



May 10, 2007

Memorandum

To: Members of the Board
From: Julia E. Ranagan, Assistant Director
Through: Wendy M. Comes, Executive Director
Subject: **Appropriate Source of GAAP¹ – Tab C**

At the March 22, 2007, meeting, staff presented a project plan and background information on the appropriate source(s) of generally accepted accounting principles (GAAP) for federal government corporations and other federal entities that currently follow accounting standards from a source of GAAP other than that recommended by FASAB, e.g., the Financial Accounting Standards Board (FASB).

Prior to the March meeting, staff had completed the first two phases in the proposed project plan – “Select 10 federal entities that are following the FASB GAAP hierarchy” and “Complete profiles of the 10 federal entities with respect to each entity’s mission, structure, operations and size based on revenue, sources of financing, SFFAC 2 conclusive and indicative criteria for including components in a reporting entity, and significant accounting policies.”

Staff outlined a number of possible outcomes of the project and the pros and cons of each option, provided a draft project timeline, and requested Board input on the next proposed phase in the project – “Analyze and document similarities and differences that might prove helpful in developing guidance on which source of GAAP is most appropriate.” The majority of the Board agreed that staff should continue through the next phase to provide the Board with more decision-useful information and analysis upon which to base its decision regarding the future direction of the project.

The staff objective for the May meeting is to present an analysis of similarities and differences between the 10 selected entities that will prove helpful to the Board in its further consideration of the appropriate source of GAAP for those entities that are not currently following FASAB GAAP. Staff would like to obtain decisions on how the Board would like to proceed with respect to this long-standing issue. To facilitate the deliberations and decision-making, staff has included four specific decision questions in boxes on pages 6, 7, 10, and 19. Please be prepared to voice your preference for each of these four decisions at the May meeting.

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

In addition, in order to provide you with early insight into the potential impact of this project, staff initiated a “Request for Cost / Burden Information” survey that was sent to the CFOs and IGs of the 10 selected entities. The full responses to the survey are included in Attachment 2, starting on page A – 36.

If you require additional information or wish to suggest another alternative, please contact me as soon as possible. Ideally, I would be able to respond to your request for information or develop more fully the alternative you wish considered in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at 202-512-7377 or by e-mail at ranaganj@fasab.gov.

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Abbreviations

AICPA	American Institute of Certified Public Accountants
BEP	Bureau of Engraving and Printing
BPA	Bonneville Power Administration
CFO Act	Chief Financial Officers Act
CFR	Consolidated Financial Report of the U.S. Government
CDFI	Community Development Financial Institution
CNCS	Corporation for National and Community Service
CRA	Credit Reform Act of 1990
DOE	Department of Energy
DOJ	Department of Justice
ESF	Exchange Stabilization Fund
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FERC	Federal Energy Regulatory Commission
FFB	Federal Financing Bank
FPI	Federal Prison Industries (Unicor)
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office (formerly General Accounting Office)
GCCA	Government Corporation Control Act
GNMA	Government National Mortgage Association (Ginnie Mae)
GSE	Government-Sponsored Enterprise
HUD	Housing and Urban Development
IG	Inspector General
MBS	Mortgage-Backed Securities
MCC	Millennium Challenge Corporation
MINT	United States Mint
OCBOA	Other Comprehensive Basis of Accounting
OCC	Office of the Comptroller of the Currency

Abbreviations

OIG	Office of Inspector General
OMB	Office of Management and Budget
OTS	Office of Thrift Supervision
PBGC	Pension Benefit Guaranty Corporation
P.L.	Public Law
SEC	Securities and Exchange Commission
SFAC	Statements of Financial Accounting Concepts
SFAS	Statements of Financial Accounting Standards
SFFAC	Statements of Federal Financial Accounting Concepts
SFFAS	Statements of Federal Financial Accounting Standards
TVA	Tennessee Valley Authority
U.S.	United States
U.S.C.	United States Code
USSGL	United States Standard General Ledger

Appropriate Source of Generally Accepted Accounting Principles for Federal Government Corporations and Other Federal Entities

Background

At the March 22, 2007, FASAB board meeting, staff presented a project plan and background information on the appropriate source(s) of generally accepted accounting principles (GAAP) for federal government corporations and other federal entities that currently follow accounting standards from a source of GAAP other than that recommended by FASAB, e.g., the Financial Accounting Standards Board (FASB).

Prior to the March meeting, staff had completed the first two phases in the proposed project plan – “Select 10 federal entities that are following the FASB GAAP hierarchy” and “Complete profiles of the 10 federal entities with respect to each entity’s mission, structure, operations and size based on revenue, sources of financing, SFFAC 2 conclusive and indicative criteria for including components in a reporting entity, and significant accounting policies.” (See the box to the right).

Proposed Project Approach

Task	Completion Date (<i>Estimated</i>)
1. Select 10 federal entities that are following the FASB GAAP hierarchy.	January 2006 (see Tab 2)
2. Complete profiles of the 10 federal entities with respect to each entity’s mission, structure, operations and size based on revenue, sources of financing, SFFAC 2 conclusive and indicative criteria for including components in a reporting entity, and significant accounting policies.	March 2007 (see Tab 2)
3. Analyze and document similarities and differences that might prove helpful in developing guidance on which source of GAAP is most appropriate.	<i>April 2007</i>
4. Recommend a course of action for the Board to take at the next Board meeting (most likely one of the potential options described above or a combination thereof).	<i>May 2007</i>
5. Present draft of appropriate staff or Board document, if applicable, depending on the approach selected by the Board.	<i>September 2007</i>
6. Follow applicable due process if an official document is deemed necessary.	<i>As deemed necessary</i>

Staff outlined a number of possible outcomes of the project and the pros and cons of each option, provided a draft project timeline, and requested Board input on the next proposed phase in the project – “Analyze and document similarities and differences that might prove helpful in developing guidance on which source of GAAP is most appropriate.”

What are the key decisions to date on this project?

As discussed above, this project was introduced at the March 2007 board meeting so few key decisions have been made at this time. The primary decision thus far was approval of the project plan. The majority of the Board agreed that staff should continue through at least phase 3 in the proposed project plan (see box above right) to provide the Board with more decision-useful information and analysis upon which to base its decision regarding the future direction of the project. The only opposition voiced was that of Mr. Werfel who indicated that OMB would rather not pursue the project at this time in light of resource constraints and other issues that are more pressing.

What is the purpose of this paper?

The primary purpose of this paper is to present an analysis of the similarities and differences between the 10 selected entities¹ that will prove helpful to the Board in its further consideration of the appropriate source of GAAP for those entities that are not currently following FASAB GAAP. Staff considered various characteristics in its analysis and has presented a summary discussion of that analysis on the pages that follow. The specific characteristics for each entity are included at Attachment 1, starting on page A – 23.

In addition to the above primary purpose, this paper also communicates information directly from the federal financial management community on the expected benefits and perceived costs and burdens associated with various approaches to resolving any concerns regarding the source of GAAP. Staff sent a survey to the preparers and auditors of the ten selected entities in order to provide the Board members with more decision-useful information and analysis upon which to base its decision regarding the future direction of the project. The complete survey responses are presented in Attachment 2, starting with a blank copy of the survey request that was sent out at page A – 33 and a high-level summary of results at page A – 36.

What characteristics did staff analyze?

Staff analyzed the similarities and differences among the 10 selected entities in each of the following eight areas:

- A. General Profile of the Entities;
- B. Size of the Entity;
- C. Likely Users of the Financial Statements;
- D. Title of General Purpose Federal Financial Report;
- E. Financial Statements Presented;
- F. Main Line Items;
- G. Compliance with FASAB Standards and USSGL Requirements; and,
- H. Primary Differences between FASAB Standards and FASB Standards.

A summary of each of the above areas is included in the individual sections below.

A. General Profile of the Entities

1. Three of the 10 selected entities are bureaus within the Department of the Treasury and the other seven are federal government corporations.
2. All 10 of the selected entities are included in the federal budget section currently entitled “Federal Programs by Agency and Account” and eight of the 10 are identified as a significant entity in the consolidated financial statements required to verify and submit a closing package (three individually named and the other five as part of a parent agency).

¹ The ten selected entities are Community Development Financial Institution, Corporation for National and Community Service, Federal Deposit Insurance Corporation, Federal Prison Industries, Government National Mortgage Association, Millennium Challenge Corporation, Office of Thrift Supervision, Pension Benefit Guaranty Corporation, Tennessee Valley Authority, and U.S. Mint (Mint switched to FASAB beginning with fiscal year 2005).

3. Nine of the 10 selected entities have a September 30 year-end; FDIC has a December 31 year-end.
4. Three of the 10 selected entities receive appropriations while the other seven are funded by user fees.
5. Six of the 10 selected entities are consolidated with a parent agency; all 10 are included in the Consolidated Financial Report of the U.S. Government (CFR).
6. One of the 10 selected entities (TVA) is required to file Form 10-K and Form 8-K (annual and quarterly reports) with the Securities and Exchange Commission (SEC).
7. One of the 10 selected entities (TVA) is required by law to follow a different set of accounting rules – the Federal Energy Regulatory Commission (FERC) uniform system of accounts for electric utilities.
8. Seven of the 10 selected entities are predominately of a business nature.
9. Seven of the 10 selected entities are potentially self-sustaining through the production of revenue.
10. Six of the 10 selected entities have a large number of business-type transactions with the public.

B. Size of the Entity

Quantitatively, the four largest entities of the 10 selected are PBGC, FDIC, TVA, and GNMA. The table below lists all 10 entities ranked according to dollar amount of assets, liabilities, net position, revenues, and expenses.

Ranking									
<u>By Assets</u>		<u>By Liabilities</u>		<u>By Net Position</u>		<u>By Revenues</u>		<u>By Expenses</u>	
1	PBGC	1	PBGC	1	FDIC	1	TVA	1	TVA
2	FDIC	2	TVA	2	GNMA	2	PBGC	2	FDIC
3	TVA	3	GNMA	3	TVA	3	FDIC	3	MINT
4	GNMA	4	CNCS	4	MCC	4	MINT	4	CNCS
5	MCC	5	MINT	5	CNCS	5	CNCS	5	FPI
6	CNCS	6	FPI	6	MINT	6	FPI	6	OTS
7	MINT	7	OTS	7	FPI	7	GNMA	7	CDFI
8	FPI	8	FDIC	8	OTS	8	OTS	8	GNMA
9	OTS	9	CDFI	9	CDFI	9	CDFI	9	MCC
10	CDFI	10	MCC	10	PBGC	10	MCC	10	PBGC

C. Likely Users of the Financial Statements

1. All 10 of the selected entities' financial reports would likely be utilized by management.
2. Three of the 10 selected entities' financial reports would likely be utilized by taxpayers to see how effectively and efficiently taxpayer funds were utilized.
3. Seven of the 10 selected entities' financial reports would likely be utilized by the beneficiaries of the services to see how their fees were utilized and to determine whether services will be available in the future.
4. Two of the 10 selected entities' financial reports (TVA and GNMA) would likely be utilized by investors to assist in making future investment decisions.

D. Title of General Purpose Federal Financial Report

1. Two of the 10 selected entities present their financial statements in a "Performance and Accountability Report."
2. Five of the 10 selected entities present their financial statements in an "Annual Report."
3. One of the 10 selected entities presents its financial statements in a "Financial Report."
4. One of the 10 selected entities presents its financial statements in an "Annual Management Report."
5. One of the 10 selected entities (TVA) presents its financial statements in an "Information Statement" (Form 10-K starting in fiscal year 2006).

E. Financial Statements Presented

1. There are three different balance sheet formats (Balance Sheet, Statement of Financial Position, and Statement of Financial Condition);
2. There are seven different operating and changes statement formats (Statement of Income, Statement of Income and Fund Balance, Statement of Income and Accumulated Deficit, Statement of Operations and Changes in Net Position, Statement of Operations and Cumulative Results of Operations, Statement of Revenues and Expenses and Changes in Investment in U.S. Government, and Statement of Changes in Proprietary Capital).
3. All 10 selected entities prepared a Statement of Cash Flows.
4. Only two of the 10 selected entities prepared a Statement of Budgetary Resources. (3 of 10 received appropriations.)
5. None of the 10 selected entities prepared a Statement of Net Cost, a Statement of Financing, or a Statement of Custodial Activity.
6. Two of the 10 selected entities prepared additional reports (Statement of Functional Expenses, Schedule of Custodial Gold and Silver Reserves, and Supplemental Reconciliation of Financial Statements to Budget Reports).

F. Main Line Items

The most material line items recognized by the ten selected entities are presented below by financial statement element (assets, liabilities, net position, revenues, and expenses). The number in parentheses immediately following the line item represents the number of entities for which that line item is one of the most material line items.

Assets:

Fund Balance w/ Treasury / Cash (9)
Investments (6)
Property (3)
Inventory (2)
Loans Receivable (1)
Regulatory Assets (1)

Liabilities:

Debt (2)
Deferred Revenue (2)
Present value of future benefits, net (1)
Awards Payable (1)
Grants Payable (1)
Service Award Liability (1)
Loss Reserve (1)
Asset Retirement Obligations (1)
Lease / Leaseback Obligations (1)
Energy Prepayment Obligations (1)

Net Position:

Cumulative Results of Operations (3)
Unexpended Appropriations (2)
Retained Earnings (2)
Net Position (2)
Assumed Capital (1)
Accumulated Net Income (1)
Accumulated Deficit (1)
Contributed Capital (1)
Appropriation Investment (1)
Investment of U.S. Government (1)
Accumulated Net Expense of Nonpower programs (1)

Revenues:

Appropriations Used (3)
Fees (3)
Sales Revenue (3)
Interest Revenue (1)

Expenses:

Grant Expense (2)
Service Award Expense (1)
Cost of Sales (1)

Note: *Italicized line items* are not currently directly covered by FASAB standards and would be covered by FASB standards under the hierarchy for federal governmental entities.

G. Compliance with FASAB Standards and USSGL Requirements

What are some of the entities *not doing*?

1. Eight of the 10 selected entities do not refer to **cost accounting**. Of the two entities that do refer to cost accounting, one of them provides expense information by responsibility segment on its Statement of Operations and Changes in Net Position while the other relates to accounting for imputed costs paid for by the Bureau of Prisons on behalf of FPI.
2. One of the 10 selected entities does not include an **MD&A** in its financial report.
3. Seven of the 10 selected entities do not record **imputed costs and imputed financing**. Of the three entities that do record imputed costs and imputed financing, one of them subtracts the expense from the financing source in the revenue section rather than listing the expense in the expense section.

4. Eight of the 10 selected entities do not prepare a Statement of Budgetary Resources, indicating a probable lack of **budgetary accounting**. (3 of 10 received appropriations.)
5. None of the 10 selected entities comply with **form and content for federal financial statements** for their separately issued statements (although most of the information is generally provided for consolidation purposes).

H. Primary Differences between FASAB Standards and FASB Standards

What are some of the entities doing differently than FASAB standards require?

1. **Asset Valuation** – For two of the 10 selected entities, investments are currently recognized at fair value; however, the acquisition cost is disclosed in a footnote (SFFAS 1, par. 68). For one of the 10 selected entities, available for sale securities are currently carried at fair value; SFFAS 1 does not address available for sale securities.
2. **Service Award Liability** – One of the 10 selected entities recognizes a “Service Award Liability,” which is predominately a nonexchange transaction, earlier than due and payable (SFFAS 5, pars. 19 and 24).
3. **Inventory Valuation** – For one of the 10 selected entities, inventories are valued at lower of average cost or market value (LCM), rather than either (1) historical cost or (2) latest acquisition cost (SFFAS 3, par. 20).
4. **Guarantee Liability Valuation** – One of the 10 selected entities notes that FASB Interpretation Number (FIN) 45 permits but does not require present value calculations to be used in measuring the fair value of the liability for guarantees of principal and interest payments on loans between a non-federal lender and a non-federal borrower while SFFAS 2, 18, and 19 require the consideration of specific risk factors and present-value calculations of estimated cash flows for measurement of subsidy costs and extensive additional disclosures for loan guarantees.
5. **Assumed Capital** – For one of the 10 selected entities, land and buildings transferred from the Federal Home Loan Bank Board are reported as Assumed Capital in the net position section (SFFAS 6, par. 31 and USSGL Transaction Code E-606).

Key Decision #1: Does the Board agree that the differences and similarities selected by staff and discussed on pages 2 through 6 (and Attachment 1) represent a reasonable population from which to begin to develop a framework for determining the appropriate source of GAAP?

_____ Yes, I agree.

_____ No, I do not agree. If no, what other characteristic(s) do you believe staff should consider?

(Please contact FASAB staff before the meeting if you would like to suggest additional differences and similarities.)

Of those characteristics analyzed, which ones did staff deem most germane to the distinction between FASAB GAAP and FASB GAAP?

Of the characteristics discussed on pages 2 through 6 (and Attachment 1), staff selected those characteristics that it deemed most relevant to the determination of the appropriate source of GAAP. It is important to note that there are many characteristics that might make it easier or less costly to convert to FASAB GAAP, but the ease of conversion was not deemed relevant to which source of GAAP is the most appropriate. Therefore, characteristics such as size of the entity, fiscal year-end, main line items, titles of financial reports, types of financial statements presented, and differences between FASAB GAAP and FASB GAAP were not selected as characteristics that are germane to the distinction between FASAB GAAP and FASB GAAP. Barriers to conversion will be highlighted in the responses to the survey presented in Attachment 2.

1. Characteristics that make the entity a “more likely” candidate for FASAB:

- (a) Included in the federal budget
- (b) Bureau and/or consolidated with a parent agency²
- (c) Reports utilized by taxpayers
- (d) Appropriated funding
- (e) Included in the CFR²
- (f) Individually significant/material to the CFR²

2. Characteristics that make the entity a “neutral” candidate for FASAB:

- (g) Government corporation
- (h) Reports utilized by management
- (i) Reports utilized by beneficiaries of services
- (j) User fee funded (not necessarily self-sustaining)

3. Characteristics that make the entity a “less likely” candidate for FASAB:

- (k) Required by law to follow a different set of accounting rules
- (l) SEC filer
- (m) Reports utilized by investors
- (n) Predominately of a business nature
- (o) Potentially self-sustaining through the production of revenue
- (p) Has a large number of business-type transactions with the public

Please see the next two pages for a diagram and chart of relevant characteristics and the scoring mechanism utilized by staff.

Key Decision #2: Does the Board agree that the above characteristics selected by staff are relevant to making a determination of the appropriate source of GAAP?

_____ Yes, I agree.

_____ No, I do not agree. If no, what other characteristic(s) do you believe staff should select?

(Please contact FASAB staff before the meeting if you wish to suggest modifications or additions to these characteristics.)

² These three characteristics relate to the relevancy and materiality of the relationship between federal agencies and the government as a whole with respect to consistent reporting, and are not related to the cost or ease of consolidated reporting.

Diagram 1

F A S A B		F A S B	
Characteristics that make the entity a more likely candidate for FASAB (more similar to average federal agency)	Characteristics that make the entity a neutral candidate for FASAB	Characteristics that make the entity a less likely candidate for FASAB (less similar to average federal agency)	
A	B	C	Net Score
(a) Included in the federal budget (b) Bureau and/or consolidated with a parent agency (c) Reports utilized by taxpayers (d) Appropriated funding (e) Included in the CFR (f) Individually significant/material to the CFR	(g) Government corporation (h) Reports utilized by management (i) Reports utilized by beneficiaries of services (j) User fee funded (not necessarily self-sustaining)	(k) Required by law to follow a different set of accounting rules (l) SEC filer (m) Reports utilized by investors (n) Predominately of a business nature (o) Potentially self-sustaining through the production of revenue (p) Has a large number of business-type transactions with the public	The higher the score is, the more likely the entity is a candidate for FASAB
CDFI (5 – a, b, c, d, e) CNCS (4 – a, c, d, e) FDIC (3 – a, e, f) FPI (3 – a, b, e) GNMA (4 – a, b, e, f ³) MCC (4 – a, c, d, e) OTS (3 – a, b, e) PBGC (4 – a, b, e, f) TVA (3 – a, e, f) MINT (4 – a, b, e)	Characteristics (g) through (j) were considered by staff to be neutral to the discussion of FASAB GAAP versus FASB GAAP and were not incorporated into the scoring.	CDFI (0) CNCS (0) FDIC (3 – n, o, p) FPI (2 – n, o) GNMA (4 – m, n, o, p) MCC (0) OTS (3 – n, o, p) PBGC (3 – n, o, p) TVA (6 – k, l, m, n, o, p) MINT (3 – n, o, p)	A – C CDFI (5) CNCS (4) FDIC (0) FPI (1) GNMA (0) MCC (4) OTS (0) PBGC (1) TVA (-3) MINT (1)

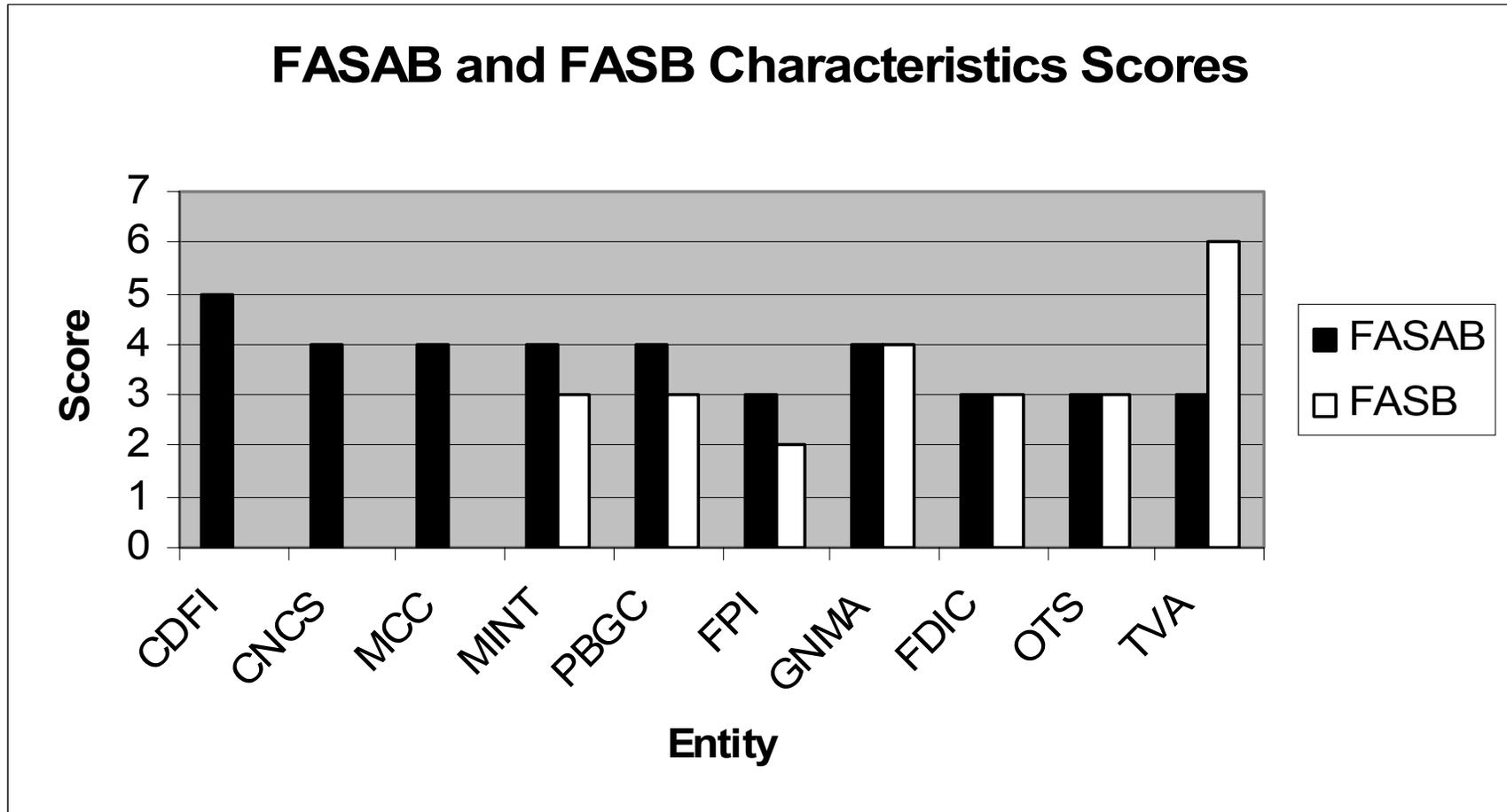
Note: This illustration uses the subjective judgment of staff and assumes equally weighted characteristics. If one were to select different characteristics or weight one characteristic more than another, the scoring outcome might have differing results.

Letters (a) – (p) correspond to the characteristics selected on page 7.

Next to each entity in the bottom row, the number in parentheses represents the number of characteristics that are met and the letters show which characteristics were met.

³ Although GNMA is included as part of HUD rather than listed individually, it is a material part of HUD.

Chart 1



Key Decision #3: Does the Board agree that Diagram 1 and Chart 1 would be helpful in developing guidance on which source of GAAP is most appropriate?

_____ Yes, I agree.

_____ No, I do not agree. If no, how should it be improved upon?

If the Board removed the exemption that allows certain entities to continue following FASB GAAP, what are some of the changes that would need to occur for a successful conversion to FASAB GAAP?

“Simpler” Changes:

- For entities that currently recognize investments at fair value and disclose acquisition cost adjusted for amortization, they would need to recognize investments at acquisition cost adjusted for amortization and disclose fair value (to be consistent with SFFAS 1, par. 68).
- For entities that do not recognize imputed financing sources and costs, they would need to begin recognizing all material imputed financing sources and costs (to be consistent with SFFAS 7, par. 73, and SFFAS 4, pars. 108 – 109) and incorporate the line items into their operating statement. This adjustment could most likely be done using a standard voucher journal entry.
- For entities that do not include an MD&A, they would need to develop one and enhance it each year (to be consistent with SFFAS 15).
- For entities that value inventory at lower of cost or market, they would need to begin valuing inventory at either (1) historical cost or (2) latest acquisition cost (to be consistent with SFFAS 3, par. 20).
- For entities that reported land and buildings transferred in as “Assumed Capital,” an adjusting entry could be made to reclassify the assumed capital to cumulative results of operations (to be consistent with SFFAS 6, par. 31 and USSGL Transaction Code E-606).

“More Difficult” Changes:

- For entities that do not have a cost accounting system or other acceptable method that complies with SFFAS 4, they would need to develop one and integrate it with their financial management systems.
- For entities that do not maintain budgetary accounts, they would need to incorporate budgetary accounting into their financial management systems or develop an acceptable method for reporting on budgetary resources and status.
- For entities that do not prepare financial statements in accordance with the prescribed form and content of federal financial statements, they would need to incorporate the accounts and crosswalks into their financial management systems and begin preparing the requisite financial statements.
- For entities that have financial management systems that do not support federal accounting, major system acquisitions or modifications would need to be made.
- For entities that do not have staff knowledgeable of federal accounting standards, additional staff would need to be recruited and hired and/or existing staff trained.
- For entities that are funded entirely by user fees from external customers (e.g., TVA and BPA), it would need to be determined whether the incremental costs of conversion would be appropriately passed on to the users or covered by supplemental appropriations.

What are some of the comments received from affected members of the federal financial management community regarding the issue of conversion to FASAB standards?

To provide Board members with early insight into the potential impact of this project (including expected benefits and perceived costs and burdens), staff initiated a “Request for Cost / Burden Information” survey that was sent to the CFOs and IGs of the 10 selected entities. The following statements contain some of the comments received from various entities that currently prepare or audit financial statements using FASB standards or have done so in the past prior to recent conversion to FASAB standards. Members are strongly encouraged to read the full responses to the surveys in Attachment 2, beginning on page A – 33.

It is important to note that the survey responses were received from individuals from the agencies at varying staff and managerial levels and do not necessarily represent the views of the agency as a whole.

In Favor of Conversion and / or Did Convert –

The Department of Justice (Auditor):

. . . “FPI currently reports under the FASB standards and crosswalks the statements to a A-136/FASAB compliant version for DOJ consolidation purposes. We believe that FPI would experience time savings as well as some cost savings by preparing one set of financial statements. Also, for purposes of consistent government wide reporting, it would be beneficial to have the information regarding intragovernmental activities and performance measures that is provided under FASAB standards.”

. . . “FPI manages by their organization via reports and information produced via FASB standards rather than the FASAB standards primarily because of cost accounting necessary for them to operate and the added information provided by the Income Statement in the commercial based statements over the Statement of Net Cost (i.e., expenses in the Income Statement are broken out into cost of sales, cost of other revenue, sales and marketing costs, and general and admin expenses, where as the Statement of Net Cost provides only summary level data). Additionally, FPI is beginning to build their commercial customer base and believes that reporting under FASB standards will help their growth in this area because the customers would better understand their financial statements.”

. . . “Consider converting to FASAB standards without the requirement for Federal corporations to perform budgetary accounting since the corporations operate without appropriations from Treasury.”

. . . “Consider changing the Statement of Net Cost presentation to be more consistent with the FASB Income Statement.”

The Department of the Treasury (Auditor):

. . . “FASB standards do not provide adequate information regarding the costs of programs and activities, since costs are aggregated in the statement of operations to arrive at a single net income figure. The statement of net cost (SNC) required by FASAB standards requires that costs and offsetting earned revenues be presented by responsibility segments, with net costs identified for each of the segments .”

... "The primary benefits to be achieved if all Treasury component entities reported based on FASAB standards include consistent, complete, comparable and meaningful financial data and an efficient consolidation of financial data for Department-wide reporting."

... "In recent years, two Treasury components, the OCC and the U.S. Mint, have taken the initiative and successfully changed their financial reporting basis from in accordance with FASB standards to in accordance with FASAB standards. These conversions went relatively smoothly with few obstacles and were completed timely to allow for reporting using FASAB standards for the year conversion took place."

Office of the Comptroller of the Currency (Preparer):

... "The FASAB standards are not clearly related to other accounting standards, and a typical user of a financial statement prepared under FASB standards most likely will find the statements prepared under FASAB difficult to use.

The universe of those who are experienced in applying FASAB standards is somewhat limited as well. Experienced accountants who have worked solely in the private sector or state and local government experience a steep learning curve.

There also is a lack of published materials and other guidance that may assist an agency in understanding the FASAB standards. This limited guidance and a lack of adequate communication can prove problematic. In contrast, FASB standards often are quickly analyzed by numerous accounting firms, practitioners, and academics with many publications available on the individual standards and their implications."

... "The OCC already has converted to the FASAB standards, and the incremental costs were offset largely by the cost savings provided by no longer having to maintain a separate set of books for proper accounting and reporting purposes (i.e. fiscal year versus calendar year basis). The cost savings is estimated at \$60,000 per year in an agency with a \$400 million budget at the time of conversion in 2000."

United States Mint (Preparer):

... "The United States Mint converted to preparing its financial statements based on accounting standards issued by FASAB during fiscal year 2005. The United States Mint believes that it is essential that the Government have a standardized format for all agencies and that we are OMB Circular A-136 compliant."

... "if an agency does not have a budgetary system in place, obtaining necessary data to comply with FASAB reporting standards could be very difficult and time consuming. We would suggest allowing adequate time for conversion."

... "The United States Mint incurred minimal cost to convert from FASB to FASAB. Most of the cost we incurred resulted from closing out old Purchase Orders so that we could have accurate Undelivered Orders balance."

Not in Favor of Conversion –***Bonneville Power Administration (Preparer):***

... “Currently we do not see a benefit in conforming to the FASAB standards. Commercial reporting requirements would need to be addressed to provide comparability in financial statements that would be useful to users of the financial statements and comply with statutory and utility reporting requirements.”

... “As an entity operating in the utility industry that is required to maintain records and accounts in accordance with the requirements of the Federal Power Act, all systems and accounts are geared to regulatory accounting. Presentation that deviates from a FASB GAAP presentation will not be useful to these entities for the FASAB standards presentation addresses federal reporting, rather than commercial reporting.”

... “because BPA is not taxpayer funded and relies on the Northwest Ratepayers to recover our costs, the expense of a conversion would be an undue hardship on ratepayers, particularly in times where energy prices have such a dramatic effect on the local economies.”

The Bureau of Engraving and Printing (Preparer):

... “The Bureau does not anticipate any benefit or enhancement to be achieved by converting from FASB standards to FASAB standards. In addition, the Bureau is required under PL 81-656 to prepare a business-type budget. FASAB standards and systems support appropriation-based budgeting. This would increase the Bureau’s costs without any commensurate benefit.”

... “Because there would be no benefit to BEP’s customers from this conversion, we would be very reluctant to bill them for it. Consequently, from their and our perspective, it could best be accomplished with an appropriation specifically earmarked for conversion costs, if such a conversion is mandated.”

... “A system conversion would be an extremely arduous and risky undertaking and would not provide any benefit to financial or business operations of the Bureau. It is doubtful that any existing government system could readily or efficiently provide the manufacturing cost accounting, accountability, and inventory tracking functionality required by the Bureau.”

... “Conversion may violate statute. Public Law 81-656, the enabling legislation for the Bureau’s revolving fund, requires the Bureau to prepare a business-type budget, which is not supported under FASAB standards.”

Community Development Financial Institution (Preparer):

... “We don’t see much benefit of converting our statements to FASAB standards. In addition, as a government corporation, we are required to follow FASB standards.”

... “to decrease of costs for an entity to convert to FASAB standards, the FASAB should provide guidance detailing the changes required to convert from FASB to the FASAB standards, as well as providing some training sessions detailing how to comply with the standards. These training sessions and guidance would need to be provided well prior the related initial year of conversion.”

... “The FASAB board should identify the specific information that they believe is not being provided in the FASB-based financial statements. Rather than just requiring that the FASAB standards to be met, the board should consider the possibility that much of this information could be provided as supplemental information to the FASB statements. As an example, there would most likely be

different bases for some assets, so this supplemental information could include a reconciliation of FASAB-based net assets to FASB-based net assets.”

Exchange Stabilization Fund (Preparer):

... “The primary benefit would be similar/consistent treatment and presentation of all entities in the consolidated financial statements of the Department. There is no benefit to the entity -- the Exchange Stabilization Fund.”

... “FASAB standards require presentation of a Statement of Net Cost -- not the traditional income statement. This presentation reflects costs and revenues by program and would compress/eliminate meaningful income statement information utilized by management.”

... “The Exchange Stabilization Fund is a unique entity. Its main role is to carry out the purposes of the Gold Reserve Act, as amended, the Bretton Woods Act, and the Special Drawing Rights Act. It holds investments in foreign currency and Special Drawing Rights in the International Monetary Fund. It does not receive annual appropriations, enter into obligations, or incur expenses like a traditional governmental entity. Its portfolio is managed/administered by the Federal Reserve Bank of New York and its managers rely on private sector GAAP and financial statement presentation in their decision-making.”

Federal Deposit Insurance Corporation (Preparer):

... “From the FDIC’s perspective, there are no benefits to converting to FASAB standards. Given the nature of the FDIC’s operations as dictated by its mission, it appears that converting to FASAB standards would be problematic. Extensive analysis and research would be required to fully disclose and quantify the anticipated problems.”

... “the primary drawbacks to the FDIC converting to FASAB standards would potentially include the following: 1. The inability to effectively carryout its mission as the insurer of deposits--as stated in question number one. 2. Millions in expenditures would be incurred to implement a system conversion on a system that only recently was implemented and supported with large budget expenditures. 3. Further costs could be incurred to implement and process FDIC transactions under FASAB guidelines because the Receiverships and FDIC Corporate share the same financial system structure/platform. (The FDIC is appointed receiver for failed financial institutions). 4. FDIC stakeholders across the country (financial institutions, banking trade groups, depositors) who understand and rely on FDIC financial statements based on FASB guidelines, would no longer be able to readily interpret the financial statements without assistance.”

Federal Deposit Insurance Corporation (Auditor):

... “the FDIC, as a government corporation, is not required to implement FASAB standards, which, by statute, apply to executive agencies and not government corporations. Therefore, unless the FDIC voluntarily adopted FASAB standards, federal legislation would be required to compel the FDIC to comply with those standards.”

... “financial statements required by FASAB standards such as the Statement of Budgetary Resources and Statement of Financing that are intended primarily to account for appropriations and reconcile budgetary and financial accounting would have little meaning in the case of the FDIC and could not be readily prepared on a consistent and comparable basis with other executive agencies.”

... “The first step would appear to be assuring there is statutory authority and a compelling business case, including a positive cost benefit analysis, for making this conversion.”

Federal Financing Bank (Preparer):

... "FASAB's financial statement format may not be easily translated by FFB's user community since they are typically accustomed to reviewing public statements of financial institutions which are universally accepted and understood. FFB's management and key users may not be readily able to assess the Banks financial health under FASAB standards. Additionally, to convert to FASAB, FFB would have to develop the formats and crosswalks for the FASAB statements, and would still be required to prepare financial statements as required by the Government Corporation Act because comparable reports do not exist under FASAB."

... "To implement FASAB, the FFB would incur the cost to reconfigure the loan management and accounting system to capture and generate FASAB formatted financial reports and other data. FFB would still continue to prepare and provide specific FASB based financial management reports to Congress that will fulfill the requirements of the Government Corporation Act. Incremental costs would consist of IT and accounting personnel costs to configure the data to capture and generate financial information that will meet FASAB standards, and educate the financial statement users."

... "The FASAB statements such as statement of budgetary resources and statement of financing do not provide the best financial picture for entities that do not receive appropriated funds."

Federal Prison Industries (Preparer):

... "FASB reporting requirements are more detailed and useful for the decision making process than FASAB."

... "The primary drawbacks are noticeable in the GAAP Statement of Operations and Cumulative Results of Operation (Income Statement) vs. the Statement of Net Cost. The GAAP Income Statement provides the entity's Management level and existing or potential business partners with a more comprehensive understanding of the entity earning abilities, cost of the products and services offered, and tabulates gross revenues received and source of income. The Statement of Net Cost reflect total cost of the entity with insufficient detail of the essential income statement components that provide valuable information. The FASAB requirement on budget and obligation development and reporting would be estimates that could not be adhered to due to the nature of FPI's business processes. The detail of commercial reporting is not addressed in FASAB standards, i.e., revenue recognition, inventory valuation, asset impairment and cost to manufacture."

... "The current crosswalk from FASB to FASAB is accomplished for department consolidation purposes only, there is no direct value of these reports to FPI."

Ginnie Mae (Preparer):

... "The imposition of all FASAB requirements (i.e., full Credit Reform and full budgetary accounting) would have a major negative impact on Ginnie Mae's financial operations. Specifically, it would take a major increase in staff within the Office of Finance in order to meet the FASAB standards without a negative impact on Ginnie Mae's financial reporting timeliness, accuracy, internal controls, and unqualified audit opinions. Following these requirements would not be beneficial to the government, i.e., major increase in cost with no discernable benefits. In addition, the General Counsel of HUD issued a legal opinion that "Ginnie Mae is exempt as a matter of law" from the Federal Credit Reform Act."

... "We do not see any benefits associated with adopting FASAB standards at Ginnie Mae."

... "The users of Ginnie Mae's financial statements go beyond the traditional set of Federal users (Congress, OMB, the public) to include the investor community. The investor community understands

and recognizes FASB standards and has consistently received Ginnie Mae financial statements that comply with FASB standards. In addition, the FASB standards provide a high degree of accountability and transparency into Ginnie Mae's financial statements. In our view, the cost associated with adopting new standards, unfamiliar to a large segment of our user community can't be justified."

... "Changing the format and display of our financial statements would be confusing to many of our users. Many of our users would be unfamiliar with FASAB standards and some of the FASAB statements. The financial confusion would result in considerable costs on the part of Ginnie Mae to explain and interpret these changes to our user community as well as misunderstandings about the financial operations of Ginnie Mae."

Office of Thrift Supervision (Preparer):

... "Since its creation in 1989, OTS has presented its audited financial statements in accordance with generally accepted accounting principles based upon accounting standards issued by the Financial Accounting Standards Board (FASB) -- i.e., commercial GAAP. Commercial GAAP is used by the entities who provide our funding, the thrift industry we regulate, and our statements clearly show the funding sources and costs of supervising the industry in a format universally understood and accepted. The Federal GAAP format does not provide the information our industry needs to understand OTS's financial condition and performance."

... "While the incremental costs for OTS to implement FASAB accounting standards would not be substantial, OTS would not realize any benefits from such a conversion.

Costs would include internal staff training, development and inclusion of a Management Discussion and Analysis section in the audited financials, education of internal and external financial statement users, and re-focusing budget development, implementation, and monitoring to obligation-based accounting."

Tennessee Valley Authority (Preparer / Auditor Joint Response):

... "There would be no benefit to TVA in converting to FASAB standards. In fact, there would be a negative impact on TVA, its rate payers, and financial report users if it also generated FASAB-based statements. Because of TVA's SEC reporting requirements, it does not have the option of converting to FASAB standards and would still be required to report FASB-based statements. FASAB-based statements would reflect a mismatch between TVA's revenues and expenses and have no relationship to the economic effects of the rate-making process as allowed under FASB.

Generating FASAB-based financial statements would be inefficient and significantly increase TVA's financial accounting and reporting costs, as well as audit costs. Since TVA is self-funded and receives no federal appropriations, these added costs would ultimately be passed on to the rate payers in the form of higher electricity costs."

... "The primary drawback of TVA's issuing both FASAB and FASB-based financial statements and obtaining two audit opinions (since no "either/or" alternative is available to TVA) is the potential confusion that could come from having two sets of financial statements with different format and content, including different accounts, balances, footnotes, and disclosures, as well as differing financial positions and results of operations. There would also likely be two different audit opinions on the statements (the opinion on the FASB-based statements would likely be unqualified; the auditors would likely disclaim on the FASAB-based statements), further confusing the users of TVA financial reports, including potential investors, existing bond holders, analysts and bond rating agencies, the media, rate payers, the general public and other stakeholders. This could impair TVA's ability to obtain financing at favorable terms in the public capital markets."

. . . “The total cost to implement FASAB standards is estimated to be \$2,500,000 in the year of implementation and \$1,500,000 per year thereafter.”

. . . “Several federal government entities are required by statutory or regulatory requirements to report on a basis other than federal GAAP. The guidance for SEC reporting follows FASB. Also, TVA is required by the TVA Act to follow FERC accounting guidance which is not inconsistent with GAAP. Requiring governmental entities to report under federal GAAP would in essence necessitate two sets of books and two audits. This is not fiscally responsible especially where entities, by law, are structured differently from other federal agencies, are self-funding and receive no federal appropriations.”

. . . “the FASAB might consider reviewing the accounting guidance for state and local governments which allows for enterprise funds--entities of governments which act like businesses. Accounting for enterprise funds follows the statements and interpretations of the FASB. TVA, by government accounting standards, is an enterprise fund. The enterprise accounting methodology allows for revenues and expenditures of an activity to be treated much like a business enterprise because the enterprise is expected to be self-supporting and have an ongoing independent revenue source.”

Position Not Clear –

Corporation for National and Community Service (Auditor):

. . . “Last year we obtained estimates from our financial statement auditors to audit the statements as prepared and if the Corporation prepared them in FASAB format. The incremental cost for audit would be approximately \$75,000 in 2006. However, this cost is probably a one time cost. After conversion the auditors would audit only one set of statements (not a set prepared in accordance with GAAP and a set prepared for FASAB reporting).”

. . . “The incremental cost could be decreased if the statements were not presented on a comparative basis for the conversion year. That would eliminate some of the incremental cost.”

Housing and Urban Development (Auditor):

. . . “From a Consolidated audit viewpoint, Ginnie Mae has been able to furnish sufficient supplementary information to the Department of Housing and Urban Development (HUD) Chief Financial Officer for the OIG opine upon the consolidated annual financial statements without qualification.”

Pension Benefit Guaranty Corporation (Preparer / Auditor Joint Response):

. . . “The primary benefit may be to the OMB and Treasury in compiling the statements on a government-wide basis, and GAO in auditing the consolidated statements. However, it is important to note that PBGC submits FASAB-compliant financial statements as part of the GFRS process.”

. . . “The luxury of time and gradual implementation of the standards would help from a planning and budgetary perspective in that the PBGC could request the funds necessary to address the conversion. Since we have already requested funds for the FY2009 budget, we would need to begin planning, and perform an analysis of the standards to estimate the associated costs of conversion at least 2-3 years prior to actual conversion. It would also help if FASAB could help defer some of the analysis costs by working with the PBGC to determine which standards would apply, and providing waivers for certain standards, if determined feasible and reasonable.”

... “We hope that FASAB and OMB will evaluate each government corporation and entity individually when determining whether and when these entities should convert to FASAB standards. In addition, before a decision is made, we hope that FASAB and OMB will further consult with us on an individual basis, and perform additional analysis on the costs versus the benefits of requiring such a change. We hope that this change would not be for the sole purpose of making it easier for specific agencies to compile and report on the consolidated government-wide financial statements. We believe that much of this requirement is already addressed through the GFRS reporting to the Treasury Financial Management Service and OMB.”

Department of the Treasury (Preparer):

... “The use of a combination of FASAB GAAP and FASB GAAP by the Department and its components complicates the preparation of the Department's consolidated financial statements, especially at the component level, since additional information required for FASAB GAAP must be developed, mapped/converted and submitted to the Department's data warehouse. It sometimes requires more extensive review for compliance with FASAB GAAP and overall reasonableness by the Department's management than submissions by components that use FASAB GAAP.”

... “Conversion to FASAB GAAP by all of the Department's components would help ensure consistent reporting throughout the Treasury reporting entity and alleviate the work and problems identified in the answer to Question 1. It would also enhance comparability of the financial statements of similar components.”

... “Complete conversion of all component entities to FASAB GAAP has been a repeat Management Letter Recommendation by the Department's auditors. In April 2004 the Department's Office of Inspector General requested that FASAB consider requiring FASAB GAAP for the financial statements of all Federal entities, unless there is a statutory or regulatory requirement to report on a different basis. Accordingly, the Department is very interested in an official position from FASAB on this issue.”

Key Decision #4: Based on the information provided in this discussion paper, does the Board want to continue to consider whether to take any action on the appropriate source of GAAP for federal entities?

_____ Yes, I would like staff to develop guidance. (The form of the guidance would be decided at a future meeting.)

_____ No, I do not want staff to develop guidance at this time.

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Attachment 1

Characteristics of Selected Entities

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A. General Profile of the Entity											
	CDFI	CNCS	FDIC	FPI	GNMA	MCC	OTS	PBGC	TVA	MINT	Total
Bureau / consolidated with parent agency	X			X	X		X	X ⁴		X	6
Government corporation		X	X	X	X	X		X	X		7
Included in U.S. Budget	X	X	X	X	X	X	X	X	X	X	10
Identified as a significant entity in the consolidated financial statements required to verify and submit a closing package	X ⁵		X	X ⁶	X ⁷		X ⁵	X	X	X ⁵	8
Sept 30 Year-End	X	X	12/31	X	X	X	X	X	X	X	9
Appropriated funding	X	X				X					3
User-fee funded (not necessarily self-sustaining)			X	X	X		X	X	X	X	7
SEC filer									X		1
Required by law to follow a different set of accounting rules									X ⁸		1
Revenue exceeds expenses		X	X	X	X	X	X	X	X	X	9
Predominately of a business nature			X	X	X		X	X	X	X	7
Potentially self-sustaining through the production of revenue			X	X	X		X	X	X	X	7
Has a large number of business-type transactions with the public			X		X		X	X	X	X	6

Note: Answers for the U.S. Mint pertain to the fiscal year ending September 30, 2004, prior to conversion to FASAB GAAP.

⁴ Beginning with fiscal year 2007 financial statements, PBGC will be consolidated with the Department of Labor.

⁵ As part of the Department of the Treasury.

⁶ As part of the Department of Justice.

⁷ As part of the Department of Housing and Urban Development (HUD); however, GNMA is a material part of HUD.

⁸ The TVA Act requires TVA to keep accounts in accordance with the requirements established by FERC (16 U.S.C. § 831m).

B. Size of the Entity											
	CDFI	CNCS	FDIC	FPI	GNMA	MCC	OTS	PBGC	TVA	MINT	Avg. Size
Total Assets	\$147M	\$1.4B	\$54.7B	\$623M	\$13B	\$2.4B	\$316M	\$61B	\$35B	\$937M	\$17B
Total Liabilities	\$52M	\$389M	\$880M	\$205M	\$1B	\$5M	\$114M	\$80B	\$32B	\$279M	\$11B
Net Position	\$95M	\$1B	\$53.8B	\$418M	\$12B	\$2.4B	\$202M	(\$19B)	\$3B	\$658M	\$6B
Total Revenue	\$60M	\$911M	\$2.8B	\$873M	\$849M	\$39M	\$237M	\$3.8B	\$8B	\$1.7B	\$2B
Total Expenses	\$65M	\$859M	\$1.3B	\$808M	\$60M	\$35M	\$199M	(\$468M) ⁹	\$8B	\$1B	\$1B
Ranked Size¹⁰											
	CDFI	CNCS	FDIC	FPI	GNMA	MCC	OTS	PBGC	TVA	MINT	
By Assets	10	6	2	8	4	5	9	1	3	7	
By Liabilities	9	4	8	6	3	10	7	1	2	5	
By Net Position	9	5	1	7	2	4	8	10	3	6	
By Revenues	9	5	3	6	7	10	8	2	1	4	
By Expenses	7	4	2	5	8	9	6	10	1	3	

C. Likely Users of the Entity Financial Statements											
	CDFI	CNCS	FDIC	FPI	GNMA	MCC	OTS	PBGC	TVA	MINT	Total
Management	X	X	X	X	X	X	X	X	X	X	10
Taxpayers	X	X				X					3
Beneficiaries of Services			X	X	X		X	X	X	X	7
Investors					X				X		2

Source: Fiscal Year 2006 Annual or Performance and Accountability Reports if available online as of March 31, 2007; otherwise fiscal year 2005 reports (except for Mint which was fiscal year 2004).

⁹ Negative total expenses is as a result of \$6.2 billion in negative losses from completed and probable terminations, which represents the present value of future benefits less related plan assets and the present value of expected recoveries from sponsors.

¹⁰ Scale of one to 10 with one ("1") being the largest and 10 being the smallest.

D. Title of General Purpose Federal Financial Report											
	CDFI	CNCS	FDIC	FPI	GNMA	MCC	OTS	PBGC	TVA	MINT	Total
Performance and Accountability Report (PAR)	X	X									2
Annual Report			X	X	X	X				X	5
Financial Report							X				1
Annual Management Report								X			1
Information Statement / Form 10-K									X ¹¹		1

¹¹ TVA also reports other information in an annual report and an annual performance report, but prior to fiscal year 2006, its financial statements were contained in the “information statement.” Beginning with reporting for fiscal year 2006, when TVA began filing with the SEC, the Annual Form 10-K replaced the information statement.

E. Financial Statements Presented											
	CDFI	CNCS	FDIC	FPI	GNMA	MCC	OTS	PBGC	TVA	MINT	Total
Balance Sheet			X	X	X				X		4
Statement of Financial Position	X	X				X	X			X	5
Statement of Financial Condition								X			1
Statement of Income									X		1
Statement of Income and Fund Balance			X								1
Statement of Income and Accumulated Deficit			X								1
Statement of Operations and Changes in Net Position	X	X				X	X	X		X	6
Statement of Operations and Cumulative Results of Operations				X							1
Statement of Revenues and Expenses and Changes in Investment of U.S. Government					X						1
Statement of Changes in Proprietary Capital									X		1
Statement of Cash Flows	X	X	X	X	X	X	X	X	X	X	10
Statement of Budgetary Resources		X				X					2
Statement of Functional Expenses						X					1
Statement of Net Cost		¹²									0
Statement of Financing											0
Statement of Custodial Activity											0
Schedule of Custodial Gold and Silver Reserves										X	1
Supplemental Reconciliation of Financial Statements to Budget Reports										X	1
Total Statements	3	4	4	3	3	5	3	3	4	5	37

¹² CNCS does not prepare a Statement of Net Cost but it does present expense information by responsibility segment in its Statement of Operations and Changes in Net Position.

F. Main Line Items

Assets											
	CDFI	CNCS	FDIC	FPI	GNMA	MCC	OTS	PBGC	TVA	MINT	Total
Fund Balance w/ Treasury / Cash	X	X	X	X	X	X	X	X		X	9
Loans Receivable	X										1
Investments	X	X	X		X		X	X			6
Inventory				X						X	2
Property							X		X	X	3
Regulatory Assets									X		1
Liabilities											
	CDFI	CNCS	FDIC	FPI	GNMA	MCC	OTS	PBGC	TVA	MINT	Total
Deferred Revenue				X			X				2
Present value of future benefits, net								X			1
Debt	X								X		2
Awards Payable	X										1
Grants Payable		X									1
Service Award Liability		X									1
Loss Reserve					X						1
Asset Retirement Obligations									X		1
Lease / Leaseback Obligations									X		1
Energy Prepayment Obligations									X		1
Net Position											
	CDFI	CNCS	FDIC	FPI	GNMA	MCC	OTS	PBGC	TVA	MINT	Total
Unexpended Appropriations		X				X					2
Cumulative Results of Operations		X		X		X					3
Assumed Capital							X				1

Net Position, contd.											
	CDFI	CNCS	FDIC	FPI	GNMA	MCC	OTS	PBGC	TVA	MINT	Total
Accumulated Net Income			X								1
Accumulated Deficit			X								1
Contributed Capital			X								1
Appropriation Investment									X		1
Investment of U.S. Government					X						1
Retained Earnings							X		X		2
Accumulated Net Expense of Nonpower Programs									X		1
Net Position	X							X			2
Revenues											
	CDFI	CNCS	FDIC	FPI	GNMA	MCC	OTS	PBGC	TVA	MINT	Total
Appropriations Used	X	X				X					3
Fees					X		X	X			3
Sales Revenue				X					X	X	3
Interest Revenue			X								1
Expenses											
	CDFI	CNCS	FDIC	FPI	GNMA	MCC	OTS	PBGC	TVA	MINT	Total
Grant Expense	X	X									2
Service Award Expense		X									1
Cost of Sales				X							1

G. Compliance with FASAB Standards and USSGL Requirements¹³

	CDFI	CNCS	FDIC	FPI	GNMA	MCC	OTS	PBGC	TVA	MINT	Total
Cost Accounting ¹⁴		X		X ¹⁵							2
MD&A	X	X	X	X	X	X		X	X	X	9
Imputed Costs	X			X						X ¹⁶	3
Budgetary Accounting ¹⁷		X				X					2

H. Primary Differences between FASAB Standards and FASB Standards Currently Utilized

	CDFI	CNCS	FDIC	FPI	GNMA	MCC	OTS	PBGC	TVA	MINT
Other Major Differences	Asset Valuation (see Note A)	Service Award Liability (see Note B)	Asset Valuation (see Note C)	Inventory Valuation (see Note D)	Guarantee Liability Valuation (see Note E)		Assumed Capital (see Note F)	Asset Valuation (see Note A)	Numerous (see March discussion paper)	

Note A – Investments are currently carried at fair value; however, the acquisition cost is disclosed in a footnote.

Note B – The Service Award Liability, a nonexchange transaction, is recognized earlier than due and payable.

Note C – FDIC's available for sale securities are currently carried at fair value; SFFAS 1 does not address available for sale securities.

Note D – Inventories are valued at lower of average cost or market value (LCM).

Note E – FIN 45 permits but does not require present value calculations to be used in measuring the fair value of the liability for guarantees of principal and interest payments on loans between a non-federal lender and a non-federal borrower while SFFAS 2, 18, and 19 require the consideration of specific risk factors and present-value calculations of estimated cash flows for measurement of subsidy costs and extensive additional disclosures for loan guarantees.

Note F – Land and buildings transferred from the Federal Home Loan Bank Board are reported as Assumed Capital in the net position section.

¹³ Does not include any processes or other efforts that are undertaken to manually provide such information for agency-wide report consolidation.

¹⁴ If the entity does not prepare a Statement of Net Cost or report on cost information, it is impossible to determine if the entity has an adequate cost accounting system in place. Further inquiry is required.

¹⁵ FPI's Fiscal Year 2005 Note 9 states that "the BOP provides land to FPI for the construction of its manufacturing facilities and both FPI and BOP share certain facilities, generally at no cost to FPI. In accordance with SFFAS Number 4, "Managerial Cost Accounting Standards and Concepts," as interpreted by FASAB Interpretation No. 6, implemented June 30, 2005, a reasonable estimate of these costs as provided by the BOP is included in general expense and other income for the fiscal year ended September 30, 2005. For fiscal year 2005, the estimate includes \$10.3 million related to inmate workspace provided by the BOP and \$10.8 million for services provided by the BOP." It is not evident if there is a cost accounting system in place for all costs.

¹⁶ Mint reports imputed financing; however, Mint subtracts the expense from the financing source in the revenue section of the Statement of Operations rather than listing the expense in the expense section.

¹⁷ If the entity does not prepare a Statement of Budgetary Resources or report on budgetary information, it is impossible to determine if the entity has an adequate budgetary accounting system in place. Further inquiry is required.

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Attachment 2

Responses to Request for Cost / Burden Information

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Federal Accounting Standards Advisory Board

Responses Requested by April 20, 2007

March 28, 2007

Memorandum

To: Chief Financial Officers and Inspectors General of the following selected entities:
Community Development Financial Institution
Corporation for National and Community Service
Federal Deposit Insurance Corporation
Federal Prison Industries (Unicor)
Government National Mortgage Association (Ginnie Mae)
Millennium Challenge Corporation
Office of Thrift Supervision
Pension Benefit Guaranty Corporation
Tennessee Valley Authority
U.S. Treasury

From: Wendy M. Comes, Executive Director

Subject: Request for Cost / Burden Information

The Federal Accounting Standards Advisory Board (FASAB or the Board) is conducting research regarding the appropriate source of generally accepted accounting principles (GAAP) for federal government corporations and other federal entities that currently follow accounting standards from a source of GAAP other than that recommended by FASAB. This research project was initiated in January 2006 after the topic was considered a priority as a result of (1) the Board's October 2004 agenda-setting session, and (2) subsequent consideration of comments on the July 2005 invitation to comment on the four projects selected by the Board for consideration.

The Board has requested that FASAB staff analyze and document similarities and differences between the selected entities that might prove helpful in developing guidance on which source of GAAP is most appropriate. As part of that effort, staff would like to present the Board with information on the expected benefits and perceived costs and burdens associated with various approaches to resolving any concerns regarding the source of GAAP.

We would appreciate your candid responses to the attached questionnaire to assist us in providing the Board with the best information possible. We are requesting your responses be emailed to ranagani@fasab.gov or faxed to 202-512-7366 by Friday, April 20, 2007. Please feel free to contact Julia Ranagan at 202-512-7377 to discuss any questions you may have. Thank you for your time and assistance.

Attachment

Request for Cost / Burden Information

Disclaimer: In the course of researching, developing or updating federal accounting standards, FASAB staff periodically utilize task forces, surveys, and other means of communication to solicit feedback from the federal community. The information contained in this survey is intended to assist staff in preparing materials for the Board's deliberations; it is not intended to reflect authoritative or formal views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

1. What are the main differences you are aware of between reporting under FASAB standards versus reporting under FASB standards for your specific organization (e.g., asset valuation, imputed costs, property, cost accounting, Management Discussion and Analysis, format of financial statements, etc.)?

(Please click on the grey shading in the box below to begin typing your response)

2. What do you see as the primary benefits that could be achieved if your organization converted to FASAB standards?

(Please click on the grey shading in the box below to begin typing your response)

3. What do you see as the primary drawbacks that might occur if your organization converted to FASAB standards?

(Please click on the grey shading in the box below to begin typing your response)

4. Estimates of the incremental costs that would be incurred by your organization to implement FASAB standards, as well as expected benefits and drawbacks, would be helpful in developing guidance on which source of GAAP is most appropriate. Please provide your input on possible incremental costs below.

(Please click on the grey shading in the box below to begin typing your response)

5. Is your organization planning to convert to a new financial management system or significantly enhance its accounting and financial reporting modules in the near future?

(Please click on the grey shading in the box below to begin typing your response)

6. What suggestions can you offer that could potentially decrease the cost of converting to FASAB standards?

(Please click on the grey shading in the box below to begin typing your response)

Request for Cost / Burden Information

7. Do you have any other comments?
(Please click on the grey shading in the box below to begin typing your response)

Requested Information Regarding Person Completing Survey:

(Please click on each grey box below to input requested information)

First and Last Name:

Agency Name:

Position Title:

Phone Number:

Email Address:

Please direct all responses to Julia Ranagan by email to ranagani@fasab.gov or fax to 202-512-7366 by Friday, April 20, 2007. Your responses are greatly appreciated.

Summary of Responses to Survey

(for responses received by May 9, 2007)

Organization	In Favor	Not In Favor	Position Not Clear	No Response	Page
BPA – CFO (*)		X			A – 37
BEP – CFO (**)		X			A – 41
CDFI – CFO		X			A – 44
CNCS – CFO				X	--
CNCS – OIG			X		A – 46
ESF – CFO (**)		X			A – 47
Treasury – Deputy Asst Sec International Affairs		X			A – 49
FDIC – CFO		X			A – 50
FDIC – OIG		X			A – 53
FFB – CFO (**)		X			A – 55
FPI – CFO		X			A – 57
DOJ – OIG	X				A – 59
Ginnie Mae – CFO		X			A – 61
HUD – OIG			X		A – 65
MCC – CFO				X	--
USAID – OIG				X	--
OCC – CFO (**)(***)	X				A – 69
OTS – CFO		X			A – 71
PBGC – CFO			X		A – 73
PBGC – OIG			X		A – 73
TVA – CFO		X			A – 76
TVA – OIG		X			A – 76
Treasury – DCFO			X		A – 81
Treasury – OIG	X				A – 86
Mint – CFO (***)	X				A – 89
Total	4	13	5	3	88% response rate

- (*) Note: FASAB staff contacted the Bonneville Power Administration to determine how it reported to the Department of Energy (DOE) for DOE's consolidated financial statements since it is similarly structured to TVA but is a component entity of DOE. As a result, BPA volunteered to provide a response to the survey.
- (**) Note: The Treasury CFO's office circulated the survey to all of its bureaus that prepare(d) FASB-based statements so additional responses were received from other than the 10 selected entities.
- (***) Note: OCC and Mint had already converted to FASAB GAAP prior to fiscal year 2006.

Key

In favor – Would generally be in favor of a conversion from FASB GAAP to FASAB GAAP and / or did convert.
Not in favor – Would generally not be in favor of a conversion from FASB GAAP to FASAB GAAP.
Position not clear – It was not evident to staff whether the respondent was in favor or not in favor.
No Response – A response to the survey request was not received.

1. What are the main differences you are aware of between reporting under FASAB standards versus reporting under FASB standards for your specific organization (e.g., asset valuation, imputed costs, property, cost accounting, Management Discussion and Analysis, format of financial statements, etc.)?

The primary differences we find between FASAB and FASB are concentrated in the area of utility accounting and ratemaking, and the conflicting guidance between FASAB and utility accounting (regulatory) as required under the Federal Power Act. Given time constraints and the availability of staff to perform this analysis, we have not performed a full scale evaluation of these differences. Although we have not performed an analysis, we note that the Tennessee Valley Authority (TVA) is a respondent to your survey and we believe that similar issues raised by the TVA will be at issue for BPA as well. Even though we do not have the same organizational or statutory requirements, many of the aspects related to utility industry entities (asset accounting - treatment of gains and losses, depreciation conventions, asset retirement obligations, EN debt refinancing, etc.) and regulatory accounting (FAS 71 assets and liabilities) would be applicable to BPA with similar implementation and reporting complexities. FASAB standards do not currently address situations we encounter for commercial reporting. As an example, to meet commercial reporting requirements, areas such as Variable Interest Entities (FIN 46) would have to be addressed.

2. What do you see as the primary benefits that could be achieved if your organization converted to FASAB standards?

Currently we do not see a benefit in conforming to the FASAB standards. Commercial reporting requirements would need to be addressed to provide comparability in financial statements that would be useful to users of the financial statements and comply with statutory and utility reporting requirements.

3. What do you see as the primary drawbacks that might occur if your organization converted to FASAB standards?

The Primary drawbacks relate to FASAB standards being inadequate to meet the reporting requirements that address utility disclosure and reporting requirements. These issues will raise concern with stakeholders and constituencies in that these standards do not adequately present the performance of BPA to region stakeholders, constituents, and bond rating agencies.

As an entity operating in the utility industry that is required to maintain records and accounts in accordance with the requirements of the Federal Power Act, all systems and accounts are geared to regulatory accounting. Presentation that deviates from a FASB GAAP presentation will not be useful to these entities for the FASAB standards presentation addresses federal reporting, rather than commercial reporting.

In addition, a conversion to FASAB accounting could impair our ability to comply with statutory requirements outlined in BPA organic and general statute. A conversion would entail a revamping of the entire BPA Enterprise Resource Planning System (ERP) (operational and financial system), processes and procedures, and data structures to accommodate transaction based federal accounting. In FY 1999, BPA underwent an extensive evaluation of ERP solutions to enable account and reporting requirements required by statute.

During this evaluation, we determined there were no Federal software packages available that would meet the business and statutory reporting requirements of the enterprise. A commercial

package developed in partnership with 2 vendors provided a solution that met reporting requirements, work management, and other operational needs. To convert to FASAB would require a complete overhaul of existing systems and processes to enable FASAB accounting, and would require additional effort each quarter to complete data conversions and crosswalks necessary to meet commercial reporting requirements. In addition, because BPA is not taxpayer funded and relies on the Northwest Ratepayers to recover our costs, the expense of a conversion would be an undue hardship on ratepayers, particularly in times where energy prices have such a dramatic effect on the local economies.

4. Estimates of the incremental costs that would be incurred by your organization to implement FASAB standards, as well as expected benefits and drawbacks, would be helpful in developing guidance on which source of GAAP is most appropriate. Please provide your input on possible incremental costs below.

The incremental cost of conversion would entail restructuring data, systems, and processes and procedures to accommodate transaction based federal accounting. We believe this effort would be a major undertaking with implications beyond the direct dollar impacts of conversion. Concerns regarding reduced efficiencies, disruptions in supply chain and construction schedules will not be measurable but present. In addition, several FTE would be required on an on-going basis to convert FASAB based data to enable statutory reporting.

5. Is your organization planning to convert to a new financial management system or significantly enhance its accounting and financial reporting modules in the near future?

No, we have no near term plans to convert to a new financial management system or significantly enhance our accounting and financial reporting modules.

6. What suggestions can you offer that could potentially decrease the cost of converting to FASAB standards?

We have no suggestions at this time.

7. Do you have any other comments?

We have attached related background on the BPA and FCRPS reporting requirements, and a link to the FY 2006 annual report for supplemental information.

Requested Information Regarding Person Completing Survey:

First and Last Name: Kelly Kintz
Agency Name: Bonneville Power Administration
Position Title: Accountant

[Information on this page not posted to the FASAB website at the request of BPA because it is in draft form.]

[Information on this page not posted to the FASAB website at the request of BPA because it is in draft form.]

1. What are the main differences you are aware of between reporting under FASAB standards versus reporting under FASB standards for your specific organization (e.g., asset valuation, imputed costs, property, cost accounting, Management Discussion and Analysis, format of financial statements, etc.)?

Under Public Law 81-656 the Bureau is required to prepare a business-type budget. FASAB standards and systems support appropriation-based budgeting. All of the differences mentioned in the question above apply with regard to the Bureau of Engraving and Printing's (BEP or Bureau) financial reporting, but for BEP the most significant may be the FASAB focus on budgetary (appropriation-based) accounting and reporting. The Bureau follows FASB standards, and as such, the Bureau's financial statements and reporting requirements are substantially different from FASAB requirements. The most obvious differences are the Bureau's FASB based financial statements, which include a balance sheet, statement of operations and cumulative results, and a statement of cash flows, accompanied by the notes to the financial statements.

2. What do you see as the primary benefits that could be achieved if your organization converted to FASAB standards?

The Bureau does not anticipate any benefit or enhancement to be achieved by converting from FASB standards to FASAB standards. In addition, the Bureau is required under PL 81-656 to prepare a business-type budget. FASAB standards and systems support appropriation-based budgeting. This would increase the Bureau's costs without any commensurate benefit.

3. What do you see as the primary drawbacks that might occur if your organization converted to FASAB standards?

There are many compelling reasons for BEP not to convert to FASAB accounting standards. Among these are the following:

- Conversion may violate statute. Public Law 81-656, the enabling legislation for the Bureau's revolving fund, requires the Bureau to prepare a business-type budget, which is not supported under FASAB standards.
- Incurring implementation costs in excess of \$40 million for no benefit.
- Forcing BEP's customers to fund a change that provides no benefit.
- BEP is a manufacturing organization that prints the nation's paper currency. FASAB standards were not specifically designed to be used by a federal agency styled as a commercial entity that follows commercial accounting practices.
- BEP employs a very sophisticated manufacturing cost accounting system that requires an automated financial system with the functionality now in place.
- BEP employs a very sophisticated, integrated accountability tracking system. The system now in place incorporates many accountability requirements related to the nature of the Bureau's product.

- A system conversion would be an extremely arduous and risky undertaking and would not provide any benefit to financial or business operations of the Bureau. It is doubtful that any existing government system could readily or efficiently provide the manufacturing cost accounting, accountability, and inventory tracking functionality required by the Bureau.
- Because BEP is a non-appropriated agency, operating on a revolving fund in a commercial-type environment, FASAB reporting standards offer no advantages or useful benefits.
- The FASB GAAP-based, monthly financial statements, especially the statement of cash flows, enable management and key stakeholders to readily assess the financial health of BEP. Nothing comparable exists under FASAB reporting and its emphasis on obligation accounting.
- On an ongoing basis, operating and reporting under FASAB standards would result in the need for additional FTE and higher audit costs, again without any benefit.

4. Estimates of the incremental costs that would be incurred by your organization to implement FASAB standards, as well as expected benefits and drawbacks, would be helpful in developing guidance on which source of GAAP is most appropriate. Please provide your input on possible incremental costs below.

The incremental costs for the Bureau to implement FASAB accounting standards would be substantial, and as mentioned above, may violate Public Law 81-656.

The automated accounting system now in place does not support the reporting requirements under FASAB. In addition, BEP has developed an integrated (with the core manufacturing system) product accountability system to track and account for paper currency in a very detailed manner. To convert to a manufacturing based accounting system; with the necessary product accountability that supports FASAB was estimated to cost in excess of \$40 million in 2004, for both the base system and the modifications required. In addition to this, the migration to the new system would be risky, time consuming and labor intensive. As noted above, operating and reporting under FASAB standards would result in the need for additional FTE and higher audit costs for BEP, again without any benefit.

5. Is your organization planning to convert to a new financial management system or significantly enhance its accounting and financial reporting modules in the near future?

BEP has no current plans to convert to a new financial management system or significantly enhance the present system in the near future. The earliest estimated replacement date for the Bureau's current system is 2012 (project initiation). However, that date is an estimate made without any supporting analysis. When the Bureau's system is replaced, BEP will participate in the FMLOB program, and will require the FMLOB provider to maintain FASB accounting.

6. What suggestions can you offer that could potentially decrease the cost of converting to FASAB standards?

Clearly, the most efficient way to decrease or reduce costs would be for the Bureau not to convert to FASAB standards. There are few, if any, commercial manufacturing based financial management systems available that support FASAB accounting, and migrating to a government

service provider would entail many modifications to integrate it with BEP's accountability system. In addition, the implementation and training costs would be substantial.

The least costly, but by no means cost effective, manner for conversion to occur would be to convert when the current manufacturing/financial system is being replaced. However, as noted previously, there is no benefit to BEP or its key stakeholders from this conversion. Because there would be no benefit to BEP's customers from this conversion, we would be very reluctant to bill them for it. Consequently, from their and our perspective, it could best be accomplished with an appropriation specifically earmarked for conversion costs, if such a conversion is mandated.

7. Do you have any other comments?

No additional comments

Requested Information Regarding Person Completing Survey:

First and Last Name: Leonard R. Olijar

Agency Name: Bureau of Engraving and Printing

Position Title: Chief Financial Officer

1. What are the main differences you are aware of between reporting under FASAB standards versus reporting under FASB standards for your specific organization (e.g., asset valuation, imputed costs, property, cost accounting, Management Discussion and Analysis, format of financial statements, etc.)?

1) Format of financial statements (3 basic statements under FASB versus the 6 under FASAB); related to this issue is the content of financial statements, for instance, the need for the statement of net cost to show information by responsibility segment which would require some kind of cost accounting system (e.g., this issue is more than just a financial statement format issue); 2) Use of credit reform under FASAB including credit reform basis for computing the allowance for loan losses, and required footnote disclosures (which are significant). Credit Reform is unique to FASAB; 3) The MD&A section of the Management Report (we're a government corporation) required for government corporations is less prescriptive than that required under FASAB for the PAR; 4) There are additional financial statement footnote disclosures required under FASAB (Stewardship Reporting, Credit Reform, to name two areas) that are not required under FASB. This would require the related information to be compiled, disclosed and audited.

2. What do you see as the primary benefits that could be achieved if your organization converted to FASAB standards?

We don't see much benefit of converting our statements to FASAB standards. In addition, as a government corporation, we are required to follow FASB standards.

3. What do you see as the primary drawbacks that might occur if your organization converted to FASAB standards?

1) Time and effort required to compute the information for the disclosures required under FASAB #2 (Accounting for Loans and Loan Guarantees); 2) Preparing schedules and accumulating supporting documentation for the auditors, to support various line items on the not previously provided FASAB statements; 3) Developing some kind of cost accounting process to accumulate costs by responsibility segment as required in the statement of net cost (and FASAB #4); 4) FASAB financial statements will have less meaning to many of our constituents who comply with the FASB standards (financial institutions and non-profits).

4. Estimates of the incremental costs that would be incurred by your organization to implement FASAB standards, as well as expected benefits and drawbacks, would be helpful in developing guidance on which source of GAAP is most appropriate. Please provide your input on possible incremental costs below.

We have no idea of the incremental costs - we would first need to fully understand the nature of the significant differences between the FASAB and FASB standards (this response addresses those we are aware of, but there may be others). Obviously, the costs would be larger in the first year of complying with the FASAB standards. There would also be additional costs associated with the audit, due to the time required for Fund staff to provide schedules and support for the additional FASAB line items and disclosures, and for the auditors to audit this information.

5. Is your organization planning to convert to a new financial management system or significantly enhance its accounting and financial reporting modules in the near future?

No.

6. What suggestions can you offer that could potentially decrease the cost of converting to FASAB standards?

As stated above, as a government corporation, we are required to follow FASB standards. However, to decrease of costs for an entity to convert to FASAB standards, the FASAB should provide guidance detailing the changes required to convert from FASB to the FASAB standards, as well as providing some training sessions detailing how to comply with the standards. These training sessions and guidance would need to be provided well prior the related initial year of conversion.

7. Do you have any other comments?

The FASAB board should identify the specific information that they believe is not being provided in the FASB-based financial statements. Rather than just requiring that the FASAB standards to be met, the board should consider the possibility that much of this information could be provided as supplemental information to the FASB statements. As an example, there would most likely be different bases for some assets, so this supplemental information could include a reconciliation of FASAB-based net assets to FASB-based net assets.

Requested Information Regarding Person Completing Survey:

First and Last Name: Larry Green

Agency Name: Community Development Financial Institutions Fund /
Department of the Treasury

Position Title: Deputy Chief Financial Officer

Julia E Ranagan - 4/16/07 FAX

From: "Carol M. Bates"
To:
Date: 5/2/2007 7:54 AM
Subject: 4/16/07 FAX

Julia,

Most of the questions in the fax requesting cost/burden information are more appropriate for the Corporation for National & Community Service to respond to. However, the OIG provides the following input to questions 4 and 6.

4. *Provide your input on possible incremental costs below.*

Last year we obtained estimates from our financial statement auditors to audit the statements as prepared and if the Corporation prepared them in FASAB format. The incremental cost for audit would be approximately \$75,000 in 2006. However, this cost is probably a one time cost. After conversion the auditors would audit only one set of statements (not a set prepared in accordance with GAAP and a set prepared for FASAB reporting).

6. *What suggestions can you offer that could potentially decrease the cost of converting to FASAB standards?*

The incremental cost could be decreased if the statements were not presented on a comparative basis for the conversion year. That would eliminate some of the incremental cost.

Carol Bates
Assistant Inspector General for Audit

1. What are the main differences you are aware of between reporting under FASAB standards versus reporting under FASB standards for your specific organization (e.g., asset valuation, imputed costs, property, cost accounting, Management Discussion and Analysis, format of financial statements, etc.)?

We are aware of differences for imputed costs, the Management Discussion and Analysis, and formatting/presentation.

2. What do you see as the primary benefits that could be achieved if your organization converted to FASAB standards?

The primary benefit would be similar/consistent treatment and presentation of all entities in the consolidated financial statements of the Department. There is no benefit to the entity -- the Exchange Stabilization Fund.

3. What do you see as the primary drawbacks that might occur if your organization converted to FASAB standards?

There are drawbacks to use of the FASAB standards. First, because the Exchange Stabilization Fund contains sensitive information (formerly classified Secret), the Management Discussion and Analysis may not be able to provide complete/meaningful information. Second, the Exchange Stabilization Fund statute prohibits usage of the fund for any administrative purposes and the salaries of employees working on ESF activities cannot be charged to the fund. Imputing these costs, and other associated costs, in the financial statements would alter the presentation of the financial statements. These statements are utilized by senior management and presented to Congress on a monthly basis. Lastly, the FASAB standards require presentation of a Statement of Net Cost -- not the traditional income statement. This presentation reflects costs and revenues by program and would compress/eliminate meaningful income statement information utilized by management.

4. Estimates of the incremental costs that would be incurred by your organization to implement FASAB standards, as well as expected benefits and drawbacks, would be helpful in developing guidance on which source of GAAP is most appropriate. Please provide your input on possible incremental costs below.

There are no incremental costs associated with implementation of FASAB standards. The benefits and drawbacks are outlined above.

5. Is your organization planning to convert to a new financial management system or significantly enhance its accounting and financial reporting modules in the near future?

No. We currently utilize Oracle Financials and have no plans to convert to a new system or significantly enhance Oracle Financials.

6. What suggestions can you offer that could potentially decrease the cost of converting to FASAB standards?

N/A. There are no costs.

7. Do you have any other comments?

The Exchange Stabilization Fund is a unique entity. Its main role is to carry out the purposes of the Gold Reserve Act, as amended, the Bretton Woods Act, and the Special Drawing Rights Act. It holds investments in foreign currency and Special Drawing Rights in the International Monetary Fund. It does not receive annual appropriations, enter into obligations, or incur expenses like a traditional governmental entity. Its portfolio is managed/administered by the Federal Reserve Bank of New York and its managers rely on private sector GAAP and financial statement presentation in their decision-making.

Requested Information Regarding Person Completing Survey:

First and Last Name: David Legge

Agency Name: Department of the Treasury

Position Title: Assistant Director for Accounting



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

April 20, 2007

MEMORANDUM

TO: Jim Lingeback
FROM: Mark Sobel *MS*
SUBJECT: Exchange Stabilization Fund Needs Commercial GAAP

You circulated the Federal Accounting Standards Advisory Board's (FASAB) request for cost and burden information regarding a possible conversion of Exchange Stabilization Fund (ESF) accounting standards from commercial GAAP to FASAB standards. Treasury's responses to FASAB for the Department and for components including the ESF have been sent to FASAB. This memo is to express my view on the proper accounting standard to use for the ESF; please share it with the appropriate people on your side.

I want to make clear that International Affairs, in its capacity as manager of the ESF, very strongly holds the view that the ESF's financial statements must be presented and audited according to commercial GAAP. Using a FASAB standard would compress the income statement unacceptably.

- Full income statement information on a commercial GAAP basis is an absolute necessity for clear and complete reporting on the ESF's financial condition to senior Treasury officials, to Congress, and to interested financial market participants and the public.
- None of these audiences would be well served by a FASAB presentation that leaves out basic income statement information. They expect to see conventional financial statements prepared and audited according to normal commercial accounting standards. There is a real risk that a FASAB presentation might confuse end-users of ESF information, particularly outside Treasury.
- This is not to preclude a separate FASAB presentation in the Departmental audit report. But a FASAB presentation cannot supersede a separate, audited GAAP presentation that would continue to be reported to Congress and the public apart from other Departmental presentations.

I am also concerned about any implication that cost considerations could lead to a discontinuation of a separate, commercial GAAP-based audit of the ESF's financial statement. It is easy to envision a scenario in which key audiences such as the ESF's Congressional oversight committees, noting differences between FASAB and commercial GAAP presentations of the ESF income statement, would question the validity of an *un-audited* commercial GAAP-based ESF financial statement. It would be awkward, at best, if Treasury then had to commission an emergency commercial GAAP audit to address their concerns.

1. What are the main differences you are aware of between reporting under FASAB standards versus reporting under FASB standards for your specific organization (e.g., asset valuation, imputed costs, property, cost accounting, Management Discussion and Analysis, format of financial statements, etc.)?

It would be impossible to provide a definitive response to this question without conducting an extensive review and interpretation of FASAB standards. However, one significant difference involves the accounting treatment for marketable investment securities. FASB's Statement of Financial Accounting Standard No. 115, Accounting for Certain Investments in Debt and Equity Securities, requires that market adjustments be recognized as unrealized gains or losses on Available-for-Sale (AFS) securities. However, the FASAB accounting standards SFFAS 1, paragraph 66-73 only provides accounting guidance for investment securities that are classified as Held-to-Maturity (HTM). In addition, paragraph 73 seems to imply that classifying investment securities as AFS would only occur in "rare instances". This is not the case for the FDIC. To ensure that an on-going sufficient amount of liquidity is available for the FDIC to carry out its mission, the FDIC investment policy requires that a designated portion of the Deposit Insurance Fund's (DIF) investment portfolio be comprised of overnight and AFS securities. If unrealized gains and losses are not properly recognized on AFS holdings, the impact would cause the DIF to be over or understated. This would affect the DIF's reserve ratio and could result in an increase in deposit insurance premiums assessed to financial institutions or could erroneously trigger dividend disbursements to the institutions. The ramification of such an impact could be detrimental to the FDIC's ability to carry out its responsibilities in a transparent and prudent manner.

Another item of difference is that the FDIC produces both fiscal year and calendar year financials for the DIF. The fiscal-year financial statements present September 30th financial activity for submission to the government-wide Financial Reporting System (GFRS) cycle. The fiscal-year financial statements include a calculated imputed cost for FDIC employees covered by the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). The imputed cost is not included in the DIF calendar year financial statements.

The DIF Financial Statements include only Balance Sheet, Statement of Income and Fund Balance, and the Statement of Cash Flows.

2. What do you see as the primary benefits that could be achieved if your organization converted to FASAB standards?

From the FDIC's perspective, there are no benefits to converting to FASAB standards. Given the nature of the FDIC's operations as dictated by its mission, it appears that converting to FASAB standards would be problematic. Extensive analysis and research would be required to fully disclose and quantify the anticipated problems.

3. What do you see as the primary drawbacks that might occur if your organization converted to FASAB standards?

As stated in question one, it would be impossible to provide a definitive response to this question without conducting an extensive review and interpretation of FASAB standards. However, the primary drawbacks to the FDIC converting to FASAB standards would

potentially include the following: 1. The inability to effectively carryout its mission as the insurer of deposits--as stated in question number one. 2. Millions in expenditures would be incurred to implement a system conversion on a system that only recently was implemented and supported with large budget expenditures. 3. Further costs could be incurred to implement and process FDIC transactions under FASAB guidelines because the Receiverships and FDIC Corporate share the same financial system structure/platform. (The FDIC is appointed receiver for failed financial institutions). 4. FDIC stakeholders across the country (financial institutions, banking trade groups, depositors) who understand and rely on FDIC financial statements based on FASB guidelines, would no longer be able to readily interpret the financial statements without assistance.

4. Estimates of the incremental costs that would be incurred by your organization to implement FASAB standards, as well as expected benefits and drawbacks, would be helpful in developing guidance on which source of GAAP is most appropriate. Please provide your input on possible incremental costs below.

Extensive review of required system changes would be required to determine the incremental cost to implement FASAB Standards. However, based on recent expenditures required for the FDIC's new financial environment, at a minimum, several million would be incurred to analyze, redesign, and implement new systems. In addition, expenditures would be incurred to redevelop business processes and train staff to process and report financial transaction under FASAB guidelines. Cost would also be incurred to brief FDIC stakeholders across the country on how to interpret the DIF financial statements presented under FASAB standards.

5. Is your organization planning to convert to a new financial management system or significantly enhance its accounting and financial reporting modules in the near future?

No.

6. What suggestions can you offer that could potentially decrease the cost of converting to FASAB standards?

Further in depth studies would be required to answer this question.

7. Do you have any other comments?

The use of authoritative accounting standards issued by FASB for DIF's financial statements supports the objective to enhance the usefulness of such reports to FDIC stakeholders who monitor and need to understand how they are impacted by changes in the DIF's financial status. The FDIC's primary stakeholders are commercial corporate entities that also report under FASB guidelines. Accordingly, in adherence to Section 17(e) of the FDI Act., the financial transactions of the FDIC are also audited by the General Accounting Office in accordance with the principles and procedures applicable to commercial corporate transactions.

Requested Information Regarding Person Completing Survey:

First and Last Name: Vanessa L. Hester

Agency Name: Federal Deposit Insurance Corporation

Position Title: Manager, Accounting and Tax Policy

1. What are the main differences you are aware of between reporting under FASAB standards versus reporting under FASB standards for your specific organization (e.g., asset valuation, imputed costs, property, cost accounting, Management Discussion and Analysis, format of financial statements, etc.)?

We agree with the point raised by FDIC management in its response to this questionnaire that extensive review and interpretation would be required in order to provide a definitive response to this question. Fundamentally, however, we see several key differences that should be considered by the FASAB. First, the FDIC, as a government corporation, is not required to implement FASAB standards, which, by statute, apply to executive agencies and not government corporations. Therefore, unless the FDIC voluntarily adopted FASAB standards, federal legislation would be required to compel the FDIC to comply with those standards. Second, the current sources of income to FDIC are largely derived from interest on U.S. Treasury obligations in the Deposit Insurance Fund (DIF), rather than from appropriated funds. One of the four objectives of Federal Financial Reporting identified by the FASAB is to maintain budget integrity meaning that there is accountability for expenditures in accordance with appropriations law. Since FDIC, with the exception of the OIG, is not funded through appropriations, this underlying objective of Federal Financial Reporting does not directly apply to FDIC. For that reason, financial statements required by FASAB standards such as the Statement of Budgetary Resources and Statement of Financing that are intended primarily to account for appropriations and reconcile budgetary and financial accounting would have little meaning in the case of the FDIC and could not be readily prepared on a consistent and comparable basis with other executive agencies. Third and finally, there are differences in the users of FDIC's financial statements that should be considered. FDIC charges risk-based insurance assessments to insured depository institutions that are intended to maintain insurance funds at a designated reserve ratio (DRR). In turn the DRR relies upon the fund balance in the DIF. FDIC has a long history of determining the fund balance in the DIF, and in turn the DRR, using FASB standards. This level of consistency is important and relied upon by the institutions being charged assessments. Also, the FASB standards are widely understood by institutions being assessed since they use the same standards in preparation of their financial statements. While users of FDIC's financial statements include citizens, Congress and the Executive Branch just like other federal financial statements, this additional group of users, the institutions, is unique to FDIC and this group's needs ought to be considered. It should be noted that, from an audit perspective, financial statements prepared under both FASAB and FASB standards can be successfully examined under Generally Accepted Government Auditing Standards (GAGAS), which include Generally Accepted Auditing Standards (GAAS) promulgated by the American Institute of Certified Public Accountants (AICPA) by reference. In fact, FDIC's financial statements have been audited annually by the Government Accountability Office in accordance with GAGAS with opinions expressed on both the financial statements and related internal control. Therefore, in our view, auditing standards are not a factor in deciding which source of GAAP is most appropriate.

2. What do you see as the primary benefits that could be achieved if your organization converted to FASAB standards?

The review of the similarities and differences between FASB and FASAB standards discussed above would be required in order to determine what benefits, if any, might be derived from converting to FASAB standards. On the surface, no benefits are apparent at the FDIC level.

At the Government-wide level, FDIC can and has resolved issues involving differences in such areas as the accounting period and accounting for securities and retirement costs for purposes of Government-wide financial reporting, so no clear benefit at that level is apparent.

3. What do you see as the primary drawbacks that might occur if your organization converted to FASAB standards?

The lack of clear benefits, coupled with the issues discussed in response to Question 1., represent the primary drawbacks. Also, the manner in which FDIC accounts for receiverships created as a result of financial institution failures would need to be factored into this analysis.

4. Estimates of the incremental costs that would be incurred by your organization to implement FASAB standards, as well as expected benefits and drawbacks, would be helpful in developing guidance on which source of GAAP is most appropriate. Please provide your input on possible incremental costs below.

Since the GAO performs the FDIC financial statement audits, the OIG would not incur significant incremental costs to implement FASAB standards. However, the cost and other impacts on FDIC could be considerable and should be considered in this analysis.

5. Is your organization planning to convert to a new financial management system or significantly enhance its accounting and financial reporting modules in the near future?

FDIC implemented a new financial management system in 2005 and plans to make incremental enhancements as required.

6. What suggestions can you offer that could potentially decrease the cost of converting to FASAB standards?

The first step would appear to be assuring there is statutory authority and a compelling business case, including a positive cost benefit analysis, for making this conversion.

7. Do you have any other comments?

No.

Requested Information Regarding Person Completing Survey:

First and Last Name: Russell Rau
Agency Name: FDIC Office of Inspector General
Position Title: Assistant Inspector General for Audits

1. What are the main differences you are aware of between reporting under FASAB standards versus reporting under FASB standards for your specific organization (e.g., asset valuation, imputed costs, property, cost accounting, Management Discussion and Analysis, format of financial statements, etc.)?

The main reporting difference between FASB and FASAB is the format of the financial statements. The Federal Financing Bank (FFB) is a government corporation and does not require appropriated funds from Congress. FASAB report formats focus on appropriation-based accounting and reporting. The Bank follows FASB standards to provide required financial reporting to Congress that includes a statement of financial position, statement of operations and changes in net position, and a statement of cash flows.

2. What do you see as the primary benefits that could be achieved if your organization converted to FASAB standards?

FFB does not anticipate any benefits would be achieved by converting to FASAB standards.

3. What do you see as the primary drawbacks that might occur if your organization converted to FASAB standards?

FASAB's financial statement format may not be easily translated by FFB's user community since they are typically accustomed to reviewing public statements of financial institutions which are universally accepted and understood. FFB's management and key users may not be readily able to assess the Bank's financial health under FASAB standards. Additionally, to convert to FASAB, FFB would have to develop the formats and crosswalks for the FASAB statements, and would still be required to prepare financial statements as required by the Government Corporation Act because comparable reports do not exist under FASAB.

4. Estimates of the incremental costs that would be incurred by your organization to implement FASAB standards, as well as expected benefits and drawbacks, would be helpful in developing guidance on which source of GAAP is most appropriate. Please provide your input on possible incremental costs below.

To implement FASAB, the FFB would incur the cost to reconfigure the loan management and accounting system to capture and generate FASAB formatted financial reports and other data. FFB would still continue to prepare and provide specific FASB based financial management reports to Congress that will fulfill the requirements of the Government Corporation Act. Incremental costs would consist of IT and accounting personnel costs to configure the data to capture and generate financial information that will meet FASAB standards, and educate the financial statement users.

5. Is your organization planning to convert to a new financial management system or significantly enhance its accounting and financial reporting modules in the near future?

FFB is in the process of enhancing its current loan management and accounting system.

6. What suggestions can you offer that could potentially decrease the cost of converting to FASAB standards?

Conversion costs could potentially be decreased if adequate guidance and training is provided.

7. Do you have any other comments?

The FASAB statements such as statement of budgetary resources and statement of financing do not provide the best financial picture for entities that do not receive appropriated funds.

Requested Information Regarding Person Completing Survey:

First and Last Name:	Cynthia Boyd
Agency Name:	U.S. Department of Treasury
Position Title:	Deputy Chief Financial Officer/Accounting Manager

1. What are the main differences you are aware of between reporting under FASAB standards versus reporting under FASB standards for your specific organization (e.g., asset valuation, imputed costs, property, cost accounting, Management Discussion and Analysis, format of financial statements, etc.)?

FPI has historically prepared its external financial statements in conformity with accounting principles based on standards issued by the Financial Accounting Standards Board (FASB) as required by the Government Corporations Act. The difference for FPI between FASAB standards and FASB standards is reflected in the imputed costs, cost accounting, management discussion and analysis and the format of the financial statements.

FPI is a Federal Corporation by statute with the mission of employing inmates, providing job skills and operating as a self sustaining entity while receiving no appropriated funds. A growing portion of FPI customer base is commercial for profit companies.

FASB reporting requirements are more detailed and useful for the decision making process than FASAB.

2. What do you see as the primary benefits that could be achieved if your organization converted to FASAB standards?

As a result of the required gathering and reporting of commercial base financial statements in support of the mission and communicating FPI strength and weakness to potential customers and other financial statement users, the benefits of FASAB standards in this environment are perceived as minimal.

3. What do you see as the primary drawbacks that might occur if your organization converted to FASAB standards?

The primary drawbacks are noticeable in the GAAP Statement of Operations and Cumulative Results of Operation (Income Statement) vs. the Statement of Net Cost. The GAAP Income Statement provides the entity's Management level and existing or potential business partners with a more comprehensive understanding of the entity earning abilities, cost of the products and services offered, and tabulates gross revenues received and source of income. The Statement of Net Cost reflect total cost of the entity with insufficient detail of the essential income statement components that provide valuable information. The FASAB requirement on budget and obligation development and reporting would be estimates that could not be adhered to due to the nature of FPI's business processes. The detail of commercial reporting is not addressed in FASAB standards, i.e., revenue recognition, inventory valuation, asset impairment and cost to manufacture.

4. Estimates of the incremental costs that would be incurred by your organization to implement FASAB standards, as well as expected benefits and drawbacks, would be helpful in developing guidance on which source of GAAP is most appropriate. Please provide your input on possible incremental costs below.

The development and conversion of all current business processes and configuration of the supporting software. The training of staff in accounting and management for the new requirements. Possible purchases of additional software to get detailed reports for decision making. Additionally operational information in a form that is understood at the factory level

would need to be developed and deployed.

5. Is your organization planning to convert to a new financial management system or significantly enhance its accounting and financial reporting modules in the near future?

FPI is in the preliminary stages of upgrading our current accounting program (SAP). Scheduled completion for this process is February of 2008. It should be noted that SAP is a multi-module program including manufacturing, accounting, sales, inventory management and accounting/financial reporting. The federal financial reporting module is not currently operational.

6. What suggestions can you offer that could potentially decrease the cost of converting to FASAB standards?

Eliminate or reduce/modify the requirements of FASAB standards for government corporations. The current crosswalk from FASB to FASAB is accomplished for department consolidation purposes only, there is no direct value of these reports to FPI. The impact of FPI on the consolidated department's statement is de minimus.

7. Do you have any other comments?

FPI utilizes a revolving fund with treasury and receives no appropriations for operations. The FASB standards are more applicable for a self-sustaining entity. The complete conversion to FASAB standards would not be practicable for FPI. The manufacturing and production processes are not supported in government reporting environment. The cost of implementing a satisfactory solution would exceed the dollar impact FPI has on the department statements.

Requested Information Regarding Person Completing Survey:

First and Last Name: Craig Henderson

Agency Name: Federal Prison Industries

Position Title: Deputy Controller

1. What are the main differences you are aware of between reporting under FASAB standards versus reporting under FASB standards for your specific organization (e.g., asset valuation, imputed costs, property, cost accounting, Management Discussion and Analysis, format of financial statements, etc.)?

The Department of Justice (DOJ) has one Federal corporation, Federal Prison Industries Inc. (FPI) and FPI reports under FASB standards for external reporting and FASAB standards for consolidation into the Department's financial statements. The main differences we have identified between the two reporting requirements include, cost accounting for decision making purposes not as useful under FASAB standards and various differences in the format of the statements and note disclosures - such as the requirement to report budgetary accounting information, performance information in the Management Discussion and Analysis, separate intragovernmental activities, imputed cost information, and disclosures related to federal leave liabilities under FASAB standards which are not required under the FASB standards.

2. What do you see as the primary benefits that could be achieved if your organization converted to FASAB standards?

FPI currently reports under the FASB standards and crosswalks the statements to a A-136/FASAB compliant version for DOJ consolidation purposes. We believe that FPI would experience time savings as well as some cost savings by preparing one set of financial statements. Also, for purposes of consistent government wide reporting, it would be beneficial to have the information regarding intragovernmental activities and performance measures that is provided under FASAB standards.

3. What do you see as the primary drawbacks that might occur if your organization converted to FASAB standards?

FPI manages by their organization via reports and information produced via FASB standards rather than the FASAB standards primarily because of cost accounting necessary for them to operate and the added information provided by the Income Statement in the commercial based statements over the Statement of Net Cost (i.e., expenses in the Income Statement are broken out into cost of sales, cost of other revenue, sales and marketing costs, and general and admin expenses, where as the Statement of Net Cost provides only summary level data). Additionally, FPI is beginning to build their commercial customer base and believes that reporting under FASB standards will help their growth in this area because the customers would better understand their financial statements.

4. Estimates of the incremental costs that would be incurred by your organization to implement FASAB standards, as well as expected benefits and drawbacks, would be helpful in developing guidance on which source of GAAP is most appropriate. Please provide your input on possible incremental costs below.

FPI's current system is set up to produce FASB compliant proprietary accounting and financial statement reporting needs and does not reflect federal budgetary accounting. However, to meet the DOJ consolidation reporting needs, FPI crosswalks their proprietary accounting information to produce the budgetary information needed for their financial statements prepared under FASAB Standards. Because they are currently reporting under two sets of

standards we believe there may be some incremental savings that could be realized by eliminating the FASB requirement. However, they would incur incremental costs to fully implement the budgetary reporting requirements under FASAB standards. They may also experience incremental costs to maintain some of the reporting that is useful to management but not covered by FASAB standards such as the detailed information on expenses that are currently reported on the income statement.

5. Is your organization planning to convert to a new financial management system or significantly enhance its accounting and financial reporting modules in the near future?

FPI is in the process of upgrading their current SAP accounting system.

6. What suggestions can you offer that could potentially decrease the cost of converting to FASAB standards?

Consider converting to FASAB standards without the requirement for Federal corporations to perform budgetary accounting since the corporations operate without appropriations from Treasury.

7. Do you have any other comments?

Consider changing the Statement of Net Cost presentation to be more consistent with the FASB Income Statement

Requested Information Regarding Person Completing Survey:

First and Last Name: Sophila Jones

Agency Name: Department of Justice OIG

Position Title: Asst. Director Financial Statement Audit

1. What are the main differences you are aware of between reporting under FASAB standards versus reporting under FASB standards for your specific organization (e.g., asset valuation, imputed costs, property, cost accounting, Management Discussion and Analysis, format of financial statements, etc.)?

Determining the full extent of differences would require an extensive analysis that we have not performed. However, based upon a more limited review we see differences in the following areas as they relate to the Government National Mortgage Association's (Ginnie Mae) financial statements:

Format of the Financial Statements – Ginnie Mae currently produces a Balance Sheet, Statement of Revenues and Expenses and Changes in Investment of U.S. Government, and a Statements of Cash Flows. Under the FASAB standards four new statements would be required: Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources and Statement of Financing.

Other Assets/Liabilities – Ginnie Mae currently reflects an asset and liability for guarantees under FASB Interpretation No. 45 (FIN 45), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. Ginnie Mae has taken steps to refine its methodology for calculating this number during 2006. FASAB standards do not require this disclosure.

The imposition of all FASAB requirements (i.e., full Credit Reform and full budgetary accounting) would have a major negative impact on Ginnie Mae's financial operations. Specifically, it would take a major increase in staff within the Office of Finance in order to meet the FASAB standards without a negative impact on Ginnie Mae's financial reporting timeliness, accuracy, internal controls, and unqualified audit opinions. Following these requirements would not be beneficial to the government, i.e., major increase in cost with no discernable benefits. In addition, the General Counsel of HUD issued a legal opinion that "Ginnie Mae is exempt as a matter of law" from the Federal Credit Reform Act.

Adopting FASAB standards would require Ginnie Mae to significantly modify its accounting systems, policies and procedures along with obtaining the necessary skills to prepare, audit and report under the FASAB financial statement standards. Please see related discussion of costs and benefits in questions 2 and 3.

2. What do you see as the primary benefits that could be achieved if your organization converted to FASAB standards?

We do not see any benefits associated with adopting FASAB standards at Ginnie Mae.

3. What do you see as the primary drawbacks that might occur if your organization converted to FASAB standards?

The users of Ginnie Mae's financial statements go beyond the traditional set of Federal users (Congress, OMB, the public) to include the investor community. The investor community understands and recognizes FASB standards and has consistently received Ginnie Mae financial statements that comply with FASB standards. In addition, the FASB standards provide a high degree of accountability and transparency into Ginnie Mae's financial statements. In our view, the cost associated with adopting new standards, unfamiliar to a large segment of our

user community can't be justified. Specific drawbacks are listed below:

User Confusion – Changing the format and display of our financial statements would be confusing to many of our users. Many of our users would be unfamiliar with FASAB standards and some of the FASAB statements. The financial confusion would result in considerable costs on the part of Ginnie Mae to explain and interpret these changes to our user community as well as misunderstandings about the financial operations of Ginnie Mae.

Additional Costs – Ginnie Mae has taken a proactive approach to adopting sound financial management policies, procedures and controls. Along these lines, we have voluntarily implemented the requirements contained in OMB Circular A-123, Appendix A, Management's Responsibility for Internal Control to comprehensively assess the effectiveness of our internal controls. We are also engaged in a comprehensive effort to update and fully document our policies and procedures, and we have recently moved to a new core financial accounting system. As with any program, funds for financial management improvements are limited. Adopting FASAB standards would result in considerable and unnecessary added costs to Ginnie Mae in the form of systems changes, policy and procedure updates, consultant costs and outreach costs to explain and interpret the changes. The costs associated with adopting FASAB standards would displace other more important discretionary financial management improvements.

4. Estimates of the incremental costs that would be incurred by your organization to implement FASAB standards, as well as expected benefits and drawbacks, would be helpful in developing guidance on which source of GAAP is most appropriate. Please provide your input on possible incremental costs below.

Please see additional costs discussion in 3 above.

5. Is your organization planning to convert to a new financial management system or significantly enhance its accounting and financial reporting modules in the near future?

Ginnie Mae successfully implemented a new financial system in 2006. This effort did not come easy and was the result of a dedicated and focused effort on the part of Ginnie Mae financial management staff.

6. What suggestions can you offer that could potentially decrease the cost of converting to FASAB standards?

We do not have any to offer at this time.

7. Do you have any other comments?

Ginnie Mae has prepared financial statements using FASB commercial accounting standards since 1968 when it first became a government corporation. Ginnie Mae has a long tradition of strong financial management, internal controls, and unqualified audit opinions using FASB standards. FASB standards are a good fit for Ginnie Mae's operation. Ginnie Mae does not receive direct appropriations, rather is funded through fees collected and operates similar to a fee-for-service revolving fund. The costs of adopting FASAB standards are very difficult to justify going forward.

In addition, Ginnie Mae was established in law as a wholly-owned government corporation (31 USC 9101). As such, Ginnie Mae falls under the requirements of the Government Corporation Control Act of 1945 which require accounting in accordance with “commercial” accounting standards which appears to be consistent with FASB standards. Section 105 of the Act states that:

“The financial transactions of wholly owned government corporations shall be audited by the General Accounting Office in accordance with the principles and procedures applicable to commercial corporate transactions....”

[FASAB Staff Note: The language in the excerpt from the Government Corporation Control Act (GCCA) immediately above was included in the original GCCA but is not included in the current text amended by Public Law 101-576, Chief Financial Officers Act of 1990. There is no reference to “principles and procedures applicable to commercial corporate transactions” in current 31 U.S.C. § 9105.]

Does the Federal Credit Reform Act apply to Ginnie Mae? The answer is no and is supported by a legal opinion and a public law passed by Congress. On January 5, 2000, the General Counsel of HUD issued a legal opinion that “Ginnie Mae is exempt as a matter of law” from the Federal Credit Reform Act. In Public Law 109-115, Sec. 321. states that “No funds provided under this title may be used for an audit of the Government National Mortgage Association that makes applicable requirements under the Federal Credit Reform Act of 1990 (2U.S.C. 661 et seq.).”

The General Accounting Office in December 1995 released a report on Government Corporations (GAO/GGD-96-14). The report states that:

Congress sometimes exempts GCs (Government corporations) from several key management laws to provide them with greater flexibility than federal government departments and agencies typically have in.... disclosing information publicly, and procuring goods and services.

This report goes on to discuss characteristics common to Government Corporations (GC) as presented by President Truman in his 1948 budget message. The National Academy of Public Administration, the Congressional Research Service, and the GAO have all issued reports on GCs, generally endorsing the characteristics outlined by President Truman. Those characteristics President Truman outlined that are appropriate for the administration of governmental programs are as follows:

- are predominately of a business nature,
- produce revenue and are potentially self-sustaining,
- involve a large number of business-type transactions with the public, and
- require a greater flexibility than the customary type of appropriations budget ordinarily permits.

Page 90 of the report goes on to list Ginnie Mae's adherence to 15 selected federal statutes.

Requested Information Regarding Person Completing Survey:

First and Last Name: Michael J. Najjum, Jr.

Agency Name: Government National Mortgage Association

Position Title: Senior Vice President, Office of Finance

To: Julia E. Ranagan, Federal Accounting Standards Advisory Board

From: Randy W. McGinnis, Deputy Assistant Inspector General for Audit

Subject: Request for Cost/Burden Information

We acknowledge your fax of March 28, 2007 with the accompanying request from Executive Director Comes survey memorandum and questionnaire of the same date. In response, attached are the Office of Inspector General (OIG) answers pertaining to the Government National Mortgage Association (Ginnie Mae) to the six research questions concerning regarding their appropriate source of Generally Accepted Accounting Principles (GAAP).

We appreciate the opportunity to participate in the Board's deliberations of the issue and the significant impact that it would have on the (a) Ginnie Mae financial planning as well as operations, (b) increased costs to convert existing systems and to maintain them and (c) the added reporting and auditing burden. From a Consolidated audit viewpoint, Ginnie Mae has been able to furnish sufficient supplementary information to the Department of Housing and Urban Development (HUD) Chief Financial Officer for the OIG opine upon the consolidated annual financial statements without qualification.

Attachment 1

Request for Cost/Burden Information

1. *What are the main differences you are aware of between reporting under FASAB standards versus reporting under FASB standards for your specific organization (e.g. asset valuation ...financial statements, etc.)?*

The primary difference for Ginnie Mae is whether Statement of Federal Financial Accounting Standards (SFFAS) No. 2, Direct Loans and Loan Guarantees, as amended by subsequent statements, apply to the guarantee that Ginnie Mae offers to issuers and investors on mortgage-backed securities. Both Ginnie Mae and HUD General Counsel contend that the nature of this government guarantee differs from that contemplated the Federal Credit Reform Act (FCRA) of 199X. The principal arguments are that: (a) Ginnie Mae's guarantee is to provide for investor safety in the secondary mortgage market and is not an appropriated subsidy to provide issuers or borrowers with below market interest rates with a long-term affect on fully disclosing government borrowing costs; (b) Ginnie Mae has been self-sustaining without appropriations since inception of the program in 196X; (c) Ginnie Mae securitizes loans insured by the FHA, Rural Housing Administration (RHA) and guaranteed by the Veterans Administration (VA) accounted for under credit reform accounting; and (d) Ginnie Mae has accumulated more than one-half billion dollars of reserves for future issuer defaults using a sophisticated economic model known as the Policy Financial Analysis Model (PFAM) and (e) Ginnie Mae financial statements and footnotes include recognition of indirect guarantees of indebtedness under the FIN No. 45 interpretation of FASB Statement Nos. 5, 57 and 107. These contentions have been challenged by both the Office of Management and Budget (OMB) and the Department of the Treasury (UST) that have imposed certain financial and budgetary restrictions on Ginnie Mae e.g. a UST Reserve Receipt Account.

1. What are the main differences you are aware of between reporting under FASAB standards versus reporting under FASB standards for your specific organization (e.g., asset valuation, imputed costs, property, cost accounting, Management Discussion and Analysis, format of financial statements, etc.)?

The principal difference is accounting for and reporting under SFFAS No. 2, Direct Loans and Guarantees. This would include asset valuation, imputed costs for future interest subsidies, MD&A comments as well as the format and comprehensiveness of the financial statements.

2. What do you see as the primary benefits that could be achieved if your organization converted to FASAB standards?

Consistency with other Federal agency reports and eliminating the cost of having to maintain limited records for converting the commercial GAAP report at fiscal year-end.

3. What do you see as the primary drawbacks that might occur if your organization converted to FASAB standards?

Ginnie Mae would either need to furnish to its principal statement users (banking and investment corporations) with (a) continued GAAP prepared Annual Report and/or (b) FASAB prepared report with extensive explanations and disclosures of how the current period accounting principles and reporting differ from the prior period.

4. Estimates of the incremental costs that would be incurred by your organization to implement FASAB standards, as well as expected benefits and drawbacks, would be helpful in developing guidance on which source of GAAP is most appropriate. Please provide your input on possible incremental costs below.

Ginnie Mae would be responsible for identifying the incremental system and reporting costs to meet the potential credit reform requirements. The OIG contract with the current Independent Public Accounting (IPA) contractor would need to be modified or replaced under a new solicitation that would emphasize the need for credit reform accounting and auditing experience. In the late 1990s the incremental audit costs for conversion of the Federal Housing Administration (FHA) increased 2.5 times or about \$1.0 million more than the former GAAP prepared IPA financial statement audit report opinion. Current General Services Administration Master Audit Schedule IPA labor rates are estimated to be one-third to one-half higher than they were in the late 1990s when there was significantly greater IPA competition.

5. Is your organization planning to convert to a new financial management system or significantly enhance its accounting and financial reporting modules in the near future?

Ginnie Mae successfully converted to a GAAP version of PeopleSoft standard general ledger with an Oracle database on 8/1/2006. PeopleSoft has a credit reform version that is used by the FHA.

6. What suggestions can you offer that could potentially decrease the cost of converting to FASAB standards?

First, the prerequisite to any change would be to clarify the legal basis for considering that the

Federal Credit Reform Act, as interpreted by FASAB standards, apply to the type of indirect guarantee to investors that is part of the Mortgage-Backed Securities (MBS) program. Second, would be to recognize that the underlying collateral supporting the MBS is subject to credit reform principles, accounting and reporting, thereby, mitigating the potential for understating future credit costs to the part that is uninsured or not guaranteed by the other government programs. Third, to revise SFFAS No. 2 to adopt the accounting to best suit an entity that is non-appropriated with a 40-year history of not requiring subsidies and, unless economic disruption or secondary market disaster (see 2006 Annual Report, Footnote H: Concentration of Credit Risk) occurs (e.g. FDIC), is unlikely to need Federal subsidies.

7. Do you have any other comments?

The above answers do not consider that a small portion of Ginnie Mae guarantees has been more recently created for other cohorts such as, FHA insured multifamily loan securities, manufactured homes, multiclass securities, and derivatives. It also does not recognize that FHA, the predominant insurance loans collateralized) has been endorsing higher risk loans (with downpayment assistance) in recent years resulting in significantly higher claims than the mortgage industry as a whole.

Requested Information Regarding Person Completing Survey:

First and Last Name: Joseph Rothschild
Agency Name: HUD Office of Inspector General
Position Title: Deputy Director, Financial Audits Division

1. What are the main differences you are aware of between reporting under FASAB standards versus reporting under FASB standards for your specific organization (e.g., asset valuation, imputed costs, property, cost accounting, Management Discussion and Analysis, format of financial statements, etc.)?

A primary difference in reporting under FASAB standards versus reporting under FASB standards for the OCC is in revenue recognition. SFFAS #7 requires a distinction in reporting between exchange vs. non-exchange revenue.

In addition, the FASAB standards focus on budgetary (appropriation-based) accounting and reporting. This focus has an impact on the resulting financial statements and reporting requirements which are substantially different from those required by FASB.

The format of the financial statements under FASAB standards differs markedly from that under FASB. While the FASAB balance sheet retains most of the characteristics of the FASB balance sheets, other statements such as the Statements of Net Cost, Budgetary Resources, and Financing do not have analogous statements under FASB. The Statement of Custodial Activity is a unique statement and only applicable given government operations.

2. What do you see as the primary benefits that could be achieved if your organization converted to FASAB standards?

The OCC converted to FASAB standards in fiscal year 2000. An initial benefit was the OCC's resulting ability to move to one fiscal year accounting and reporting period from reporting on both calendar and federal fiscal year bases. This allowed the agency to maintain only one set of books in order to comply with one set of accounting standards and one recurring accounting period, i.e., the federal fiscal year. Previously, the agency published calendar year, FASB-based financial statements and then submitted federal fiscal year based financial information through Treasury's TIER (Treasury Information Executive Repository) system. The change to FASAB standards resulted in a cost savings of about \$60,000 annually for the OCC, and given the unique standardization for federal agency accounting records, following the FASAB standards also resulted in an easier conversion to a new accounting system.

The conversion to FASAB standards also allows for a better level of comparability when looking at other federal agencies. When the OCC performs benchmarking activities against other federal agencies, the analysis is more easily performed when the information provided by the statements is standardized and mirrors the OCC's.

3. What do you see as the primary drawbacks that might occur if your organization converted to FASAB standards?

The FASAB standards are not clearly related to other accounting standards, and a typical user of a financial statement prepared under FASB standards most likely will find the statements prepared under FASAB difficult to use.

The universe of those who are experienced in applying FASAB standards is somewhat limited as well. Experienced accountants who have worked solely in the private sector or state and local government experience a steep learning curve.

There also is a lack of published materials and other guidance that may assist an agency in understanding the FASAB standards. This limited guidance and a lack of adequate communication can prove problematic. In contrast, FASB standards often are quickly

analyzed by numerous accounting firms, practitioners, and academics with many publications available on the individual standards and their implications.

4. Estimates of the incremental costs that would be incurred by your organization to implement FASAB standards, as well as expected benefits and drawbacks, would be helpful in developing guidance on which source of GAAP is most appropriate. Please provide your input on possible incremental costs below.

The OCC already has converted to the FASAB standards, and the incremental costs were offset largely by the cost savings provided by no longer having to maintain a separate set of books for proper accounting and reporting purposes (i.e. fiscal year versus calendar year basis). The cost savings is estimated at \$60,000 per year in an agency with a \$400 million budget at the time of conversion in 2000.

5. Is your organization planning to convert to a new financial management system or significantly enhance its accounting and financial reporting modules in the near future?

Since the conversion to FASAB standards, the OCC has worked with a People Soft based financial system. The OCC is preparing to undergo conversion to an Oracle based system through the Bureau of Public Debt's Administrative Resource Center.

6. What suggestions can you offer that could potentially decrease the cost of converting to FASAB standards?

Circular A-123's Appendix A provides guidance on ensuring proper controls and reporting procedures and maintaining adequate records. Agencies that have proper controls in place and that are in compliance with A-123, will most likely have a lower cost of conversion and would more likely benefit from the aforementioned cost savings associated with the conversion to FASAB.

In addition, agencies who follow the USSGL guidance as required by FFMIA will likely realize a lower cost of conversion.

7. Do you have any other comments?

None.

Requested Information Regarding Person Completing Survey:

First and Last Name: Deborah Sweet
Agency Name: Comptroller of the Currency (OCC)
Position Title: Director for Policy and Treasurer

1. What are the main differences you are aware of between reporting under FASAB standards versus reporting under FASB standards for your specific organization (e.g., asset valuation, imputed costs, property, cost accounting, Management Discussion and Analysis, format of financial statements, etc.)?

The Office of Thrift Supervision (OTS) receives no appropriated funds from Congress and prepares an annual, business-type budget. The statutory authority for our funding is detailed in 12 USC 1462a(i). FASAB standards and systems support appropriation-based budgeting. All of the differences mentioned in the question above apply with regard to financial reporting, but for OTS the most significant may be the FASAB focus on budgetary (appropriation-based) accounting and reporting. The OTS follows FASB standards, and as such, the Bureau's financial statements and reporting requirements are substantially different from FASAB requirements. The most obvious differences are the Bureau's FASB based financial statements, which include a balance sheet, statement of operations and changes in net position, and a statement of cash flows, accompanied by the notes to the financial statements. It is important to note that OTS submits monthly financial data to Treasury's TIER system which includes the production of government formatted financial statements. These statements are reviewed by our external auditors each year as part of the agreed-upon procedures with Treasury's Office of Inspector General to determine that information reported by OTS to Treasury for the purpose of preparing Treasury's consolidated financial statements has been accumulated and reported consistent with the instructions and format prescribed by Treasury. The agreed-upon procedures report is provided to Treasury and the IG each year. Our monthly filings through TIER include accurate information on the imputed financing sources and costs related to retirement benefits that are the responsibility of OPM.

2. What do you see as the primary benefits that could be achieved if your organization converted to FASAB standards?

OTS does not anticipate any benefit or enhancement to be achieved by converting from FASB standards to FASAB standards.

3. What do you see as the primary drawbacks that might occur if your organization converted to FASAB standards?

Since its creation in 1989, OTS has presented its audited financial statements in accordance with generally accepted accounting principles based upon accounting standards issued by the Financial Accounting Standards Board (FASB) -- i.e., commercial GAAP. Commercial GAAP is used by the entities who provide our funding, the thrift industry we regulate, and our statements clearly show the funding sources and costs of supervising the industry in a format universally understood and accepted. The Federal GAAP format does not provide the information our industry needs to understand OTS's financial condition and performance.

The FASB GAAP-based, monthly financial statements, especially the statements of operations and cash flows, enable management and key stakeholders to readily assess the financial health of OTS. Nothing comparable exists under FASAB reporting and its emphasis on obligation accounting.

4. Estimates of the incremental costs that would be incurred by your organization to implement FASAB standards, as well as expected benefits and drawbacks, would be helpful in developing guidance on which source of GAAP is most appropriate. Please provide your input on possible incremental costs below.

While the incremental costs for OTS to implement FASAB accounting standards would not be substantial, OTS would not realize any benefits from such a conversion.

Costs would include internal staff training, development and inclusion of a Management Discussion and Analysis section in the audited financials, education of internal and external financial statement users, and re-focusing budget development, implementation, and monitoring to obligation-based accounting.

5. Is your organization planning to convert to a new financial management system or significantly enhance its accounting and financial reporting modules in the near future?

OTS has no plans to convert to a new financial management system. OTS uses the Bureau of Public Debt's Administrative Resource Center for full accounting services.

6. What suggestions can you offer that could potentially decrease the cost of converting to FASAB standards?

OTS has no plans to convert from commercial GAAP to FASAB standards. A suggestion on how to convert at lower cost would be to train the Financial Management Line of Business providers and use their expertise to function as conversion process managers.

7. Do you have any other comments?

No additional comments

Requested Information Regarding Person Completing Survey:

First and Last Name: Timothy T. Ward
Agency Name: Office of Thrift Supervision
Position Title: Chief Financial Officer

1. What are the main differences you are aware of between reporting under FASAB standards versus reporting under FASB standards for your specific organization (e.g., asset valuation, imputed costs, property, cost accounting, Management Discussion and Analysis, format of financial statements, etc.)?

Although this has not yet been extensively researched, given the tight time constraint (we received the reminder to complete the survey on April 16, 2007, but did not see the original request), initial thoughts on possible differences include: note disclosures; investment portfolio valuation, accounting and disclosure (PBGC has not only Revolving Fund investments in Treasury securities but also Trust Fund investments in the equity market, corporate bonds, derivative investments, etc.); contingent liabilities; and PBGC's present valuation of future benefits liabilities. In addition, the format of the financial statements would probably change, since the FASAB standards require at least three additional financial reports, in specific formats (e.g., Statement of Net Costs).

Furthermore, by converting to the FASAB standards, other standards may now become applicable to the PBGC, which could have a significant impact on its accounting and reporting policies, procedures, and systems. Although it is a Federal government entity, the PBGC also operates and has a hybrid role similar to that of an insurance company, a pension plan, a social program, a trustee, and a regulator. Therefore, it may be decided that some of the current or pending FASAB standards, such as the pending standard on Accounting for Fiduciary Activities (SFFAS 31) may be deemed applicable to the PBGC if it were to convert to FASAB standards.

2. What do you see as the primary benefits that could be achieved if your organization converted to FASAB standards?

The primary benefit may be to the OMB and Treasury in compiling the statements on a government-wide basis, and GAO in auditing the consolidated statements. However, it is important to note that PBGC submits FASAB-compliant financial statements as part of the GFRS process.

3. What do you see as the primary drawbacks that might occur if your organization converted to FASAB standards?

Some of the primary drawbacks include: the time, effort, and costs to convert to the new standards (full conversion might take 2-3 years, depending on the extent to which the new and existing FASAB standards would apply, as well as modifications required to be made to the newly implemented general ledger and reporting system - see number 5 below); timing of budgetary requests to convert to the FASAB standards (see number 4 below); and potentially not meeting the needs of the readers of PBGC's financial statements (e.g., consistency of presentation, such as assets currently reported at estimated fair value). Since the majority of the funds on PBGC's financial statements relate to plan participant benefits for plans that are taken over by the PBGC, the reader of our financial statements generally include plan participants and their beneficiaries and premium payers (i.e., sponsors of current defined benefit pension plans), in addition to OMB, the Treasury and the Congress. In addition, PBGC does not receive funds from general tax revenues. Furthermore, per the Employee Retirement Income Security Act of 1974, as amended, the United States is not liable for any obligation or liability incurred by the PBGC.

4. Estimates of the incremental costs that would be incurred by your organization to implement FASAB standards, as well as expected benefits and drawbacks, would be helpful in developing guidance on which source of GAAP is most appropriate. Please provide your input on possible incremental costs below.

Given the short time frame to respond, as well as the nature of the request, it is not possible at this time to quantify the costs that may be incurred to implement the FASAB standards. However, additional costs would be incurred on the part of the Chief Financial Officer's staff and other PBGC staff in making adjustments to the newly developed integrated general ledger system (see number 5 below), possibly having to restate prior period financial statements, making adjustments to policy and procedures manuals (i.e., accounting and internal controls manuals), and performing the associated staff training. Furthermore, additional costs would be incurred by the Office of Inspector General and their independent audit firm in conducting the audit of these new processes, internal controls, financial statements, and systems.

Since the organization would need to review and evaluate the applicability of all of the current and pending FASAB standards (including concepts), PBGC would incur costs on the part of its CFO, IT, OIG, and possibly other staff, as well as contractor costs (i.e., independent auditors, systems, actuarial contractors) to properly perform this task and identify future budgetary needs. Since we have recently submitted the budget request for fiscal year 2009, any costs to be incurred in conjunction with converting to the new standards, would need to come out of prior budget requests for PBGC's core mission activities. Therefore, if there are no cost savings in the year(s) of implementation/conversion, then the PBGC may need to go to the Congress (and OMB) for additional funding.

5. Is your organization planning to convert to a new financial management system or significantly enhance its accounting and financial reporting modules in the near future?

On October 1, 2006, the newly developed Consolidated Financial System, became the financial management system of record for the PBGC. This new system integrated its three former general ledger systems - Trust Accounting, Performance Accounting, and Financial Reporting Systems, thus eliminating the need to perform extensive manual processes and adjustments to synchronize the data among the three systems.

6. What suggestions can you offer that could potentially decrease the cost of converting to FASAB standards?

The luxury of time and gradual implementation of the standards would help from a planning and budgetary perspective in that the PBGC could request the funds necessary to address the conversion. Since we have already requested funds for the FY2009 budget, we would need to begin planning, and perform an analysis of the standards to estimate the associated costs of conversion at least 2-3 years prior to actual conversion. It would also help if FASAB could help defer some of the analysis costs by working with the PBGC to determine which standards would apply, and providing waivers for certain standards, if determined feasible and reasonable.

7. Do you have any other comments?

We would greatly appreciate receiving a copy of the compiled or summarized responses to

this survey, as well as the opportunity to discuss the results and any recommendations with FASAB.

We hope that FASAB and OMB will evaluate each government corporation and entity individually when determining whether and when these entities should convert to FASAB standards. In addition, before a decision is made, we hope that FASAB and OMB will further consult with us on an individual basis, and perform additional analysis on the costs versus the benefits of requiring such a change. We hope that this change would not be for the sole purpose of making it easier for specific agencies to compile and report on the consolidated government-wide financial statements. We believe that much of this requirement is already addressed through the GFRS reporting to the Treasury Financial Management Service and OMB.

Requested Information Regarding Person Completing Survey:

First and Last Name: Martin Boehm
Agency Name: Pension Benefit Guaranty Corporation
Position Title: Director, Contracts and Controls Review Department

Requested Information Regarding Person Completing Survey:

First and Last Name: Deborah Sprietzer
Agency Name: Pension Benefit Guaranty Corporation
Position Title: OIG Audit Manager

1. What are the main differences you are aware of between reporting under FASAB standards versus reporting under FASB standards for your specific organization (e.g., asset valuation, imputed costs, property, cost accounting, Management Discussion and Analysis, format of financial statements, etc.)?

To respond most effectively to this question, one needs a working knowledge of both FASAB and FASB accounting standards. TVA has not worked extensively with current FASAB standards, which could directly impact this response and reduce the accuracy, value and usefulness of the information being provided here.

FASB		FASAB
1	Financial statements include balance sheet and statements of income, cash flows, and changes in proprietary capital.	Financial statements include balance sheet, statements of net cost, financing, budgetary resources, changes in net position, and program performance measures (SFFAC 2).
2	Regulatory accounting allows deferral of revenue and expenses resulting in the recognition of regulatory liabilities and regulatory assets (FAS 71).	Revenue and expenses are recognized in the period realized and incurred and are not deferred.
3	Gain or loss on the disposal of fixed assets is not recognized in the income statement in the period of disposal; rather, it is deferred indefinitely and accounted for as an increase or decrease in accumulated depreciation in the balance sheet.	Gain or loss on the disposal of fixed assets is recognized in the statement of net cost in the period of disposal.
4	Annual payments to the federal government representing a return of equity and a return on equity reduces proprietary capital and does not reduce income in the period paid.	Annual payments to the federal government representing a return of and a return on appropriated funds is accounted for as an expenditure in the statement of net cost.
5	Internal-use software cost is capitalized and amortized/depreciated over the useful life.	Internal-use software cost is accounted for as an expenditure in the statement of net cost.
6	Formal accounting and disclosure of deferred maintenance cost is not required.	Deferred maintenance cost is disclosed.

2. What do you see as the primary benefits that could be achieved if your organization converted to FASAB standards?

The primary benefit of TVA's generating FASAB-based financial statements would be realized by U.S. Treasury in preparing the FASAB-based government-wide consolidated financial statements and obtaining an unqualified opinion on those FASAB-based statements under existing FASAB standards. However, based on more significant issues, an unqualified opinion of TVA's financial statements under FASAB-based accounting would not be possible.

There would be no benefit to TVA in converting to FASAB standards. In fact, there would be a **negative** impact on TVA, its rate payers, and financial report users if it also generated FASAB-based statements. Because of TVA's SEC reporting requirements, it does not have the option of converting to FASAB standards and would still be required to report FASB-based statements. FASAB-based statements would reflect a mismatch between TVA's revenues and expenses and have no relationship to the economic effects of the rate-making process as allowed under FASB.

Generating FASAB-based financial statements would be inefficient and significantly increase TVA's financial accounting and reporting costs, as well as audit costs. Since TVA is self-funded and receives no federal appropriations, these added costs would ultimately be passed on to the rate payers in the form of higher electricity costs.

3. What do you see as the primary drawbacks that might occur if your organization converted to FASAB standards?

The primary drawback of TVA's issuing both FASAB and FASB-based financial statements and obtaining two audit opinions (since no "either/or" alternative is available to TVA) is the potential confusion that could come from having two sets of financial statements with different format and content, including different accounts, balances, footnotes, and disclosures, as well as differing financial positions and results of operations. There would also likely be two different audit opinions on the statements (the opinion on the FASB-based statements would likely be unqualified; the auditors would likely disclaim on the FASAB-based statements), further confusing the users of TVA financial reports, including potential investors, existing bond holders, analysts and bond rating agencies, the media, rate payers, the general public and other stakeholders. This could impair TVA's ability to obtain financing at favorable terms in the public capital markets.

Another drawback is the cost of resources to: (1) locate and gather sufficient historical data to reconstruct past transactions and restate TVA financial statements; (2) establish and maintain separate records to generate FASAB-based statements in addition to the FASB-based financial statements; (3) hire, educate and train accountants in FASAB standards, while maintaining a cadre of accountants with a working knowledge of the ever-changing and expanding FASB standards and SEC reporting regulations; (4) simultaneously close an additional set of accounting books and records and prepare another set of financial statements and reports within 45 days of fiscal year end; and (5) obtain an audit opinion on a second set of financial statements from a firm with staff both knowledgeable in FASAB and FASB standards and the different reporting requirements of public companies and federal agencies.

4. Estimates of the incremental costs that would be incurred by your organization to implement FASAB standards, as well as expected benefits and drawbacks, would be helpful in developing guidance on which source of GAAP is most appropriate. Please provide your input on possible incremental costs below.

(1) The cost to locate and gather sufficient historical data to reconstruct past transactions, should such data be available, and restate TVA financial statements to comply with FASAB standards is estimated to be \$1,000,000.

(2) The cost to hire, educate and train a group of accountants sufficiently knowledgeable in FASAB standards to maintain the FASAB-based accounting records and prepare these financial statements is estimated to be \$500,000 annually.

(3) The cost to obtain a second audit opinion on the FASAB-based financial statements is estimated to be \$1,000,000 annually.

The total cost to implement FASAB standards is estimated to be \$2,500,000 in the year of implementation and \$1,500,000 per year thereafter.

5. Is your organization planning to convert to a new financial management system or significantly enhance its accounting and financial reporting modules in the near future?

TVA is currently in the process of designing and implementing a new general ledger and financial reporting system. The system being implemented does not provide for two different bases of accounting. The system is scheduled for implementation in February 2008.

6. What suggestions can you offer that could potentially decrease the cost of converting to FASAB standards?

It would be very difficult to reconstruct 70 years of activity, and, therefore, this would be a costly undertaking. One suggestion would be to “grandfather” prior year financial data and adopt the federal accounting standards on a prospective basis. This would still be very costly for TVA since TVA would still have to have additional accounting staff knowledgeable in FASAB standards and also maintain two sets of accounting records. See item 4 above.

A second, more cost effective option would be for the federal government to recognize the enterprise accounting methodology allowed by the Governmental Accounting Standards Board for state and local governments. This methodology allows the activity of certain governmental entities to be treated much like a business enterprise because the entity is expected to be self-supporting and to have an ongoing independent revenue source. This second option captures the essence of the TVA Act which requires TVA to conduct business as a corporation—charging rates for power which, among other things, will produce revenues sufficient to provide funds for operation, maintenance, and administration of its power system.

7. Do you have any other comments?

One of the characteristics that distinguishes TVA from the majority of other federal entities is that TVA is not funded by appropriations. TVA is charged by the government to be self-supporting and therefore conducts business in a manner more comparable to investor-owned

utilities than to a traditional government agency. This includes preparation of annual financial statements based on accepted utility accounting which either external auditors or government auditors have examined and opined on since 1939 according to generally accepted accounting principles. Following the FASAB standards may not adequately support the accounting for specialized entities or give a fair presentation of results of operations. To restate TVA's financial statements and disregard the accounting principle underlying SFAS No. 71, matching revenues and expenses in similar periods, would be inappropriate.

Section 37 of the Securities Exchange Act of 1937 requires TVA to file annual reports (10-Ks), quarterly reports (10-Qs), and current reports (8-Ks) with the SEC. The mission of the SEC is to protect investors. It does this by requiring public companies (and TVA) to disclose meaningful financial and other information to the public. This provides a common pool of knowledge for all investors to use to judge for themselves whether to buy, sell, or hold a particular security through the steady flow of timely, comprehensive, and accurate information.

Several federal government entities are required by statutory or regulatory requirements to report on a basis other than federal GAAP. The guidance for SEC reporting follows FASB. Also, TVA is required by the TVA Act to follow FERC accounting guidance which is not inconsistent with GAAP. Requiring governmental entities to report under federal GAAP would in essence necessitate two sets of books and two audits. This is not fiscally responsible especially where entities, by law, are structured differently from other federal agencies, are self-funding and receive no federal appropriations.

To transition from GAAP to federal GAAP would entail restating the prior period balance sheets as well as current year income and expenditures. Due to the fact that TVA has followed GAAP since 1938 and lacks FASAB GAAP records, it may not be possible to restate financial information in a manner which would pass audit scrutiny, due to a low likelihood of finding adequate historical transaction and accounting data to support the preparation of auditable financial statements. External auditors would have difficulty in opining on the restated balance sheets for entities like TVA which have been in existence over 70 years and which have followed FASB accounting. Most auditors would not be able to opine on the statements. To require TVA to issue a second set of financial statements would be confusing to investors and financial analysts especially since the information reported could be misleading and impair TVA's ability to obtain financing at favorable terms in the public capital markets.

TVA's financial statements under federal accounting standards would be inappropriate because the economic effects of the rate-making process are not adequately addressed in federal standards. If TVA restates its financial statements under federal accounting standards, they would not "presently fairly in all material respects" the financial position of TVA or the results of its operations on a consistent basis.

In closing, the FASAB might consider reviewing the accounting guidance for state and local governments which allows for enterprise funds--entities of governments which act like businesses. Accounting for enterprise funds follows the statements and interpretations of the FASB. TVA, by government accounting standards, is an enterprise fund. The enterprise accounting methodology allows for revenues and expenditures of an activity to be treated much like a business enterprise because the enterprise is expected to be self-supporting and have an ongoing independent revenue source.

Requested Information Regarding Persons Completing Survey:

The information provided was prepared by personnel in TVA's Controller's organization in collaboration with personnel in the Office of the Inspector General

First and Last Name: Donna J. Terzak

Agency Name: Tennessee Valley Authority

Position Title: Manager, Financial Reporting

First and Last Name: Louise B. Beck

Agency Name: Tennessee Valley Authority

Position Title: Manager, Audit Quality and Assurance

1. What are the main differences you are aware of between reporting under FASAB standards versus reporting under FASB standards for your specific organization (e.g., asset valuation, imputed costs, property, cost accounting, Management Discussion and Analysis, format of financial statements, etc.)?

The Department's consolidated financial statements are prepared in conformity with accounting principles prescribed by FASAB. However, certain components prepare their financial statements in accordance with accounting standards prescribed by FASB. These entities include the Bureau of Engraving and Printing, the Office of Thrift Supervision, the Exchange Stabilization Fund, the Federal Financing Bank and the Community Development Financial Institutions Fund.

The use of a combination of FASAB GAAP and FASB GAAP by the Department and its components complicates the preparation of the Department's consolidated financial statements, especially at the component level, since additional information required for FASAB GAAP must be developed, mapped/converted and submitted to the Department's data warehouse. It sometimes requires more extensive review for compliance with FASAB GAAP and overall reasonableness by the Department's management than submissions by components that use FASAB GAAP.

FASB GAAP does not contemplate external budgetary reporting and therefore components using FASB GAAP do not prepare Statements of Budgetary Resources or Financing while the Department must prepare these statements for the Department, as a whole. The Department's SBR must be reconciled to the President's Budget and disclosed in a note to the financial statements. The concept of net cost by program is not present in FASB GAAP. Imputed costs are not required to be included in FASB GAAP statements. Other differences can arise anytime FASB or FASAB issues new pronouncements.

The Federal Financial Improvement Act of 1996 requires compliance with the Government-wide Standard General Ledger (SGL) at the transaction level. While the Department requires compliance with the SGL for submissions to its data warehouse, departures from the SGL, at the transaction level, may occur in reporting entities that are using FASB GAAP. The SGL only envisions usage for FASAB GAAP at the transaction level.

The Department has also encountered some problems with elimination balances when other Federal entities use FASB GAAP. Consistency in elimination balances is necessary for the preparation of the Financial Report of the United States Government (FR). Some of FASB entities have submitted FASB GAAP balances for the FR while the Department has submitted FASAB balances (e.g., FASB GAAP market adjustments by FASB entities on Bureau of Public Debt Securities). This has contributed to the eliminations out-of-balance problem that prevents the FR from receiving a clean audit opinion.

2. What do you see as the primary benefits that could be achieved if your organization converted to FASAB standards?

Conversion to FASAB GAAP by all of the Department's components would help ensure consistent reporting throughout the Treasury reporting entity and alleviate the work and problems identified in the answer to Question 1. It would also enhance comparability of the financial statements of similar components.

3. What do you see as the primary drawbacks that might occur if your organization converted to FASAB standards?

The users of the component entity statements may not find the FASAB GAAP statements are suited to their information needs and they may not be comparable to similar non-Federal entities in their industry. See the individual responses of the Department's component entities.

4. Estimates of the incremental costs that would be incurred by your organization to implement FASAB standards, as well as expected benefits and drawbacks, would be helpful in developing guidance on which source of GAAP is most appropriate. Please provide your input on possible incremental costs below.

The Department would not incur any incremental costs since FASAB GAAP information is already collected from all components in its data warehouse. Incremental costs would be incurred by the affected component entities. The Department might see a reduction in audit costs. See the individual responses of the Department's component entities.

5. Is your organization planning to convert to a new financial management system or significantly enhance its accounting and financial reporting modules in the near future?

The Department continually enhances its data warehouse. We are not planning on new system at this time.

6. What suggestions can you offer that could potentially decrease the cost of converting to FASAB standards?

See the individual responses of the Department's component entities.

7. Do you have any other comments?

Complete conversion of all component entities to FASAB GAAP has been a repeat Management Letter Recommendation by the Department's auditors. In April 2004 the Department's Office of Inspector General requested that FASAB consider requiring FASAB GAAP for the financial statements of all Federal entities, unless there is a statutory or regulatory requirement to report on a different basis. Accordingly, the Department is very interested in an official position from FASAB on this issue.

Requested Information Regarding Person Completing Survey:

First and Last Name:	Joseph McAndrew
Agency Name:	U.S. Department of the Treasury
Position Title:	Senior Accountant

MEMORANDUM OF UNDERSTANDING BETWEEN



U. S. Treasury
Bureau of the Public Debt

March 20, 2007

Example of an intragovernmental elimination problem that arose because of the use of FASB GAAP at a Federal entity.

Introduction

The purpose of this memorandum is to establish an understanding between the managements of the Federal Deposit Insurance Corporation (FDIC) and the Bureau of Public Debt (BPD) regarding the resolution of certain reporting differences as identified by the Financial Management Service (FMS) resulting from the Fiscal Year 2006 Government-wide Financial Reporting System (GFRS) cycle. Furthermore, the intent of this Memorandum of Understanding (MOU) is to formalize the communication of this agreement to the attention of the Government Accountability Office's (GAO) auditors for purposes of the Closing Package Agreed Upon Procedures (I TFM 2-4700 – Section 4705.75d) and to acknowledge each agency's active participation in the Intra-governmental Business Rules, Treasury Financial Manual (TFM) Bulletin No. 2007-03, Section VII, A and C).

Background

As a result of the FDIC's FY2006 GFRS closing package submission, the FMS identified two material differences reported between the FDIC and US Treasury's BPD. These differences are related to FDIC's investments in Government Account Series (GAS) securities and were due to accounting methodology treatment of the market adjustments and the unrealized losses on available-for-sale (AFS) securities.

As per TFM Bulletin No. 2007-03, "Intragovernmental Business Rules", Section IV, the BPD, being the issuer of GAS securities, does not reflect a market adjustment in either the quarterly Intragovernmental Fiduciary Confirmation System (IFCS), or the Trading Partner Module of the GFRS closing package. Consequently, in order to not create a reconciling item within the IFCS, the FDIC does not report the market adjustment or any unrealized gains or losses on its AFS securities. However, for fiscal year-end reporting within the GFRS, the FDIC includes both the market adjustment and any unrealized gains or losses on its AFS securities, per the Generally Accepted Accounting Principles (GAAP) reporting standards followed by FDIC. As a result, material differences greater than \$250 million in the 2006 closing package were created for both a market adjustment and an unrealized loss between the two agencies' data submissions into the GFRS.

Discussion of Resolution

Both agencies agree that these are reporting differences in practice as allowed for in TFM Bulletin, Section IV, A.1, a. which states "BPD will carry notes, bonds, and TIPS at the amortized cost and will not reflect a market adjustment," and Section IV A.1, c. which states "Trading Partners may recognize market adjustments on notes, bonds, TIPS, and zero coupon bonds securities classified as available for sale."

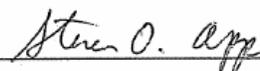
Conclusion

This MOU satisfies TFM Bulletin, Section VII, A. Since these differences are the result of differing accounting treatments, both of which are acceptable under Section IV, A.1, a. and c., GAO and FDIC have agreed to report market adjustments on FDIC standalone financial statements, but not on consolidated government financial reporting.

Signatory Authority

I agree to the terms of this Memorandum of Understanding.

FDIC Official

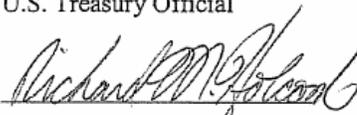


Steven O. App

Chief Financial Officer

Date: 4-4-2007

U.S. Treasury Official



Richard M. Holcomb

Acting Chief Financial Officer

Date: 03-22-07

1. What are the main differences you are aware of between reporting under FASAB standards versus reporting under FASB standards for your specific organization (e.g., asset valuation, imputed costs, property, cost accounting, Management Discussion and Analysis, format of financial statements, etc.)?

(Background: Five Department of the Treasury (Treasury or Department) component entities prepare their financial statements in accordance with FASB standards. These entities include the Bureau of Engraving and Printing (BEP), the Office of Thrift Supervision (OTS), the Exchange Stabilization Fund (ESF), the Federal Financing Bank (FFB), and the Community Development Financial Institution Fund (CDFI).)

The main differences between reporting under FASB standards versus reporting under FASAB standards at Treasury relate to reporting budgetary information and program costs and the preparation of a Management Discussion and Analysis (MD&A), as discussed below.

FASB standards do not contemplate budgetary reporting and therefore Treasury components following FASB standards do not prepare statements of budgetary resources (SBR) or statements of financing (SOF), although these statements are an integral part of the Treasury-wide financial statements. Moreover, information reported in the Department's SBR must be reconciled to enacted amounts in the President's Budget and disclosed in the notes to the Department's financial statements. Considerable additional preparation and audit steps are required to develop and report this data at the Department level for components using FASB standards.

In addition, FASB standards do not provide adequate information regarding the costs of programs and activities, since costs are aggregated in the statement of operations to arrive at a single net income figure. The statement of net cost (SNC) required by FASAB standards requires that costs and offsetting earned revenues be presented by responsibility segments, with net costs identified for each of the segments.

There are also significant inconsistencies in how certain costs are reported by component entities following FASB standards. For example, FASAB standards require that non-reimbursed costs paid by the Office of Personnel Management for retirement plans be recognized by the receiving entity as an imputed cost in order to report the full cost of operations. The imputed cost should be reported in the SNC, with the related imputed financing reported in the SOF. Since FASB standards do not require either of these statements, this imputed cost is being reported inconsistently, or not at all, by Treasury component entities. For example, CDFI reports offsetting amounts in their statements of operations; BEP discloses the amount of costs paid by OPM in the notes but does not include it in its statement of operations; and, OTS does not report the portion of these costs paid by OPM.

Finally, FASB standards do not require an MD&A of the information presented in the annual report. The MD&A is one of the most valuable aspects of an annual financial report, since it provides management's assessment of key trends, fluctuations, and unusual items. It should also link financial and performance information to provide meaningful analysis of the cost benefit relationships of program accomplishments. Several Department component entities following FASB standards do not present an MD&A in their annual reports.

2. What do you see as the primary benefits that could be achieved if your organization converted to FASAB standards?

The primary benefits to be achieved if all Treasury component entities reported based on FASAB standards include consistent, complete, comparable and meaningful financial data and an efficient consolidation of financial data for Department-wide reporting.

3. What do you see as the primary drawbacks that might occur if your organization converted to FASAB standards?

Potential drawbacks from conversion to FASAB standards include labor and system conversion costs (as described in our answer to question 4 below) and potential identification of internal control deficiencies such as accounting for budgetary accounts.

4. Estimates of the incremental costs that would be incurred by your organization to implement FASAB standards, as well as expected benefits and drawbacks, would be helpful in developing guidance on which source of GAAP is most appropriate. Please provide your input on possible incremental costs below.

Incremental costs that may be incurred by component entities to convert to FASB standards vary depending on the conversion approach taken. Incremental costs may include costs to (1) manually determine initial balances for budgetary accounts, (2) manually maintain the budgetary accounts in the absence of a budgetary accounting system, (3) develop or purchase a budgetary accounting module to integrate with the current financial accounting system, (3) purchase a new accounting system that incorporates budgetary accounting, and/or (4) switch to a shared service provider whose financial accounting system can report in accordance with FASAB standards. We do not have a reliable estimate of the cost of these approaches.

5. Is your organization planning to convert to a new financial management system or significantly enhance its accounting and financial reporting modules in the near future?

We are not aware of any Treasury plans to convert to a new financial management system or significantly enhance its accounting and financial reporting modules in the near future.

6. What suggestions can you offer that could potentially decrease the cost of converting to FASAB standards?

We recommend that entities considering changing reporting from FASB standards to FASAB standards consult with entities that have already converted to be able to apply best practices and lessons learned to ease the change.

7. Do you have any other comments?

In recent years, two Treasury components, the OCC and the U.S. Mint, have taken the initiative and successfully changed their financial reporting basis from in accordance with FASB standards to in accordance with FASAB standards. These conversions went relatively smoothly with few obstacles and were completed timely to allow for reporting using FASAB standards for the year conversion took place.

Requested Information Regarding Person Completing Survey:

First and Last Name: Mike Fitzgerald

Agency Name: Department of the Treasury Office of Inspector General

Position Title: Director, Financial Audits

1. What are the main differences you are aware of between reporting under FASAB standards versus reporting under FASB standards for your specific organization (e.g., asset valuation, imputed costs, property, cost accounting, Management Discussion and Analysis, format of financial statements, etc.)?

The change in format and presentation of the United States Mint financial statements and footnote, the classification of revenue as seigniorage, and the need for budgetary accounting data were all main differences between reporting under FASB vs. FASAB.

The United States Mint converted to preparing its financial statements based on accounting standards issued by FASAB during fiscal year 2005. At which time The United States Mint's financial statements were prepared in conformity with the reporting format promulgated by the Office of Management and Budget (OMB) Circular A-136, "Financial Reporting Requirements."

Financial statements and footnotes were of issue as FASAB standards require budgetary statements as well as the classification of entity vs. non-entity assets and liability for our gold and silver reserves on the balance sheet and footnotes. Also many footnotes that are required under FASB are not required under FASAB as listed in Circular A-136.

Under FASB Seigniorage was classified in our financial statements of net cost as part of revenues and other financing sources, however under FASAB Seigniorage is excluded from the statement of net cost and identified as a financing source on the statement of changes in net position per Circular A-136 guidance.

Budgetary accounting data was not necessary under FASB reporting requirements nor did The United State Mint have a system in place to capture such information. Undelivered orders, obligations and other related data had to be obtain manually to provide the statements of budgetary resources and financing required under FASAB reporting.

2. What do you see as the primary benefits that could be achieved if your organization converted to FASAB standards?

The United States Mint converted to preparing its financial statements based on accounting standards issued by FASAB during fiscal year 2005. The United States Mint believes that it is essential that the Government have a standardized format for all agencies and that we are OMB Circular A-136 compliant

3. What do you see as the primary drawbacks that might occur if your organization converted to FASAB standards?

None. However, if an agency does not have a budgetary system in place, obtaining necessary data to comply with FASAB reporting standards could be very difficult and time consuming. We would suggest allowing adequate time for conversion.

4. Estimates of the incremental costs that would be incurred by your organization to implement FASAB standards, as well as expected benefits and drawbacks, would be helpful in developing guidance on which source of GAAP is most appropriate. Please provide your input on possible incremental costs below.

The United States Mint incurred minimal cost to convert from FASB to FASAB. Most of the cost we incurred resulted from closing out old Purchase Orders so that we could have accurate Undelivered Orders balance.

5. Is your organization planning to convert to a new financial management system or significantly enhance its accounting and financial reporting modules in the near future?

Yes. The United States Mint converted from PeopleSoft to Oracle with ARC-BPD as a service provider for fiscal year 2007.

6. What suggestions can you offer that could potentially decrease the cost of converting to FASAB standards?

We suggest that agencies ensure that their current financial systems are capable of providing required budgetary data necessary to comply with FASAB reporting standards.

7. Do you have any other comments?

None

Requested Information Regarding Person Completing Survey:

First and Last Name: Howard Hyman
Agency Name: United States Mint
Position Title: Assistant Director, Office of Accounting

Attachment 3

Excerpt from March 2007 Discussion Paper – Potential Options

(Staff Note: This attachment is being provided for your convenience in the event that you would like to refer to the options presented at the March 2007 board meeting)

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Potential Options That FASAB Has to Address the Issue

1. **Take no action** – by taking no action, the Board would continue to deem the practice of following the FASB GAAP hierarchy as acceptable for those entities that had been following the FASB GAAP hierarchy prior to FASAB’s Rule 203 designation.

Pros

- Would maintain historical reporting and comparability against prior years within the entity itself.
- Would most likely receive the least resistance by government corporations and other entities currently following the FASB GAAP hierarchy.
- Would avoid potentially costly modifications to existing accounting systems, policies and procedures to conform to FASAB standards.
- Would be within the Board’s “sphere of influence”¹⁸ to take no action.
- Would most likely require minimal Board time.

Cons

- Does not address the concern with inconsistent and incomparable reporting among federal government entities as a result of separate sources of GAAP.
- Does not address the issue of bureaus and other non-corporation federal entities that continue to apply the FASB GAAP hierarchy.
- Does not address time-intensive manual processes that occur at year-end to provide required information for consolidation.
- Does not respond to OIG concerns regarding inconsistent reporting among components.
- Would need to address issues individually as they come along.

However, even if the Board decides to take no action, issues regarding the appropriate source of GAAP do arise and would need to be considered individually or within one of the other options below.

2. **Indicate that standards promulgated by FASB are appropriate in certain cases** – by taking this action, the Board would deem the practice of following the FASB GAAP hierarchy as unacceptable for those entities that had been following the FASB GAAP hierarchy prior to FASAB’s Rule 203 designation. However, the Board would determine in which cases it is appropriate for federal entities to follow FASB promulgations, and include such decisions in the FASAB literature. As a result, application of FASB standards would be appropriate in certain cases under the FASAB GAAP hierarchy. Federal entities that continue to apply the FASB GAAP hierarchy in lieu of the FASAB GAAP hierarchy would receive OCBOA opinions on their financial statements under AU Section 411.¹⁹

Pros

- Would address the concern with inconsistent and incomparable reporting among federal government entities as a result of separate sources of GAAP.

Cons

- May lose historical reporting and comparability against prior years within the entity itself (in instances where FASB standards are not accepted by the Board and the application of FASAB standards results in material differences from the application of FASB standards).

¹⁸ Sphere of influence is being used here with its general meaning of “the extent to which one can influence the decisions of others.” This phrase is being used in place of the word “authority” since FASAB has no legal authority and readers might assume otherwise.

¹⁹ In all cases discussed, the receipt of an OCBOA opinion would only be required if, in the view of an entity’s auditor, application of the FASB GAAP hierarchy resulted in material differences from reporting under the FASAB GAAP hierarchy.

- Would be within the Board's sphere of influence to indicate that standards promulgated by FASB are appropriate in certain cases. However, the board cannot require federal entities to follow the FASAB GAAP hierarchy.
- Would most likely receive less resistance by government corporations and other entities currently following the FASB GAAP hierarchy than some of the other options.
- Does not address time-intensive manual processes that occur at year-end to provide required information for consolidation for entities where it is deemed appropriate to follow FASB standards in certain cases.
- In instances where FASB standards are not deemed appropriate, it could be costly for entities to modify existing accounting systems, policies, and procedures to conform to FASAB standards.
- Does not respond to OIG concerns regarding inconsistent reporting among component entities (if some are permitted to apply FASB standards while others must apply FASAB standards).
- Would result in OCBOA opinions for all federal entities that do not conform to FASAB standards due to lack of funding or other reasons.
- Would most likely require medium to extensive Board time, including a public hearing.

3. **Indicate that entities following the FASB GAAP hierarchy may continue to do so but should provide a reconciliation of FASB GAAP to FASAB GAAP in the footnotes or supplemental information** – by taking this action, the Board would continue to deem the practice of following the FASB GAAP hierarchy as acceptable for those entities that had been following the FASB GAAP hierarchy prior to FASAB's Rule 203 designation; however, the Board would recommend that such entities should provide a reconciliation of FASB GAAP to FASAB GAAP that would show the differences between the two sources (see Attachment 3 beginning on page 79 for an example from footnote 20 of the Export-Import Bank's 2005 financial statements).

Pros

- Would maintain historical reporting and comparability against prior years within the entity itself.
- Would avoid potentially costly modifications to existing accounting systems, policies and procedures to conform to FASAB standards (however see comment in the right-hand column).

Cons

- Partially addresses the concern with inconsistent and incomparable reporting among federal government entities as a result of separate sources of GAAP because some of the FASAB GAAP information would be reported. However, users of the financial statements would need to refer to the footnotes or supplemental information and may be confused by the differences.
- Could be costly for entities to modify existing accounting systems, policies, and procedures to provide auditable information according to FASAB standards; however, the information provided for the governmentwide financial statements should already be auditable.

- Would be within the Board's sphere of influence to recommend that the entities include a reconciliation between the sources of GAAP in their footnotes or as supplementary information. However, the Board cannot require compliance.
- Does not address time-intensive manual processes that occur at year-end to provide required information for consolidation (see comment immediately above).
- Does not address the issue of bureaus and other non-corporation federal entities that continue to apply the FASB GAAP hierarchy for their primary reporting.
- Does not respond to OIG concerns regarding inconsistent reporting among components.
- Would most likely require extensive Board time, including a public hearing.

4. **Remove exemption for non-corporation federal entities that are currently following the FASB GAAP hierarchy** – by taking this action, the Board would continue to deem the practice of following the FASB GAAP hierarchy as acceptable for government corporations but not other federal entities (e.g., bureaus of the Department of the Treasury). Other federal entities that continue to follow the FASB GAAP hierarchy would receive OCBOA opinions on their financial statements under AU Section 411.

Pros

- Would maintain historical reporting and comparability against prior years within the entity itself (for corporations only).
- Would most likely receive the least resistance from government corporations that currently follow the FASB GAAP hierarchy.
- Would avoid potentially costly modifications to existing accounting systems, policies and procedures to conform to FASAB standards (for corporations only).
- Would be within the Board's sphere of influence to remove exemption for non-corporation federal entities that are currently following FASB GAAP.
- Would address the issue of bureaus and other non-corporation federal entities that have been following the FASB GAAP hierarchy.
- Would most likely require minimal to medium Board time.

Cons

- Does not address the concern with inconsistent and incomparable reporting among federal government entities as a result of separate sources of GAAP.
- Would lose historical reporting and comparability against prior years within the entity itself (for non-corporation entities only).
- Could be costly for entities to modify existing accounting systems, policies, and procedures to conform to FASAB standards.
- Does not address time-intensive manual processes that occur at year-end to provide required information for consolidation (for corporations only).
- Does not completely respond to OIG concerns regarding inconsistent reporting among components (e.g., Ginnie Mae).
- Would result in OCBOA opinions for all federal entities that do not conform to FASAB standards due to lack of funding or other reasons.

5. **Remove exemption for all federal entities that are currently following the FASB GAAP hierarchy** – by taking this action, the Board would deem the practice of following the FASB GAAP hierarchy unacceptable for all federal entities (e.g., corporations and bureaus of the Department of the Treasury). Any federal entity that continues to follow the FASB GAAP hierarchy would receive an OCBOA opinion on its financial statements under AU Section 411.

Pros

- Would address the concern with inconsistent and incomparable reporting among federal government entities as a result of separate sources of GAAP.
- Would address time-intensive manual processes that occur at year-end to provide required information for consolidation (but only for entities that opt to follow the FASAB GAAP hierarchy rather than receiving an OCBOA opinion).
- Would be within the Board's sphere of influence to remove exemption for all federal entities that are currently following FASB GAAP. However, the board cannot require federal entities to follow the FASAB GAAP hierarchy.
- Responds to OIG concerns regarding inconsistent reporting among component entities (but only for entities that opt to follow the FASAB GAAP hierarchy rather than receiving an OCBOA opinion).

Cons

- Would lose historical reporting and comparability against prior years within the entity itself.
- Does not address time-intensive manual processes that occur at year-end to provide required information for consolidation for entities that opt to receive an OCBOA opinion rather than follow the FASAB GAAP hierarchy for funding or other reasons.
- Could be costly for entities to modify existing accounting systems, policies, and procedures to conform to FASAB standards.
- Would result in OCBOA opinions for all federal entities that do not conform to FASAB standards due to lack of funding or other reasons.
- Would most likely require extensive Board time, including a public hearing.

6. **Remove exemption for all federal entities that are currently following the FASB GAAP hierarchy and recommend to sponsors that they assess their authority and decide whether to compel all federal entities to follow the FASAB GAAP hierarchy** – by taking this action, the Board would deem the practice of following the FASB GAAP hierarchy unacceptable for all federal entities (e.g., corporations and bureaus of the Department of the Treasury). Any federal entity that continues to follow the FASB GAAP hierarchy would receive an OCBOA opinion on its financial statements under AU Section 411. In addition, the Board would recommend to the sponsors that they assess their authorities and decide whether to compel federal entities to follow the FASAB GAAP hierarchy.

Pros

- Would address the concern with inconsistent and incomparable reporting among federal government entities as a result of separate sources of GAAP.
- Would address time-intensive manual processes that occur at year-end to provide required information for consolidation.

Cons

- Would lose historical reporting and comparability against prior years within the entity itself.
- Could be costly for entities to modify existing accounting systems, policies, and procedures to conform to FASAB standards.

- Would be within the Board's sphere of influence to remove exemption for all federal entities that are currently following FASB GAAP. However, the board cannot require federal entities to follow the FASAB GAAP hierarchy.
- Responds to OIG concerns regarding inconsistent reporting among component entities.
- Would not be within the Board's sphere of influence to require federal entities to follow the FASAB GAAP hierarchy. It would be up to the sponsors to assess their authorities and decide whether to compel compliance. This might seem unnecessary given the high regard the profession already places on the GAAP opinion.
- Would result in OCBOA opinions for all federal entities that do not conform to FASAB standards due to lack of funding or other reasons. In addition, if the sponsors issue policies or other regulations requiring all federal entities to comply, it might result in the need for auditors to report on noncompliance with laws and regulations for entities that are not able to comply due to lack of funding or other reasons.
- Would most likely require extensive Board time, including a public hearing.