining Disclosures:

Mr. Showalter brought up concerns about the new section Factors for Determining Disclosures and not understanding the wording “beyond materiality” in relation to quantitative and qualitative factors that relate to materiality. Ms. Gilliam and Mr. Showalter restructured the Factors for Determining Disclosures prior to the meeting and staff presented that as an additional handout; removing the term “beyond.” The Board agreed.

Mr. Granof asked if our discussion of materiality takes into consideration the new FASB approach.

Ms. Gilliam directed staff to memo page 5 of 10 and the first statement. She noted that staff used a draft standard from FASB and merged it with federal insurance disclosure

standards, in order to reference insurance portfolios instead of financial statements as a whole per FASB draft standards.

She further explained that the Factors for Determining Disclosures are general information about what to disclose and the next section includes specific disclosures. Staff explained that this structure was modelled after SFFAS 47, *Reporting Entity*.

Mr. Granof asked why we could not just make reference to Objectives of Reporting in SFFAC 1. He wanted to know if we are going to include Factors for Determining Disclosures in all statements or just put it in some, and not in others. He does not want to clutter up every single statement with boiler plate information; it loses meaning then and recommends taking out 35, 36, and 37 because all FASAB Statements have a materiality box.

Mr. Smith asks if we can issue a separate standard with disclosure information that will apply to all standards. In contrast, Ms. Payne noted that FASB would add “to the extent material” in front of every list that they have.

Mr. Allen suggests we leave in only 35. Mr. Showalter noted that this section provides context to the discussion about qualitative and quantitative examples which was previously approved. He suggested the Board either take out all the examples or keep both of them in. Mr. Allen noted that 35 has unique language for insurance programs. Ms. Gilliam agreed, stating that it discusses how to aggregate information by portfolios.

Conclusions:

- **The Board decided to keep the quantitative and qualitative examples.**
- **The Board also decided to keep 37** after Ms. Payne pointed out that it includes the concept about utilizing references to other disclosures to reduce an agency’s burden in duplicating disclosures.
- Mr. Dacey noted that materiality is not applied to qualitative factors; rather it considers both quantitative and qualitative factors. **The Board requested staff to update that wording.**

Paragraph 38

Mr. Dacey said that he appreciated staff’s work on streamlining disclosures and referred members to the memo page 8 of 10, paragraph 38. He asked why we want to disaggregate specific information for insurance programs. He asked what is unique about insurance programs to require condensed disaggregated information about cost, and revenue, etc. Either it is good for all programs or there is something special about insurance programs.

Mr. Showalter said the disclosure is not to replicate all the details about the insurance program, but rather the risks to the federal government from the insurance program.

Mr. Allen noted that we want this detail at the initial audit level which may be below the component reporting level. He stated that this level of detail should not be at the government-wide level. Mr. Dacey agreed that this level of detail should not be at the government-wide level.

Ms. Gilliam said that in theory disclosing this information at lower levels sounds like a good solution, but they are not always audited and therefore cannot be referred to. Often they are schedules that are done and forwarded to the reporting level, like at VA. If you want to see this at the department level, then we need to make that clear. Mr. Allen said he wants to see this at the audited level.

Ms. Gilliam noted that it is important and unique for citizens to know how much funding was needed above premiums collected. Mr. Allen and Mr. Showalter requested that staff add the word "when appropriate." And, only include separate items that are material.

Mr. Dacey acknowledged that, but wanted to know what the threshold was for including separate line items and noted that all the detail is not necessary. If we want to say that there is loss and exposure because we spend more than we collect and need to borrow, this could be done without a full disclosure of information.

Mr. Smith noted that we are only interested in the interest from borrowing to pay losses above premiums. We do not care about the interest expense from borrowing for say a capital lease. But that does not seem clear in this schedule.

Ms. Gilliam asked if, for example, Crop receives 60% subsidy and 40% premium, does the Board want readers to know that distribution. Does the Board want to know how much losses are covered by premiums or not covered by premiums?

Mr. Dacey said that yes, financial statement users should know about this, but not necessarily in a schedule with numbers. He is not averse about disclosing the nature of the risks and the concerns, that we can do this in a narrative requirement. He requested staff to provide some alternatives with specific objectives. Ms. Gilliam suggested that we require a narrative instead but emphasized that the standard is to maintain consistent reporting.

Conclusion: The Board agreed that staff will present an alternative disclosure for the December meeting.

Paragraph 39

Mr. Smith requested that we remove the breakout of the current and prior year lines for the incurred and payment sections. He was concerned that other areas in the financial statements do not make an estimate and then split how much is current and how much is correcting the prior year estimate.

Mr. Showalter added that we should be concerned with reader burden as well as preparer burden.

Ms. Gilliam noted that this is a schedule that both Crop and Flood disclose from FASB standards and they agreed with this structure in order to standardize it. Mr. Allen noted that they can provide the additional information about prior year if they want to. Ms. Gilliam said that this might lead to inconsistent reporting which we are trying to avoid.

Conclusion: The Board approved keeping the schedule and consolidating the current and prior year lines. Staff will present this change for the December meeting.

Government-wide (GW) Requirements

Mr. Dacey and Ms. Davis asked if staff had updated the government-wide requirements.

Ms. Gilliam said that staff did update in relation to the schedule items in 38.

Ms. Payne asked if the government-wide team would apply materiality. Mr. Dacey said that he reviewed the GW statement and the two largest material programs were FDIC and PBGC, both FASB reporters with \$160B out of \$168B dollars which only left \$8B dollars. He asked if the Board wanted to break down an immaterial amount into all of those components for each of those programs. A number of members noted that breaking out these details is reasonable at the component level but not at the GW level.

Ms. Gilliam noted that staff did separate out the liability for unpaid claims from the liability for losses on remaining coverage according to categories. She recommended that staff consolidate everything and just require the breakout of the larger material ones as is captured now.

Ms. Gilliam asked if there is a material weakness for risk assumed at the GW level that needs to be addressed in the standards. Ms. Davis said that the material weakness is because agencies are not reporting consistently and once the agencies report according to the new standards the material weakness should go away.

Mr. Dacey and Ms. Davis both agreed that there can be one line item for insurance program liabilities and noted that as long as Treasury collects the detailed liabilities from the component level the auditor should be able to prove out the line item number from the component detailed numbers.

Conclusion: The Board approved the following updates: incorporate all categories into one—removing the reference to each; incorporate all the liabilities into one line item; include a narrative about the related borrowing; and maintain the amount and narrative about the insurance-in-force with the updates from Mr. Granof.

III. The following was discussed in relation to the updated language for the liability for future benefits

Ms. Gilliam discussed Mr. Dacey's concern about including short duration contracts in relation to the renewal characteristics for life insurance contracts. She noted that both OMB and VA consider their term products as long-duration because of how monies are collected each pay period. Term contracts remain active until someone dies or someone cancels. Unless someone cancels it is considered long-duration. Staff included the wording "including contract duration" in order to allow agencies to include short-duration portfolios if they exist.

Conclusion: The Board approved this.

Mr. Smith asked if "premiums to be collected" in paragraph 51, should actually be unearned premiums collected. Mr. Dacey explained that there is not an unearned premium for life insurance because we discount back for future net premiums going forward at the end of the year. The adjustment is to the liability and not separated on the balance sheet. Mr. Smith said ok.

Conclusion: The Board made no additional changes to the liability for future benefits.

Ms. Gilliam noted that there were a few items to add to Basis for Conclusions and that the updated scope paragraph presented by Mr. Steinberg will be reviewed during the December 2015 meeting.

Mr. Allen closed the meeting.

- **Reporting Entity Question**

Ms. Batchelor explained the objective of this session is to address a question regarding Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity* was issued in December 2014. The financial management community is working on SFFAS 47 implementation guidance and a question was presented for which staff wanted to confirm the Board's position—whether prior year financials should be restated if a material change in the reporting entity results. If restated, this would mean FY 2017 financial statements would be restated when FY 2018 is presented.

The briefing materials provided an analysis that staff does not believe it would be cost beneficial to restate prior year financial statements. The briefing materials noted that the research and outreach performed during the development of Technical Bulletin 2003-1 provided sufficient analysis that a restatement for a change in entity in the federal government environment would not be appropriate because federal financial reporting objectives do not focus on the earning power or credit worthiness of the component entities of the government. The analysis also noted that based on the Board's discussions during development of SFFAS 47, it appeared most Board members were thinking about it prospectively and did not expect restatement.

Therefore, staff believed no further Board action would be required and SFFAS 21 paragraph 13 would apply. Thus, any adjustment would be made to the beginning balance of cumulative results of operations in the statement of changes in net position; no restatement would be made to the previous year; and a high level disclosure would be made regarding the change and its effect on balances.

Staff noted that the decision results in a conflict or inconsistency with OMB Circular A-136, Financial Reporting Requirements. OMB Circular A-136 has the following provisions in section II.4.9.1 Note 1 Significant Accounting Policies (**emphasis added**):

In addition, the summary of significant accounting policies should **disclose any significant changes in the composition of the reporting entity** or significant changes in the manner in which the reporting entity aggregates information for financial reporting purposes. These changes, in effect, result in **a new reporting entity, and their impact should be reported by restating the financial statements for all prior periods** presented in order to show the new reporting entity for all periods presented, except for certain portions of Funds from Dedicated Collections, as described in SFFAS No. 27, as amended by SFFAS No. 43.

Ms. Kearney explained that she researched the history and explained the current OMB Circular A-136 language first appeared in OMB Bulletin 94-01 form and content guidance (1994). She explained that it was based on Accounting Principles Board Opinion No. 20. Ms. Kearney explained that when SFFAS 21 was developed, OMB A-136 was not changed because the Board did not weigh in on this particular issue. She explained that based on the Technical Bulletin in 2003 for DHS, it would not have been appropriate to change A-136 for one affected agency.

Ms. Kearney explained that if the intent of the Board is for this to apply to the whole federal government, OMB Circular A-136 can be updated to be consistent with the Board on this matter. Ms. Kearney explained that she did not get a chance to confirm with Mr. Reger but she believed it was fair and the cost versus benefits consideration was taken into consideration.

Mr. Granof asked what the other side of the issue is. Ms. Batchelor explained the other side is that some may believe presenting comparative statements is important because it would be misleading if there was a material change in the reporting entity. However, staff does not believe it would be cost beneficial to restate prior year financial statements.

Mr. Dacey asked if there was a possibility that an entity could be such a different entity that it is misleading to show comparative financial statements? He explained that the Board should consider if there is a point where a particular situation could be misleading, in which case there may need to be options but single year statements would be the best response. Mr. Showalter suggested the Board could state not to restate or if they do, show comparative, as it would be misleading if the amounts are not restated.

Mr. Showalter explained that when he thought about this issue, he believed they would not show comparative because it would be too difficult to do it and they probably would just do one year since they do not have the comparative statements and information. The Board generally agreed with Mr. Showalter's comments.

Chairman Allen asked the Board if they were comfortable with staff's recommendation that prior year financial statements should not be restated and that SFFAS 21 paragraph 13 applies regarding implementation of SFFAS 47. The Board agreed with the staff recommendation. Chairman Allen explained that since the Board isn't changing anything that is published, SFFAS 21 paragraph 13 can be relied upon since the Board is comfortable that they do not want to universally require restatement.

Conclusion: The Board agreed that prior year financial statements should not be restated upon implementation of SFFAS 48. Hence, SFFAS 21 paragraph 13 applies regarding implementation of SFFAS 47. OMB Circular A-136 will be updated to be consistent with the Board on this matter.

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

Ms. Payne opened the FASAB 2015 annual report discussion by asking members if they had any edits or comments on the latest draft of the report.

Mr. Dacey asked whether responses to members' comments were also noted in the report. Mr. Allen stated that if more than one member raises a question or comment we would be inclined to note a response in the report.

Mr. Reger noted his appreciation to the FASAB staff and Board members for their participation in the other standard-setters' meetings and reporting back to the full Board. Mr. Dacey suggested that FASAB's participation and reporting at FASAB meetings be discussed. Ms. Payne agreed to add a sentence to the report.

Chairman Allen noted that he had a few editorial comments on the annual report.

Mr. Steinberg asked about the three new potential projects added to the three-year plan (financial performance reporting, land, and reporting cash flows). He asked what was the basis for the "reporting cash flows" project. Ms. Payne replied that there were inquiries about the need for a deeper dive into the preparation of the cash flow statement. Mr. Dacey noted that the statement is not a traditional cash flow statement.

Chairman Allen asked if the two new members' names could be added to the report. Ms. Payne agreed to add their names to the report.

There were no other comments on the draft annual report.

Adjournment

The meeting adjourned at 3 PM.