

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
June 23-24, 2010
Room 6N30
441 G Street NW
Washington, DC 20548

Wednesday, June 23, 2010..... 1

Administrative Matters 1

- Attendance 1
- Approval of Minutes 1

Agenda Topics 2

- Revised Policies and Procedures 2
- Federal Entity 4
- Steering Committee Meeting 15
- Federal Reporting Model 16
- Managerial Cost Accounting 16
- AAPC Technical Release on Grant Accruals 22

Adjournment 22

Thursday, June 24, 2010..... 23

Agenda Topics 23

- Measurement Attributes 23

Adjournment 27

Wednesday, June 23, 2010

Administrative Matters

- **Attendance**

The following members were present throughout the meeting: Chairman Allen, Messrs. Dacey, Granof, Jackson, Reger, Showalter, Schumacher, and Steinberg. Ms. Bond did not attend; Ms. Kearney represented Ms. Bond throughout the meeting. The executive director, Ms. Payne, and general counsel, Mr. Dymond, were also present throughout the meeting.

The Chairman and members welcomed Mark Reger, the new member from the Department of the Treasury, to the board.

- **Approval of Minutes**

The minutes were approved electronically in advance of the meeting.

Agenda Topics

- **Revised Policies and Procedures**

Chairman Allen welcomed Greg Anton, chair of the American Institute of CPAs' Rule 203 Review Panel, and Mary Foelster, director of governmental auditing and accounting. Mr. Anton described the process used in the review and presented the results of the Rule 203 review (see attached presentation). Key points included:

- (a) The review panel comprised individuals with diverse experience and knowledge of standard setting.
- (b) The criteria remain independence, due process and standards, domain and authority, human and financial resources, and comprehensiveness and consistency. Of these, human and financial resources, and independence were considered more closely.
- (c) The review included an evaluation of a FASAB self assessment of compliance with the Rule 203 criteria, interviews with FASAB members and constituents, and consultation with the AICPA board of directors.
- (d) The resolution passed by the AICPA council in May provides that the FASAB will continue to be recognized as the source of GAAP for federal entities and that – contingent on the successful implementation of the AICPA recommendations during the next two years – no further five year sunset reviews will be conducted.

Mr. Anton summarized the recommendations to be acted on by the FASAB during the next two years as follows:

- (a) to conduct an annual self review of the criteria and provide the review to the appointments panel members that are the non public members and to provide that to the public in general
- (b) FASAB would self-report reportable events related to the rule 203 criteria to the AICPA on a timely basis
- (c) every five years, a slightly more robust self assessment would occur based on the annual reviews and presented to the AICPA directly (an internal review by FASAB rather than external review)
- (d) the appointments panel membership would change slightly in light of the discontinuation of the Accounting Research Association (ARA) and the appointments process revised

- a. an additional AICPA member would replace the ARA member
 - b. the AICPA members would be appointed through the AICPA committee process
 - c. the FAF appointment would continue as it is currently
- (e) no later than May 2012, the review panel will report to the AICPA board of directors regarding the implementation of these changes
- a. during the 2 year period, panel members may attend some FASAB meetings as observers
 - b. adoption of the new processes will be assessed

Mr. Anton later reminded the members that the panel also recommended that alternative sources of funding be considered for FASAB. He recognized that this was not an immediate goal but that it should be considered in the long-run.

Mr. Allen thanked Mr. Anton and Ms. Foelster for their timely review and willingness to continue working with the board. Members were invited to ask questions. There being none, the chairman invited comment on the revised draft. The following changes were agreed:

- (a) On page 9, with regard to public hearings, the phrase “if desired” should be altered to convey the importance of public hearings but not to require a public hearing in all cases.
- (b) Members did not suggest changes to the rules but noted the importance of outreach and suggested that public meetings held in connection with conferences or meetings of stakeholder groups should be encouraged.
- (c) The frequency of board meetings should not be limited to two days every other month.
- (d) Page 3, footnote 1, identifies legislative references to FASAB and one member asked why it was presented there. The members agreed that the footnote should be clarified to avoid any possible implication that FASAB was established through legislation.
- (e) Page 29, regarding a veto, a suggestion was made to clarify that this was a reportable event.
- (f) On page 12, include a reference to the more detailed discussion of the annual report that is presented later in the rules.
- (g) On page 6, clarify that individuals may request that FASAB address new areas as well as areas covered by existing guidance.

- (h) On page 11, clarify the use of dissents and alternative views in different documents (Statements vs. EDs).
- (i) A member requested that the rules be clear regarding whether an explanation of the reasons for a dissent must be provided for publication in a final Statement. Current practice is to encourage presentation of a written explanation. No members objected to clarifying the rules.
- (j) Regarding a reportable event, guidance stating the chairman may consult with any appropriate committee, steering committee or appointments panel member prior to reporting the event.
- (k) Regarding the media policy, a member objected to asserting that the role of members is to “advocate” their views in the media. No members objected to deletion of this role. Members discussed media relations and, while no changes to the rules were envisioned, they generally noted that:
 - a. The executive director and the chairman should be notified of contacts but no firm requirement should be established that all calls be referred to them for action.
 - b. During open due process, it is helpful for members views to be aired but it may not be as helpful to continue open criticism of a final pronouncement. However, members are free to exercise judgment.
 - c. Members may be asked to comment on application of standards to specific cases but should refrain absent direct involvement in the matter (e.g., through roles other than FASAB membership).
 - d. Members should alert media contacts that the Board view is expressed only in written documents.

CONCLUSIONS: The above changes and any specific editorial comments provided by members will be provided for consideration and approval at the August meeting. In addition, the AICPA requested a tracked change version identifying all changes from the previously adopted rules.

- **Federal Entity**

Staff member Ms. Loughan explained the primary objective was to discuss issue areas related to the federal entity project and staff recommendations that will enable staff to continue finalizing a Draft ED. Ms. Loughan added that staff will seek Board member’s comments on the seven issue areas and questions listed in the Staff Paper.

Staff explained the first two issue areas related to the conclusive principle and were follow-up items from the previous Board meeting. Staff directed the members to page 4

of the paper to Issue 1: Clarification that financing accounts for any entity should be considered in the conclusive principle.

Staff explained a member had suggested that the Federal Programs by Agency and Account may not include financing accounts, such as federal credit reform financing accounts and the Draft ED should provide for those. Staff had agreed to clarify and proposed language as follows:

An entity listed in the *Budget of the United States Government: Analytical Perspectives-Supplemental Materials* schedule entitled *Federal Programs by Agency and Account* ^[FN 1] is within the boundaries of the government-wide reporting entity.

1. ^[FN 1] Entities should include any financing accounts associated with the organization although they may not be specifically included in the schedule.

Staff requested Board member feedback on the proposed language.

Mr. Jackson asked what entity would have a financing account but would not be included in the schedule. Staff explained that an entity may be included but the federal credit reform financing accounts are not listed in the schedule. Mr. Jackson explained the footnote may not be necessary as the entity meets the conclusive principle and by definition is a part of the reporting entity. Staff explained it was to address a concern and added to be clear, not cause confusion.

Ms. Kearney explained that in practice, the way Concepts 2 had been applied is that if an entity is included in the schedule, only the amounts in the schedule have been incorporated into the statements. Mr. Jackson explained that's incorrect to incorporate budget amounts into the financial statements.

FASAB counsel, Mr. Dymond noted the financing accounts would be automatically included in the statements of the entity by virtue of the credit reform accounting standard. He explained the financing account is the source of funding for the loan subsidy.

Mr. Allen noted the issue seemed very similar to the second issue that the Board would be discussing, entities partially in the budget.

FASAB Counsel Mr. Dymond agreed and explained this could be considered a subset of issue 2, which is partially in the budget. Staff's approach in issue 2 is to simply say if the entity is listed in the schedule; the entity is in whether it has budget accounts, non-budgetary accounts, and so forth. He added to specifically identify financing accounts as part of the entity seems to be inconsistent with the approach of simply saying, the entity is in.

Staff agreed with the Board and explained OMB had brought this up at two meetings so staff thought perhaps there was need based on experience from application but if OMB is comfortable an approach similar to issue 2 can be taken. Staff suggested including an explanation in the basis for conclusion. Ms. Kearney agreed if the Board adopted

that approach with issue 2 then an explanation in the basis for conclusion would be sufficient.

Mr. Showalter explained he believed the footnote should be included and clear-- if an entity is on the schedule, it is in. He explained he would like to have a footnote included because we want to ensure there is no doubt what we mean as the entity may have other accounts that aren't included on the schedule.

Mr. Jackson agreed that entities should include all accounts associated with the organization. He suggested the footnote for clarity that simply said, "Entity should include all accounts associated with the organization in making a decision with regard to whether they are part of the reporting entity."

Mr. Dacey agreed if the entity is in, the whole entity is in, but the question is what does that include and that is our second tier question.

Mr. Steinberg explained that he didn't have a problem with the footnote. He added he was fine with Mr. Jackson's suggestion in saying, "all accounts" and he believes other issues can be taken care of with the presentation part. He asked if OMB had issue with "all accounts" and how it relates to guidance on the parent and child accounts. Ms. Kearney explained the guidance is in Circular A-136 and it relates to accounts where in practice there was confusion as to which agency was going to report it. The guidance ensured the parent account picked it up to avoid double counting.¹

Ms. Kearney didn't see a specific reason for this to be addressed in the entity standard. Ms. Kearney explained the parent is in control -- the child is merely executing on behalf of the parent because it is in support of the parent's mission, the parent gets appropriated funds. Ultimately the parent is responsible for that money.

¹ OMB Circular A-136 provides the following: 5. What are the financial reporting requirements for transferring budget authority to another agency (Parent/Child Reporting)? Some laws require departments (or agencies) to allocate budget authority to another Federal entity within the same department or in another department. Allocation means a delegation, authorized in law, by one department of its authority to obligate budget authority and outlay funds to another department. While the department receives budget authority in accordance with law, the same law requires the department (i.e., referred to as the parent) to allocate some or even all of the budget authority to another Federal entity ['child']. ... In the child account, the receiving Federal entity receives the budget authority, and then obligates and outlays sums up to the amount included in the allocation. Except for the object class schedule, the Budget does not separately show the allocations, but rather shows all financial activity (e.g. budget authority, obligations, outlays) in the parent account. In essence, the parent is accountable for and maintains the responsibility for reporting while the child performs on behalf of the parent and controls how the funds are expended.

... The parent is responsible for the program's overall performance and may decide to reallocate funds if the parent is not satisfied with the child's performance. The various children responsible for carrying out the different parts of the program report their costs to the parent for the activities they perform. All costs are then consolidated in the parent's financial statements in order to provide a complete cost of the parent's program.

Mr. Allen suggested the Board move on to issue 2 since it was agreed it was similar to the first issue. He asked if the Board agreed with the staff proposal and that language in the conclusive principle should be silent and the exception for these types of organizations (museums and performing arts) should be included in the Draft ED under Government-wide Reporting Entity Presentation and Disclosure Requirements and under the Exceptions and Unique Relationships.

Staff explained that Mr. Steinberg had provided suggested changes to paragraph 18 that provided clarification. The suggested edits were displayed on the screen for the Board's consideration as follows:

However, entities whose listing in the Federal Programs by Agency and Account schedule is only as a recipient of a subsidy or other federal financial assistance from an entity included in the schedule, in contrast to a recipient of an appropriation directly, would not be considered within the boundaries of the government-wide reporting entity based on the conclusive principle. The entity, like other entities the federal government has a relationship with, would still be assessed against the indicative principles to determine if it is within the boundaries of the U.S. government reporting entity.

The Board briefly discussed the intent of paragraph 18. Ms. Kearney explained she would like to take the draft paragraph back to OMB for further review.

Mr. Jackson explained you may not need the word 'subsidy' when you consider the footnote. He explained it could read "Entities whose listing in the federal programs for agency account schedule is only as a recipient" take out "subsidy and other" "of federal financial assistance from entity included in the schedule."

FASAB Counsel, Mr. Dymond explained it also presumes that the reason an entity is listed in the federal programs is because they receive a direct appropriation, which isn't the case for all the entities in the schedule. He explained that is not the only reason that they are included in the budget. He added that the clause "in contrast to a recipient" should be removed because it is unnecessary.

Executive Director Ms. Payne asked if it would be more effective to say that the conclusive principle establishes a rebuttable presumption and that the way you rebut the presumption that you're a federal entity is by showing that you don't meet any of the indicative criteria or indicative principles-- So you prove that all you are getting is a subsidy by looking at control, establishing ownership, those sorts of things. Ms. Payne added once there is a final set of indicative criteria, if none of them apply to you but you were mentioned in the budget, then you can get out of the federal entity. Basically, you're in unless you can prove you can get out.

Ms. Payne explained it would be flipping the sequence because here it says if you announce to the world I am the recipient of a subsidy but I'm named in the budget, you still have to be tested against the indicative criteria before you become not federal. So it is simply changing the sequence.

Mr. Dymond noted part of the problem with the subsidy analysis is the definition of subsidy is circular in that you receive a subsidy because you are a non-federal entity. So you're defining the subsidy by not being a federal entity in order to determine whether you are a federal entity.

Mr. Jackson noted that he had recommended the "federal financial assistance" clause be added only to make certain that those organizations that were subject to the Single Audit Act would not be deemed to be a federal entity. He explained they're nonprofits, colleges, universities, state and local government entities, and tribal governments.

The Board discussed there are some entities that receive their appropriations directly and some that receive them through other entities. Paragraph 18 is trying to recognize the fact there are some entities listed in the budget that receive grants and may be listed in the budget under another entity and those should not automatically meet the conclusive principle.

Mr. Dacey suggested that we have an analysis of the effect. He suggested that we would need to know what would be affected by that and it would take a little time. Whatever criteria you want to set up should be clear.

Mr. Jackson explained that one of the problems you have is you don't know what the budget will look like next time. So that is the reason you have got to have criteria.

For example, is the District of Columbia listed in the federal budget? He asked if their appropriation is listed in the federal budget? He added that is why he likes footnote 3.

Chairman Allen suggested the Board move on and get a better understanding of this issue and have another shot at the issue.

Mr. Allen suggested the Board consider what we really mean by "in and out." Mr. Allen explained he would like to discuss how the Board is trying to divide the decision process-- First, is it in or is it out? And then, how is it in or out?

Mr. Allen explained the challenge he has is FASAB is looking at this different than other standard setters. FASB and GASB looks at what we mean by "in the reporting entity" they're talking about what is displayed. What they call "disclosure" is not in the entity, not part of the entity, but there is a relationship sufficient to require disclosure.

Mr. Allen asked what the Board means by "in or out." He asked if the Board wants to go ahead and say it is part of the entity if it's disclosed or if it's displayed somehow. You can decide whether it's discrete or blended or whatever. Mr. Allen explained he wasn't trying to change direction of the project, but trying to understand what it means when something is included-- be displayed somehow in the financial statements or sufficient to require disclosure.

Mr. Jackson explained he views the presentation versus disclosure as a separate issue. Mr. Allen confirmed that Mr. Jackson believed being part of the entity includes display and disclosure. Mr. Jackson agreed. Mr. Allen confirmed if other Board members were

comfortable with that decision and continuing, then the Board would move ahead. Mr. Jackson added that it is a point that the Board may ultimately have to deal with.

Mr. Granof explained this is the second meeting the Board spent discussing the Smithsonian. He suggested having something that says in exceptional circumstances, an entity does not have to be included and leave it at that. He added that it seems like a very narrow topic to take up Board time.

Mr. Steinberg agreed the Board should move ahead but explained the first question is what is in the entity, recognizing that the Board will later determine what would be displayed, reported, or disclosed. He added the District of Columbia is no different than the Smithsonian and the Holocaust and there is direct appropriation to them, yet nobody ever thinks the District of Columbia should be part of the federal reporting entity.

Mr. Showalter noted the International Accounting Standards Board has a reporting entity conceptual statement out that takes a very simple approach that states when it controls another entity (when it has the power to direct the activities of an entity to get benefits) then its consolidated.

Mr. Showalter explained he thought the conclusive principle was to do an 80/20 sweep. He believed being too descriptive at the first sweep, will complicate the implementation of the conclusive principle.

Mr. Allen agreed and stated staff should begin discussion of the next issue. Staff directed the Board members to page 6 for Issue 3: Project Scope Expanded to Include Consolidation Issues Related to Entities with a Different Source of GAAP and Different Year Ends. Staff explained it contained the Sub-Issue: Entities with a Different Source of GAAP. Staff explained the Board had previously discussed the issue of entities that report using a different source of generally accepted accounting principles. Further, Treasury has presented the issue it creates at year end for preparing the government-wide financial statements. Staff noted known entities that prepare financial statements using a different source of GAAP (and are included in the government-wide) include the Pension Benefit Guaranty Corporation, Smithsonian Institution, Tennessee Valley Authority, Farm Credit System Insurance Corporation, Federal Deposit Insurance Corporation, National Credit Union Administration, and the United States Postal Service.

The Board briefly discussed during the August 2009 joint meeting with GASB it was noted by GASB there are situations where organizations are included that follow FASB standards. For example, there are college and university foundations organized as 501(3)(c) not for profits that follow the FASB model. GASB concluded in Statement 39, Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14 that those organizations can be included. The organizations are required to be discretely presented rather than blended. Statement 39 provided an exception to blending and through discrete presentation allowed the primary government to incorporate the financial information straight from the component unit's financial statements.

Staff explained at this time, staff wishes only to confirm that members wish to address the issue of FASB based reports within this Statement and receive tentative feedback on the issues listed below.

Mr. Showalter explained he didn't understand why it isn't addressed in the GAAP hierarchy. Ms. Payne discussed what had been done in the GAAP hierarchy project and what is being addressed in the project on Reporting by Federal Entities that Primarily Apply Standards issued by FASB, that will assist the Board in determining whether certain entities should be permitted to continue applying FASB GAAP. This project deals with how do you combine something that has a different display and a different set of standards. Mr. Dacey added the GAAP hierarchy project was no longer open to address this issue.

Mr. Dacey also explained the first question has to do with if we're consolidating entities that are preparing their stand alone statements on the basis of FASB --do we allow them to continue to display that on an FASB basis or convert to FASAB--it's really an accounting basis issue. He explained it is a good question and the Board ought to be clear on it.

Mr. Dacey explained there are challenges to converting and asked if it would be misleading to bring those statements in using the accounting basis under FASB if we have decided that, at least for that information in the stand alone, that there is a user need for it to be done a certain way?

Mr. Schumacher asked Mr. Reger how Treasury currently handled these types of entities. Mr. Reger explained they request the entities to report under FASAB, but most are not doing so.

Mr. Jackson explained the only question being asked today is if the issue should be addressed within the Statement. Mr. Allen agreed and polled the members if the issue should be included with votes as follows:

Member	Yes	No
Jackson	X	
Granof	X	
Steinberg	X	
Reger	X	
Allen	X	
Kearney	X	

Schumacher	X	
Showalter	X (but would have rather addressed it in the GAAP hierarchy)	

Mr. Allen explained the second part of the question (regarding presentation) is totally different and he will begin by stating he doesn't believe the Board should vote on this at this time as it would be premature. The board agreed.

The Board also discussed the Sub-Issue: Entities with Different Year Ends. Mr. Allen explained the question is, how do we deal with different year ends, whatever it happens to be and is it okay to use a year end that ends within the fiscal year of the reporting entity? Mr. Dacey commented that agencies with 12/31 year end are submitting fiscal year information for the consolidation, but it's not audited at this point, but they're submitting information. There is the concern the only other year end date is 12/31, so by the time CFS is issued it would be almost 11 month old data and that would require substantial subsequent events work.

Mr. Allen suggested if you have a different year end you would use the year end that closes in the calendar year of the organization consistently applied, but you don't want to capture less than 12 months, obviously and you don't want to have 15 months one period and 9 months for the next period.

Mr. Jackson explained the only question the board needs to address at this meeting is if it wants to include this in the scope of the entity project. Mr. Allen asked if any Board members objected to dealing with the issue in the standard. No members objected.

Staff directed the members to Issue 4: Introduction to the Indicative Principles on page 9 of the staff memo. Staff explained before discussing issues related to the Indicative Principles, staff wanted to obtain the Board's approval of the brief introduction to the indicative principles and discuss a broad issue that staff believes should be addressed based on initial feedback from members.

Staff explained the indicative principles are the next step in assessment and are necessary to ensure completeness of the federal reporting entity. The proposed language includes if an entity meets one of the indicative principles, it is brought in to the government-wide reporting entity (but it doesn't necessarily mean it is consolidated.) In other words, meeting one of the indicative principles resolves the question of whether the entity is federal or not, the question of consolidation and presentation and display is determined after considering the assessment of all indicative principles.

Staff explained there were some concerns noted so staff wanted to confirm the Board's agreement that meeting one indicative principle is sufficient for inclusion in the boundary of the government-wide reporting entity. Alternatively the Board may believe an entity must meet all indicative principles for an entity to be within the boundary of the government-wide reporting entity. Staff requested the Board's feedback on the issue of whether the criteria should be that the entity meets any or all of the following criteria.

- A. Established by the federal government.
- B. In which the federal government has a majority ownership interest.
- C. Over which the federal government has the ability to exercise control with expected benefits or risk of loss.

Mr. Showalter explained the response depends on whether you agree with the principles. He explained that he didn't believe the first principle could stand on its own, but if you couple it with control or ownership it may work. Mr. Showalter explained that if you want to include A, it must be coupled with an "or" that it has to be B or C. He explained he has no problem with B standing alone or C standing alone, but has concern about A standing alone.

Mr. Jackson explained his first question when considering this issue was whether states were created by the federal government, but the answer was no. However in this process, it came to light the District of Columbia was created by the federal government, so the District of Columbia is brought into the federal reporting entity if you use the word "any" here. Mr. Jackson explained territories were created by the federal government, which include over 30 territories. Mr. Jackson explained the language "The government wide reporting entity includes entities meeting any of the following indicative principles." sounds like a conclusive principle. Mr. Jackson explained he believed it would be wise to go with the alternative wording.

Mr. Showalter asked Mr. Jackson if he was supportive of the principles. Mr. Jackson stated he was supportive of B and C but not fully certain of the first one on its own, but he supports the "all" notion and would evaluate whether it was established by the federal government in reaching the final conclusion.

Mr. Steinberg asked how can one conclude the states are not established by the federal government when it was an act of Congress for Nebraska, Iowa, and so forth to come in. FASAB Counsel, Mr. Dymond explained states are recognized and admitted to the union under the Constitution, but they are not established by federal government.

Mr. Steinberg explained he believed there will be difficulty with the "established" principle. He also believes control may be great for private sector organizations, where they don't have sovereign powers. He added the federal government is the 800 pound gorilla and it controls everything. Mr. Steinberg explained the criteria in concept statement 2 seem to be more in line with what we mean by being part of the entity-- such things as carries out a federal mission and objectives, determines outcome and disposition of matters affecting recipients of services that the federal government provides, and exercises sovereign powers. He also added that in concept statement 2, the task force was very leery of making any one of these conclusive; instead, they were considered in the aggregate.

Mr. Steinberg summarized by saying the proposed indicative principles are going in the wrong direction and the ones that are in the current concept statement are closer to his view and he believes they should be considered in the aggregate.

Mr. Reger explained a disclaimer up front--he sat on the federal entity task force. That said, he believed all three indicative principles proposed by staff were necessary.

Mr. Allen explained he believed A combined with principles B or C would be feasible. However, he agreed he could argue Mr. Steinberg's point there may be other criteria but because there is at least disclosure, then B and C should be indicative principles. He explained that, at least at the lowest level of included (disclosure) that if you're either B or C and while C is control and you know the federal government is the 800 pound gorilla, it doesn't exercise that control with expected risk or loss, and that's the key that you're going to pay here--when the federal government intervenes in a way that taxpayer money is at risk that ought to be at least disclosed.

Mr. Steinberg asked if he believed child care centers should be included and Mr. Allen responded that the principle of materiality would always be applied.

Ms. Kearney explained that having definite clear guidance would be useful because right now it's a judgment call for agencies to apply Concepts 2 and it's not always easy to make those determinations. She explained having "any" or an "all" is a good idea, although you're setting definite parameters. However, OMB would not agree with an "any" approach because basically it would be setting up four conclusive principles. Ms. Kearney believes having the "all" approach would be best way to proceed.

Mr. Dacey explained he preferred the alternative, or "all" approach, but he would go further and say consider all the factors. As far as the criteria, Mr. Dacey explained he had been a part of many discussions in the past and the way they were able to make the criteria work in application was applying them and considering them in the aggregate because you need the flexibility. He explained it is important to convey that there is much judgment required and you must consider all the factors and decide on the balance in the aggregate. Mr. Dacey also explained the question is whether we have a middle ground. Right now you have consolidation or related parties and we need to determine if we have a middle ground somewhere.

Mr. Schumacher would agree with the alternative, or "all," but sees merits with the views of supporting either B or C-- but there may be other criteria not considered.

Mr. Granof suggested the board should consider doing away with the words "conclusive principles" and "indicative." He explained that it was very helpful in board discussion earlier but now it may be confusing board discussion. Inasmuch as an entity must be included if it meets either what are now labeled the conclusive principles or the indicative principles, the indicative principles are no less conclusive than the conclusive principles. Logically, both have equal standing.

[Lunch Break]

Staff began the discussion by explaining it appears the Board wants staff to revisit the approach and perhaps look at the indicative principles in the aggregate or collectively, or as suggested in the alternative recommendation by staff.

Staff explained having that said; staff would like to ensure the Board had an opportunity to express all comments regarding the first proposed indicative principle. Staff noted that several members had expressed their concerns prior to the lunch break, but staff wanted to make sure all members had the opportunity to speak.

Mr. Steinberg explained he believed GAAP will always trump a legal description, which is the reason why we have GAAP.

Ms. Kearney explained there was uneasiness about the first indicative principle. For example, if the law says that an entity is not part of the federal government, it's usually for some specific reason. However, the reverse may be true-- just because the government established an entity doesn't mean it should be included in the federal government financial statements.

Mr. Allen agreed and stated that is why a few members have stated the first principle probably could not stand on its own but would have to be coupled with something else or would have some legal or public expectation for the support of that entity. However, Mr. Allen said it appears the Board may be leaning towards taking an approach where this may be one of several indicative criteria preparers that would need to weigh the preponderance of .

Chairman Allen didn't believe the Board could come to a decision at this point until the approach regarding the indicative principles was resolved so he suggested the Board move on to issue 7 for feedback.

Staff directed the Board to Issue 7: Clarification of 2nd Indicative Principle—Majority Ownership on page 16 of the staff memo. Staff explained in an earlier proposal, ownership was included with the principle 'in the Budget of the United States Government: Analytical Perspectives- Supplemental Materials schedule entitled Federal Programs by Agency and Account' and grouped under "directly financially accountable for" but the Board agreed that in the budget should be a conclusive principle by itself and majority ownership should be an indicative principle.

The Board briefly discussed where it would be best to discuss the fact there are exceptions (such as the temporary ownership exception). Chairman Allen thought it was distracting to discuss it within the ownership principle. Mr. Dacey suggested mentioning it at the very beginning when you introduce the indicative principles to say there are exclusions or exceptions that are discussed in later paragraphs.

Mr. Jackson noted that staff explained in the memo staff was not certain as to the level of detail and if the Board wants to address certain accounting issues. For example, staff was not certain if the Board believed it would be appropriate to address how minority federal ownership should be accounted for within this ED or if simply saying it should be accounted for in accordance with GAAP is appropriate because it is outside the boundary of the government-wide reporting entity.

Mr. Dacey explained the standard ought to address it at some point. Mr. Jackson agreed the Board should have an answer. Mr. Allen agreed and said the Board would

want to disclose minority interests. Mr. Steinberg stated there may be instances where the federal government owns less than 50% and something needs to be included. Mr. Granof agreed and stated the Statement should address how these are accounted for.

Mr. Granof asked what decisions have been made on the criteria based on today's meeting. Chairman Allen explained staff would take another shot at the indicative principles and perhaps expand them based on looking further at SFFAC 2. It was agreed that all options were still on the table.

Chairman Allen explained the Board could decide whether the principles and criteria are in a broad group of predominance of evidence or all or if some are important enough to automatically trigger inclusion.

Staff asked Ms. Kearney if she could comment on agency feedback or experiences with SFFAC 2. Ms. Kearney explained that agencies have struggled with the judgment and bright lines of when to consolidate if meeting one or how many criteria are required.

Mr. Allen explained that this project will help at some point because it will offer guidance in evaluating those and what may result in consolidation versus what may result in note disclosure versus what may not result in anything. He would anticipate the criteria and if you meet the predominance of them, you would consolidate but if certain criteria are important markers then you would say that and if you don't, then you will disclose. He also suggested you might say "Certain criteria are critical enough that even if you decide not to consolidate, you still need disclosure for these criteria."

Mr. Steinberg explained the Board may come up with completely different criteria for how to disclose or display as GASB did in Statement 14.

Mr. Allen stated this would wrap up the entity discussion for the day, but this is not a quick project and would continue for some time.

CONCLUSION: Staff will reconsider the alternative approach to the indicative principles and develop options for the Board's consideration. There is support for an approach that would look at the principles collectively or in the aggregate in order to consider all criteria in determining if an entity is within the boundaries of the reporting entity.

- **Steering Committee Meeting**

The Steering Committee briefly discussed the budget for FY2011 and FY2012. Each federal member committed to conferring within their agencies regarding the planned amounts summarized as follows:

	Percent Funded	FY2011	FY2012
Treasury Portion	30.0%	\$588,592	\$599,181
OMB Portion	<u>35.0%</u>	<u>686,691</u>	<u>699,044</u>
Total Treasury Payment	65.0%	\$1,275,282	\$1,298,225
GAO Portion	<u>35.0%</u>	<u>686,691</u>	<u>699,044</u>
Total Funding	<u>100.0%</u>	<u>\$1,961,973</u>	<u>\$1,997,269</u>

- **Federal Reporting Model**

Staff discussed the status of the reporting model project and reminded members that a task force was organized to provide suggestions for the Board’s consideration. The task force met in May 2010 and determined that awareness and delivery of federal financial reports were important issues for consideration. However, increasing awareness would require a marketing strategy which was outside the realm of accountants.

Consequently, the task force decided to begin by focusing on the summary level information of the consolidated financial report (CFR), i.e. the Citizen’s Guide and MD&A sections and organize a subgroup to consider the government-wide financial statements.

Staff has begun considering enhancements to the summary level information by conducting interviews with state and local government planners and analysts who referenced the CFR in the media. Also, staff organized a group of individuals to read and comment on what information they found useful; what additional information would be interesting or useful; and what questions or comments they have about the information. Some members noted that there are numerous articles in the media that discuss the federal government’s financial activity, so it may be useful to determine where articles in the media are getting their information.

Conclusion: At the August 2010 meeting, staff will update the FASAB on the task force’s progress and discuss the planned scope and deliverables for the project.

- **Managerial Cost Accounting**

Julia Ranagan, staff member, provided a brief overview of the FASAB forum on “Managerial Cost Accounting: Requirements, Uses, and Best Practices” that was held Tuesday, June 15, 2010, in the GAO Auditorium. In addition to Ms. Ranagan’s session on the requirements of Statement of Federal Financial Accounting Standards 4 (SFFAS

4) and the results of staff's recent survey, speakers included Steve Porter, Director of the Activity Based Information (ABI) Division at the Patent and Trademark Office (PTO); Doug Webster, former Chief Financial Officer (CFO) at the Department of Labor; and Peggy Sherry, Acting CFO at the Department of Homeland Security. Presentations are available to download at http://www.fasab.gov/costacc_bestuses.html.

Ms. Ranagan noted that 150 individuals from the federal financial community attended the forum and the feedback was overwhelmingly positive. In written evaluations and follow-up feedback by email, participants indicated that they would like to hear more cost accounting best practices, particularly from agencies that issue grants or perform services. Ms. Ranagan indicated that staff was planning a follow-up session to address those needs. She asked the board if they had any comments.

Mr. Allen said he thought the session was positive whether you called it informational, implementation, or outreach. Mr. Allen questioned whether it might be possible to take a challenging or controversial issue like estimating property, plant, and equipment and put together preparers and auditors and help get some agencies over the hump, particularly the Department of Defense, by having people present different ways to implement the standard.

Mr. Jackson responded that, from a managerial cost accounting focus, where the focus is on the operating statement, the hurdles dealing with the precision of accuracy in measuring the value of an asset diminishes dramatically because of depreciation.

Mr. Allen responded that Mr. Jackson's point was consistent with what he was saying. The discussion could revolve around why there may be a different level of accuracy required for valuing a capital asset versus the accuracy one would expect in identifying investments held or accounts receivable for the Internal Revenue Service. Mr. Allen said that FASAB could never go out and say, "This is how you do it." FASAB is passing standards, but it could provide a forum or serve as a facilitator to help bring people together. He said it seems to him that if the board could address issues like that, in a non-authoritative manner, it might be able to help people get over the hump with existing standards rather than having the board come back and keep issuing additional guidance. Mr. Allen added that, in reality, it is often just a difference of professional opinion between auditors and preparers and it might be helpful if FASAB could just have an open discussion or forum of things that agencies need to consider.

Mr. Jackson asked if we know what managers really do with this—are they able to change behavior within their organization to improve efficiency?

Ms. Ranagan said she does not know the answer to that because it varies across the board and that there is a lot more agencies that seem to be using the information for reporting purposes than for actually making decisions. She said that linking cost to performance is an area that was noted as lacking and has been identified as a potential agenda project in recent years.

Mr. Jackson noted that Ms. Ranagan had mentioned “competitive advantage” and asked what does that mean—who would agencies be competing with? Ms. Ranagan responded that Doug Webster, in speaking at the forum about the benefits of implementing cost accounting, mentioned that in a time of shrinking resources, agencies and the programs within are competing for budget dollars so they need to understand where their dollars are going and where their resources can best be utilized. Ms. Payne added that, in a time of declining budgets, the more agencies can say about its costs and how its costs link to performance, the better or stronger a case it can have to defend its budget.

Mr. Jackson responded that he supposes if one knew the cost of what a particular agency does, one could make a decision that the cost is not worth it, assuming it is not a political decision. He stated that it will be interesting to see if decisions like that are eventually made based on costs—not to say they should not be but if decision-makers are not given cost information, then obviously the decisions will not be based on it.

Mr. Reger responded that he does not know if all the decisions are being based on cost, but where there is decent cost accounting, it is certainly influencing the decisions. He provided two examples: At OPM, after implementing cost accounting, they learned that two of their five lines of business would never be net neutral even though they were revolving funds, so they immediately launched plans to waive the requirements for those two business lines. At Treasury, they have determined their break-even point for issuing paper checks and are using that information to move more towards electronic funds processing.

Mr. Reger said he wonders whether, absent a change in management—people coming in from the outside who are used to seeing this kind of thing, are the people who are here so used to not having it available that they do not look at it? He stated that maybe as agencies generate more cost information and use it for business decisions, we can show people why it is valuable for that.

Mr. Jackson said it makes the case for a CFO Council-type education program. People have been compelled to focus on budget information. He said it would be interesting to see if a forum could be set up so that people could truly see the utility of what agencies have done. It creates an incentive, sort of a peer pressure-type situation. If agencies have done certain things and achieved certain positive results in the area of cost accounting and people can be shown what was done and what came out of it, it creates an incentive for others to do it.

Mr. Reger stated that clearly one of the current intents of the CFO Council is to find a way to measure who does routine business transactional things efficiently and then spread the lessons learned or concentrate the activities within agencies that are performing them better. The problem is that there are not really good rules about compiling the data. As a result, people may compile the numbers based on political intent rather than a standard that would allow for comparability.

Mr. Allen said that cost accounting data is most useful for managers to manage; information that users find interesting would be a secondary consideration. He noticed two things with the survey data – managers do not seem to be using it and the information that is provided is not very consistent.

Mr. Allen said that leads him to the question of, what does it matter? He answered that it only matters from a standards-setter's perspective if it needs consistency. The board can say agencies ought to have cost accounting information to help them manage and be done with its standard-setting responsibility. FASAB can still do outreach and encouragement and all of those kinds of things. But if it is that the board wants to seek a higher use or information that would provide consistency, then this is a huge project. Then the board would have to talk about a lot of things—direct versus indirect and allocations and just a ton of detail; then this would be a significant standard.

Mr. Allen said that, in his opinion, it is an important concept but not the best use of the board's resources unless it is proven that there is a need for FASAB to get involved. Mr. Allen said the board can be cheerleaders or encouragers or whatever but he does not want to spend board time on this unless there is a case presented for why FASAB has the comparative advantage to address it.

Mr. Jackson said he would argue that as well. He believes that the responsibility for elevating cost accounting to an operational requirement resides with the Office of Management and Budget (OMB) because this deals with the internal operations and assessing the efficiency and effectiveness of agency operations. He said there is a need to change the budget to emphasize cost accounting. He does not think FASAB has a role beyond sponsoring educational sessions.

Mr. Allen added that if the CFO Council is going to look at this, they may want generally accepted accounting principles (GAAP) authority for audits surrounding it. At that point, FASAB could be helpful by issuing a standard that has GAAP authority.

Mr. Reger said he would agree—this exercise is done until that point.

Mr. Granof asked staff where it saw the project headed. Ms. Ranagan responded that staff does not have any reason to believe it is a lack of standards that is causing the problem. It is a lack of a champion for implementation, as the members were discussing, so it might not be to the board's comparative advantage to go any further with the project. However, Ms. Ranagan continued, there is a need out there because people are not utilizing the statement to its full effect. Staff foresees that the proposed task force would be looking at putting together a best practices guide. If the task force sees a need to change standards, that would come to the board. If there is anything that might require an implementation guide, it would go to the AAPC. If it is a best practices guide or a report, it could just be posted on FASAB's website to provide value to the community.

Mr. Granof said he had envisioned how he would see the project proceeding in his own mind and then he read SFFAS 4 again and it was exactly what he had envisioned.

Mr. Allen said it seems to him that for FASAB to come up with a best practices guide without knowing that it is on the President's agenda for efficiency within government is not going to get much attention. On the other hand, if it does have that high level of support, then it is going to be eagerly awaited and participated in. He emphasized that he would encourage the board not to go forward unless it actually has the support of OMB in this area.

Ms. Ranagan responded that is an extremely important consideration because many survey respondents said they have tremendous cost accounting systems, but they can not get managers to use the data so they are just being utilized for financial reporting. She said it seems as though the agencies that have had the most success have a champion that is there pushing cost accounting and pushing its use. However, once that person leaves or the administration changes, the momentum is lost. She said she thinks support is a really important consideration, because whatever we do, if there is not some push to actually require it to be utilized, the situation would remain the same.

Mr. Jackson responded that if OMB and Congress were demanding information to help make decisions on the allocation of resources, these dynamic systems would be put to good use. Mr. Jackson said, without those kinds of demands, it becomes very difficult to get agencies to provide the information if they realize that no one is doing anything with it. They do not want to struggle to provide information that goes beyond what is required for basic financial reporting.

Ms. Payne pointed out that the International Monetary Fund did a history of accounting around the world with governments. One of their findings was that decision-makers get very interested in cost accounting information when there are fiscal pressures. That creates the demand that causes cost accounting to be useful and causes people to continue doing it. Unfortunately, the federal government is facing decades of fiscal constraint that is going to ingrain a demand for this sort of information, whether FASAB sponsors a best practices guide or not.

Ms. Kearney responded that OMB is interested in what it is costing to produce things at agencies. The CFO Council is starting to ask a lot of questions about how to get better cost data; she sees this as an area where efforts should be focused because it is an area where financial managers can provide useful feedback within their agencies.

Ms. Kearney said she agrees that the federal government is facing more and more constraints and budgets are getting tighter and tighter. As that happens, agencies are going to need to be able to answer the tough cost questions. Ms. Kearney said that it may be possible to partner the CFO community with FASAB to do these educational sessions and develop a best practices guide. She said she can talk to Ms. Bond and Mr. Werfel about asking the CFO Council to assist in this effort because OMB does think it is important.

Mr. Allen said that would be excellent. He is willing to allocate staff resources if it is jointly working with OMB and the CFO Council, but he does not want to allocate resources if it is just FASAB staff working on this alone.

Mr. Steinberg said he wants to add that he finds it interesting that the CFO Council and Mr. Werfel and Ms. Bond and the management side of OMB are saying that the cost accounting information is important and we are facing tough times and so forth, but it is the budget side of OMB that would have to be asking the agencies the questions. What is the cost of putting up housing units? And what is the cost of making loans? If they are not asking the questions, then there is no impetus back in the agencies to develop the information. He opined that the management side of OMB needs to get the budget side to ask again and again and again for the cost per unit information.

Ms. Kearney responded that she does not know what the budget side is asking for, but she can inquire.

Mr. Jackson commented that the operational costs are only on the margin; the real costs – health care, social security and other entitlement programs – are not solved by focusing on day-to-day operational efficiency. He said the board can spend a lot of time talking about cost accounting, but it would not be accounting for the costs that count.

Ms. Ranagan responded that the operational costs are the costs that agencies would argue are the only ones they can control. Also, when an agency's budget gets cut, it is usually the administrative portion that is the first thing to go. Then agencies have to do more with less, find a way to do it.

Mr. Allen asked if any of the members would object to the appointment of a task force if staff were working with OMB. None of the members objected.

Mr. Steinberg commented that, if there is going to be another educational session, then he would suggest that they get an OMB budget individual who can discuss how they value cost information.

Mr. Allen directed staff to continue to work closely with OMB and then come back at the next Board meeting with an updated project plan.

CONCLUSIONS / NEXT STEPS: Staff will contact OMB to inquire about partnering with OMB and / or the CFO Council to promote managerial cost accounting within the federal government. Staff will organize another educational session. Staff will present an updated project plan to the board after it receives confirmation that OMB and / or the CFO Council will work jointly with FASAB to promote managerial cost accounting. Until such coordination is confirmed, staff will direct resources to other active projects as assigned (Natural Resources and Reporting by Federal Entities that

Primarily Apply Standards Issued by the Financial Accounting Standards Board).

- **AAPC Technical Release on Grant Accruals**

FASAB staff Ms. Eileen Parlow said that the AAPC has proposed a Technical Release (TR), *Accrual Estimates for Grant Programs*.

Ms. Parlow noted that footnote 7 of the TR, which cites a FASAB exposure draft, would be updated when SFFAS 39 is issued (expected issuance date is August 4, 2010).

Mr. Jackson said that he had a concern. He said that because of the placement of the guidance on using an expert, the proposed TR does not make it clear that an expert could be used in developing accrual estimates for mature grant programs as well as for new or revised grant programs. He said that he believes that this could cause implementation issues and conflicts between preparers and auditors.

Ms. Payne said that edits should be recommended during the comment period rather than after the proposed TR was finalized, although in rare instances exceptions have been considered for the purpose of clarification. Ms. Payne explained that the intent of the section on new or revised grant programs was to provide more assistance to agencies because of the lack of relevant historical data, and that the placement of the guidance for new programs was not intended to imply that mature programs should not apply similar guidance when applicable.

Due to time constraints, Mr. Allen recommended that staff and Mr. Jackson discuss potential resolution of his concerns after the meeting adjourned.

CONCLUSION: [Staff note: Per Mr. Allen's recommendation, staff discussed the issue with Mr. Jackson after the meeting adjourned. Staff agreed to prepare a response that could be issued as Staff Implementation Guidance as issues arise.] Absent objection consistent with the rules of procedure, the TR will be issued as final on August 4th.

Adjournment

The meeting adjourned for the day at 3:00 PM.

Thursday, June 24, 2010

Agenda Topics

- **Measurement Attributes**

Joint Session with the Governmental Accounting Standards Board

The Board met with the Governmental Accounting Standards Board to discuss common issues regarding measurement concepts. The Boards tentatively agreed to harmonize terminology so that the terms used—*measurement approach*, *measurement attribute*, and *measurement method*—are used consistently by both Boards in developing their respective measurement concepts statements.

The Boards also discussed differences in the measurement attributes selected for discussion in the drafts and their definitions. The Boards expressed a commitment to continue to monitor the progress of the other Board and to continue to work toward consistency in definitions and descriptions when possible.

Afternoon Session

Ms. Wardlow presented a revised draft concepts statement on measurement attributes. She summarized the principal changes from the April draft and the questions for the Board in the cover memo.

In response to the first question, the Board agreed that the draft concepts statement should include an appendix with a table showing whether balance sheet items are presented at initial amounts or remeasured amounts under existing standards. Some modifications to the table would be appropriate. The table:

- Should have an appropriate title and clearly indicate its purpose—i.e., to illustrate the mixed-attribute model that exists under current accounting standards and not to establish new standards.
- Should cover, for simplicity, only the government-wide consolidated balance sheet and, therefore, should not include intragovernmental items. Major differences in agency reporting should be identified.
- Should indicate that the conclusions as to current measurement requirements are based on the preponderance of circumstances; different measures might exist in certain circumstances.

- Should not subdivide balance sheet items that are not required to be classified as long-term or short-term, e.g., by indicating that the net amount of longer-term items might be measured differently from that of shorter-term items

In reaching these decisions, the Board discussed various aspects of the table included in the June draft. The table indicated a difference in how receivables are measured depending on whether the receivable is short-term (initial amount) or long-term (remeasured amount, because of the periodic reassessment of the allowance for uncollectible accounts). A question was raised as to whether the amounts of items that are reported net of valuation accounts, such as an allowance for uncollectible accounts, should be considered initial amounts or remeasurement amounts. Ms. Wardlow was uncertain. She thought that, for something to be considered "remeasured," some economic transaction or event should have occurred in contrast to simply allocating an initial amount over accounting periods, as occurs with depreciation. Mr. Jackson said the issue is whether the term "remeasurement" should be applied to the gross amount or the net amount, and he is unsure. If the focus is "net," then reassessment of an allowance would constitute remeasurement of the reported net amount. Mr. Dacey said allowances should not be considered remeasurements. That conclusion would be consistent with the GASB's view as stated to him by GASB Director of Research, David Bean. Ms. Wardlow indicated that neither the GASB nor the FASAB has addressed the issue in its draft. Ms. Payne said she thinks of allowances as remeasured, although with short-term receivables there is insufficient time to warrant remeasurement. Mr. Allen and other members indicated that the issue should be clarified. Mr. Granof said that, conceptually, the short- and long-term amounts are the same. If an entity has a portfolio of short-term receivables, then the allowance is constantly reassessed. However, most people think of accounts receivable as stated at the initial amount. The table might say that receivables are reported at initial amounts, but subject to remeasurement of the allowance.

Mr. Reger said that the table is intended to be an aid, and if the Board is spending a lot of time discussing certain items, then that suggests a clarification is needed. Mr. Allen said the table is not intended to guide preparers' decisions, but to illustrate that federal financial reporting currently follows a mixed-attribute model. It should be accurate at a high level but should not address every detail. Mr. Jackson said the members should remember that the concepts statement is intended to help the Board. Ms. Wardlow said that, more than illustrating a mixed model, the original intent of the table was to help readers understand the terms "initial" and "remeasured" by relating them to current standards. She wondered whether presenting the table at a high level would cause confusion and disagreement among respondents to the exposure draft. Mr. Allen said that if the Board wants respondents to look at the table in an authoritative sense, then presenting it at a high level would not achieve that. One would have to break the items down and provide sufficient detail, and in his view that would be departing from the primary focus of the project. Mr. Steinberg said perhaps it should be stated that the table is presented as an example of a mixed-attribute model. Mr. Jackson said he would rather receive questions from respondents than exclude the table.

Mr. Allen asked members to provide specific comments to the staff. The Board would have another opportunity to review the table.

The second question from the staff was whether the example of constant dollar accounting should be retained in the text or moved to an appendix. The Board agreed to leave the example in the text. The Board also agreed with the proposed clarifications, in the paragraph subtitled "Focus of This Statement" immediately following the example. The paragraph explained the reasons for providing the example and for not addressing constant dollar accounting further in the concepts statement.

The Board concurred with the changes and clarifications covered under questions 3 and 4 in the memo and generally did not request additional changes in those areas. Mr. Dacey said he would provide some suggestions to the staff on the issue of maintaining balance and neutrality in the discussion of measurement alternatives. Also, he perceived in places an implication that some people believe all items should be reported at initial amounts and others believe all items should be remeasured, whereas the conclusions may vary according to the component being discussed.

Mr. Allen said that issue could perhaps be clarified as a general point in setting up the discussion. He asked members to provide comments directly to the staff—for example, if they have recommendations for wording changes.

Ms. Wardlow asked members if they had any specific comments on the discussion of "fair value," "settlement amount," and "value in use" in the section on measurement attributes. She also asked, under question 5 in the memo and in light of the morning's discussion with the GASB, whether the term "value in use" should be changed to "entity-specific value" or a new term that GASB members had asked GASB staff to propose. She mentioned that an issue she has concerning value in use is that she cannot think of a liability example. Mr. Allen said the GASB was seeking a new term, other than "value in use" or "entity-specific value," and continued discussion between the FASAB and GASB staffs would be useful and could lead to the presentation of some alternatives with the next FASAB draft. He thought that would be better than the Board attempting at this point to choose between the two terms.

Mr. Dacey asked whether there is currently any account that is measured at value in use, meaning a measure that considers the entity's intent. Ms. Payne said she could not think of an example in current standards. However, during the pre-briefs with staff, Mr. Allen had given as an example a school being used as a warehouse. She thought that if the government has a building that it purchased years ago and that could be worth millions if used for a retail establishment, but the government decides to use the property for parking and to "mothball" the building, then cost is one measure of the property, fair value is another, and value in use would be the cost to develop the parking lot.

Mr. Dacey asked Ms. Payne whether she thinks that, hypothetically, buildings should be valued at value in use, rather than one of the other measures. He views value in use as

an exception to using one of the other values. Ms. Payne said GASB appeared to be using value in use for asset impairment. She pointed out that, unlike the GASB's apparent position, the FASAB is not limiting the concepts statement to attributes that the Board believes are now or ever will be used. The FASAB is looking at a full array of possibilities and, from that perspective, there is room for a concept such as value in use. Mr. Dacey said he did not disagree, but he was trying to consider when one would decide to use initial amount or fair value or value in use. Ms. Payne said that in standards setting one would decide based on the information one expected to provide—for example, if there is a decision, should one show the cost of that decision now or later? That is something that would be addressed in standards setting. The concepts statement should give the Board the tools to talk about how to measure something.

Mr. Allen said it is like replacement cost in that we may not think now of an example of using the concept, but it is used around the world and it may be something that would be considered in future standards setting. Mr. Dacey said he could understand someone saying that replacement cost is the basis of accounting for inventory, but it is harder to understand value in use, because he would say it could be fair value or initial value or some other value, depending on the use. Ms. Wardlow said she thought a possible example of choosing value in use would be when the particular use an entity would make of an asset—its service potential plus the disposition amount—is greater than fair value. Mr. Jackson contributed an example of old plants or warehouses, owned by the federal government, that have a zero net book value and are not being held for sale, but could be renovated for some other use. The attribute "value in use" could be useful because the value of the property for the use being proposed is dramatically greater than the book value today. Mr. Granof said that if you have a lease on a building, the value in use is the present value of the lease payments, irrespective of what the market value is. Mr. Allen wondered whether there would be an application with some of the government's heritage assets. For example, if the Board were to decide to fair-value assets, the Mall could be worth a lot of money, but its value in use is different and there is no intent to sell the Mall.

Mr. Showalter recalled a conversation at the morning session with the GASB about pollution remediation and landfill costs. He thinks that value in use does not work for these types of liabilities. When you have these types of liabilities, you are responsible for establishing the liability and remeasuring it based on information specific to the entity with little or no third-party validation. He thinks of that as an entity-specific measure. Ms. Payne said that is why she believes the Board should have entity-specific amounts with liabilities included, or we should take out the modifier "financial" (asset or liability) in the definition of settlement amount, because we need to have some kind of entity-specific values for clean-up costs. Mr. Allen asked whether Mr. Showalter was saying that both value in use and entity-specific amount are needed. Mr. Showalter agreed but would like to find a term that bridges both possibilities. Mr. Steinberg said that, in the broadest sense, one could justify value in use because one is using own resources to cause things to happen and some liabilities occur because of that, so it is not just use of the asset itself. It would be nice to adopt another term but, if not, we could use value in use in this context and define it accordingly.

Mr. Allen said he now understood better the concept of entity-specific value, but the FASAB should not use that term if the GASB decides against it. Ms. Wardlow said she had difficulty with some of the examples discussed at the meeting with GASB, because they seemed to be partly entity-specific and partly market-based assumptions, whereas she thought that entity-specific was based on an entity's own assumptions, without reference to the market. Mr. Allen said he would not want entity-specific to mean whatever the Board thinks it should be. It ought to be framed somehow. Mr. Granof said that entity-specific refers to the cash flows to a specific entity based on a discount rate. Mr. Jackson said the asset is not entity specific but the value is. Mr. Steinberg agreed.

Mr. Allen asked Ms. Wardlow whether the GASB discussed alternatives to entity-specific when they said at their May meeting that they did not like the term. Ms. Wardlow said no. The GASB members simply said that they did not like either value in use or entity-specific and asked the staff to propose a different term. Mr. Steinberg asked whether they said why they did not like entity-specific. Ms. Wardlow said she did not recall a reason, but perhaps they did not like the word "entity," or perhaps they were concerned that some of the considerations included in transactions that might be valued that way were not entity specific. They were considering the possible use of the term for pensions as well as for landfill costs and pollution remediation obligations.

Mr. Granof said that value in use and entity-specific value are the same concept. The concept is important, whatever term is used. Responding to Ms. Kearney, members confirmed that they liked the concept of value in use and entity-specific value, and the concept should cover liabilities as well as assets. Mr. Steinberg said the issue is which term to use. Mr. Granof said that value in use is more common in the accounting literature, including the academic literature. Ms. Wardlow said that some of the overseas and international bodies, such as the UK-ASB, IASB, and IPSASB use value in use. The FASB in its Concepts Statement 7 uses both terms and states that they are synonyms. Mr. Allen asked members who have ideas on which term to use, or on liability examples as well as asset examples, to forward them to the staff.

CONCLUSIONS: The staff will prepare a revised draft for members to review and respond to before the end of July, so that the staff can prepare a preballot draft for the August meeting. The Board's amendments to that draft would be incorporated into a ballot draft to be presented to the Board during or shortly after the August meeting.

Adjournment

The meeting adjourned at 2:00 PM.