



January 31, 2008

**Memorandum**

To: Members of the Board

From: Julia E. Ranagan, Assistant Director

Through: Wendy M. Payne, Executive Director

Subject: **Appropriate Source of GAAP<sup>1</sup> – Tab F**

**MEETING OBJECTIVES**

The primary objective of the meeting is to obtain approval of the draft surveys that staff has prepared for submission to the federal financial management community and GAO, OMB, and Treasury. These surveys are located on pages 59 through 92. The purpose of the survey is to obtain feedback from the financial management community on additional options that staff has recommended with respect to the appropriate source of GAAP.<sup>2</sup>

The secondary objective is to address several technical questions regarding the three options presented. These questions can be found beginning on page 95. However, you will most likely find the discussion of the three options as well as the reporting objectives and user needs on the pages leading up to the survey helpful in your consideration of the survey.

**Note:** Due to the shortage of time for discussion at the upcoming meeting, staff respectfully requests feedback on any aspects of this paper (particularly Board member leanings towards the three options as well as approval of the survey) in advance via email or by telephone. Comments would be orally summarized without attribution. Staff believes this early feedback, especially for the February meeting, would greatly help staff to focus and facilitate the meeting to accomplish the desired objective. In addition, any answers that staff can provide to individual members in advance of the meeting to clarify certain issues may also result in a more successful meeting.

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<sup>1</sup> 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.

<sup>2</sup> The “appropriate source for GAAP” is a shorthand reference. The AICPA established that FASAB is the source for GAAP for federal government entities (as defined in SFFAC 2). The outcome of this project will be a provision in FASAB GAAP that addresses whether, and if so when, a federal entity may apply FASB GAAP. In addition, the project may address added requirements if FASB GAAP is applied by a federal entity. For convenience and clarity, this paper continues to refer to options simply as application of FASB GAAP or FASAB GAAP.

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**BRIEFING MATERIAL**

This briefing packet contains a staff memorandum with the following sections and appendices:

- **Project Background** on page 1. This section contains a brief discussion of the project objective and the purpose of the paper. For further information, see *Appendix 1* beginning on page A-101 for a running summary of the project as well as a list of key decisions to date. (1 page)
- **Analysis of User Needs** beginning on page 2. This section discusses (1) the objectives of federal financial reporting, (2) how the needs of the federal government's financial statement users compare with those of for-profit businesses, (3) whether certain federal government activities may have financial reporting objectives that differ from the rest of the federal government, (4) specific examples of the needs of users of federal business-type activities' financial statements, and (5) whether federal business-type activities should be required to meet the financial reporting objectives for federal entities and/or business enterprises. (17 pages)
- **Discussion of Options** beginning on page 19. This section presents three options for consideration as viable alternatives for addressing the issues that have arisen from having different sources of GAAP: Option 1 – Separate Accounting and Reporting by Line Item, Option 2 – Separate Accounting and Reporting Using the Modified Equity Method, and Option 3 – Audited Footnote Reconciliation. The three options have been presented in the format of a draft Statement to facilitate discussions and provide the Board with a more detailed idea of how the proposed standard might appear. Staff does not expect or desire to receive comments on proposed wording at this time, but instead seeks feedback on the overall Board preference for any one of the options, if any. (26 pages)
- **Draft Survey to Agencies** beginning on page 59. This section contains a draft of a survey that requests feedback from the federal financial management community on each of the three options. (25 pages)
- **Draft Survey to GAO, OMB, and Treasury** beginning on page 85. This sections contains a draft of a survey that requests feedback on each of the three options specifically from GAO, OMB, and Treasury due to their unique perspective of what is needed for the CFR (14 pages)
- **Staff Recommendation and Questions for the Board** beginning on page 95. This section contains staff's recommendation as well as several questions related to the three options. (4 pages)
- **Appendix 1 – Project Background** beginning on page A-101. This appendix contains a running summary of the project as well as a list of key decisions to date. (4 pages)
- **Appendix 2 – Mention of the Source of GAAP in FASAB Literature** beginning on page A-105. This appendix contains excerpts from FASAB literature where the issue surrounding the source of GAAP is mentioned. (3 pages)
- **Appendix 3 – Excerpts from SFFAC 1, Objectives of Federal Financial Reporting** on page A-109. This appendix contains the four objectives from federal financial reporting. (1 page)
- **Appendix 4 – AICPA Comment Letter on SFFAS 24 Exposure Draft** beginning on page A-110. This appendix contains the recommendation from AICPA that FASAB clarify its policy with

respect to the appropriate source of GAAP for federal entities that have been applying commercial GAAP. (3 pages)

- **Appendix 5 – FASB/GASB Financial Statement Example** beginning on page A-113. This appendix contains an example of separate reporting of governmental-type and business-type activity and sources of GAAP from California State University / Los Angeles. (8 pages)

The table of contents beginning on page v contains a detailed listing of what is contained in each section.

## BACKGROUND

At the December 4, 2007 meeting, staff presented an informational paper to the Board members regarding the extent of financial reporting using a primary source of GAAP other than that developed by FASAB (e.g., FASB). It was thought that a closer look at the extent of the project would also serve to address open questions from the members about exactly what the impact might be to reporting entities in the executive, legislative, and judicial branches.

Staff's paper contained a listing of all of the entities required to prepare financial statements under the *Chief Financial Officers Act of 1990 as expanded by the Government Management and Reform Act of 1994 (CFO/GMRA)*, the *Accountability of Tax Dollars Act (ATDA)*, and the *Government Corporation Control Act (GCCA)* with a link to each entity's 2006 financial statements, if available, as well as the source of GAAP used to prepare the financial statements (FASAB vs. FASB GAAP) and the audit opinion received thereon.

The majority of the Board agreed that staff should continue as directed at the last meeting, which is to determine the user needs of the entities currently reporting under FASB, develop proposed reporting requirements that would incorporate those user needs with the needs of Treasury in compiling the CFR, and then prepare a draft survey to get feedback on the potential costs, burdens, and hurdles to providing the information necessary to satisfy the proposed reporting requirements. One member (Mr. Werfel) also requested that staff prepare a position paper that compares the pros and cons or strengths and weaknesses of the CFR in its current format to one that requires more consistency or homogeneity, including an analysis of the balance of governmentwide costs vs. benefits of changes as well as status quo.

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If you have any questions or comments prior to the meeting or would like to provide feedback prior to the meeting as requested on the previous page, please contact me by telephone at 202-512-7377 or by e-mail at [ranagani@fasab.gov](mailto:ranagani@fasab.gov).

Attachments

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## Table of Contents

<b>I. PROJECT BACKGROUND .....</b>	<b>1</b>
Project Objective.....	1
Purpose of this Paper .....	1
<b>II. ANALYSIS OF USER NEEDS .....</b>	<b>2</b>
What are the objectives of federal financial reporting? .....	2
How do the needs of the federal government's financial statement users compare with those of for-profit business financial statement users? .....	2
How do the needs of the federal government's financial statement users compare with those of for-profit business financial statement users? .....	3
Is there a reason why certain federal government activities may have financial reporting objectives that differ from the rest of the federal government? .....	6
What are some specific examples of the needs of users of federal business-type activities' financial statements? .....	7
Should federal business-type activities be required to meet the financial reporting objectives for federal entities and/or business enterprises? .....	10
<b>III. OPTIONS .....</b>	<b>19</b>
<b>Option 1 – Separate Accounting and Reporting by Line Item .....</b>	<b>21</b>
Introduction .....	21
Governmental-type Activities .....	21
Business-type Activities .....	21
Fiduciary Activities.....	22
Draft Proposed Standards .....	22
General Principles .....	22
Specific Standards .....	23
Existing Business-Type Activities.....	23
Existing Governmental-Type Activities .....	24
Newly Created Entities.....	24
Disclosure Requirements.....	24
Effective Date .....	25
Appendix A: Basis for Conclusions.....	26
Appendix B: Illustrations .....	28
Appendix C: Abbreviations .....	32
Appendix D: Glossary.....	34
<b>Option 2 – Modified Equity Method.....</b>	<b>37</b>
Introduction .....	37
Governmental-type Activities .....	37
Business-type Activities .....	38
Fiduciary Activities.....	38
Draft Proposed Standards .....	38
General Principles .....	38
Specific Standards .....	39

Existing Business-Type Activities.....	39
Existing Governmental-Type Activities.....	40
Newly Created Entities.....	41
Disclosure Requirements.....	41
Effective Date.....	42
Appendix A: Basis for Conclusions.....	43
Appendix B: Illustrations.....	44
Appendix C: Abbreviations.....	47
Appendix D: Glossary.....	48
<b>Option 3 – Audited Footnote Reconciliation.....</b>	<b>49</b>
Draft Proposed Standards.....	50
General Principles.....	50
Specific Standards.....	50
Existing Federal Entities.....	50
Newly Created Entities.....	51
Disclosure Requirements.....	51
Effective Date.....	52
Appendix A: Basis for Conclusions.....	53
Appendix B: Illustrations.....	54
Appendix C: Abbreviations.....	55
Appendix D: Glossary.....	56
<b>Draft Survey to Agencies.....</b>	<b>61</b>
Approach 1 – Separate Reporting for Governmental-Type and Business-Type Activities by Line Item.....	61
Approach 2 – Modified Equity Method.....	63
Approach 3 – Audited Footnote Reconciliation of FASB GAAP to FASAB GAAP.....	64
<b>Draft Survey to GAO, OMB, and Treasury.....</b>	<b>87</b>
Approach 1 – Separate Reporting for Governmental-Type and Business-Type Activities by Line Item.....	87
Approach 2 – Modified Equity Method.....	89
Approach 3 – Audited Footnote Reconciliation of FASB GAAP to FASAB GAAP.....	91
<b>Staff Recommendation.....</b>	<b>95</b>
<b>Primary Question for the Board.....</b>	<b>95</b>
<b>Secondary Questions for the Board.....</b>	<b>95</b>
<b>Additional Issue for the Board.....</b>	<b>96</b>
<b>TAB F – APPENDICES.....</b>	<b>99</b>
Appendix 1 – Project Background.....	A-101
Appendix 2 – Mention of the Source of GAAP in FASAB Literature.....	A-105
Appendix 3 – Excerpts from SFFAC 1, <i>Objectives of Federal Financial Reporting</i> .....	A-109
Appendix 4 – AICPA Comment Letter on SFFAS 24 ED.....	A-110
Appendix 5 – FASB/GASB Example.....	A-113

# Generally Accepted Accounting Principles for Federal Government Corporations and Other Federal Entities

## I. PROJECT BACKGROUND



### Project Objective

Since October 1999, the American Institute of Certified Public Accountants (AICPA) has recognized the Federal Accounting Standards Advisory Board (FASAB or “the Board”) as the standard-setting body for federal governmental entities; therefore, the pronouncements resulting from the FASAB process represent generally accepted accounting principles (GAAP) for the entire federal government (FASAB GAAP). Nevertheless, some federal entities follow GAAP for nongovernmental entities promulgated by the private sector Financial Accounting Standards Board (FASB GAAP). For example, federal government corporations, the U.S. Postal Service, certain component entities of the Department of Treasury, and some smaller entities in the executive and legislative branches have historically applied FASB GAAP and continue to do so. The primary objective of this project is to consider the appropriate source of GAAP for federal entities. [See *Appendix 1* beginning on page A-101 for a detailed history on the project and key decisions to date.]

The primary drivers for undertaking this project are:

- To ensure that general purpose financial reports issued by federal entities are meeting the objectives of its primary users;
- To respond to the AICPA’s recommendation that FASAB clarify its policy with regard to entities that have been following FASB standards;<sup>1</sup> and,
- To address compilation issues that are occurring during the consolidation of the financial report of the U.S. Government as a result of federal entities using different sources of GAAP.

### Purpose of this Paper

The purpose of this paper is to present a draft survey to the Board for approval. The draft survey is based on staff’s recommendation of three potential options to address the long-standing issue of the appropriate source(s) of 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. It is staff’s hope that circulation of this survey will result in feedback from the federal financial management community that will lead to fruitful Board deliberations and achieve the project objectives discussed above as well as improve federal financial reporting and contribute to meeting the federal financial reporting objectives.

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<sup>1</sup> Letter dated July 17, 2002, from Patrick L. McNamee, Chair of the AICPA FASAB Liaison Task Force, commenting on the exposure draft of SFFAS 24, *Selected Standards for the Consolidated Financial Report of the United States Government*, Comment 1. (See letter at Appendix 3 beginning on page A-109.)

## II. ANALYSIS OF USER NEEDS



### What are the objectives of federal financial reporting?

Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, focuses on the uses, user needs, and objectives of financial reporting by the federal government. Paragraph 11 of SFFAC 1 highlights the importance that is placed on understanding user needs:

11. The FASAB and its sponsors believe that any statement of objectives of federal financial reporting must be based on the needs of those who use the reports. Those users include citizens, Congress, federal executives, and federal program managers. Current and potential users of federal financial information want information to help them assess how well the government is doing by answering questions regarding such topics as:
- **Budgetary integrity:** What legal authority was provided for financing government activities and for spending the monies? Were the financing and spending in accordance with these authorities?
  - **Operating performance:** How much do various programs cost, and how were they financed? What outputs and outcomes were achieved? What and where are the important assets, and how effectively are they managed? What liabilities arose from operating the program, and how will they be liquidated or provided for?
  - **Stewardship:** Did the government's financial condition improve or deteriorate? What provision was made for the future?
  - **Systems and Control:** Does the government have cost-effective systems and controls to safeguard its assets? Is it able to detect likely problems? Is it correcting deficiencies when detected?

The above questions were used in developing the four objectives of federal financial reporting – Budgetary Integrity, Operating Performance, Stewardship, and Systems and Control. (See Appendix 3 on page A-109 for an excerpt of the four objectives from SFFAC 1). The Board most recently endorsed these four objectives in March 2006 when it agreed to maintain the current broad objectives of federal financial reporting and not eliminate [or add to] the objectives in SFFAC 1.<sup>2</sup>

***Federal financial reporting objectives focus on accountability and stewardship of public resources.***

<sup>2</sup> FASAB's Strategic Directions Report, "Clarifying FASAB's Near-Term Role in Achieving the Objectives of Federal Financial Reporting"; pg. 13; available online at <http://www.fasab.gov/pdffiles/stratobjectivesnov2006.pdf>.



## How do the needs of the federal government's financial statement users compare with those of for-profit business financial statement users?

As noted in par. 11 above and throughout SFFAC 1, the primary users of federal financial statements have been identified as (a) citizens, (b) Congress, (c) federal executives, and (d) federal program managers. These groups generally do not have the same focus as other user groups often identified with for-profit business financial statements such as financial institutions, bondholders, investors, banking trade groups, and customers.

FASB's Statements of Financial Accounting Concepts (CON) 1, *Objectives of Financial Reporting by Business Enterprises*, includes the following discussion of the potential users of financial reports of business enterprises and their interests, which shows that the focus is on cash flows:

25. Potential users of financial information most directly concerned with a particular business enterprise are generally interested in its **ability to generate favorable cash flows** because their decisions relate to amounts, timing, and uncertainties of expected cash flows. To investors, lenders, suppliers, and employees, a business enterprise is a source of cash in the form of dividends or interest and perhaps appreciated market prices, repayment of borrowing, payment for goods or services, or salaries or wages. They invest cash, goods, or services in an enterprise and expect to obtain sufficient cash in return to make the investment worthwhile. They are directly concerned with the ability of the enterprise to generate favorable cash flows and may also be concerned with how the market's perception of that ability affects the relative prices of its securities. To customers, a business enterprise is a source of goods or services, but only by obtaining sufficient cash to pay for the resources it uses and to meet its other obligations can the enterprise provide those goods or services. To managers, the cash flows of a business enterprise are a significant part of their management responsibilities, including their accountability to directors and owners. Many, if not most, of their decisions have cash flow consequences for the enterprise. Thus, investors, creditors, employees, customers, and managers significantly share a common interest in an enterprise's ability to generate favorable cash flows. Other potential users of financial information share the same interest, derived from investors, creditors, employees, customers, or managers whom they advise or represent or derived from an interest in how those groups (and especially stockholders) are faring. [emphasis added]

CON 1 also establishes the objectives of general purpose external financial reporting by business enterprises. The financial reporting objectives of CON 1 are primarily focused on information for investment and credit decisions. Investors and creditors and their advisors are the most obvious prominent external groups who use the information provided by financial reporting for business enterprises and who generally lack the authority to prescribe the information they want.

The following objectives of general purpose external financial reporting by business enterprises begin with a broad focus on information that is useful in investment and credit decisions; then narrow that focus to investors' and creditors' primary interest in the prospects of receiving cash from their investments in or loans to business enterprises and the relation of those prospects to the enterprise's prospects; and finally focus on information about an enterprise's economic resources, the claims to those resources, and changes in them, including measures of the enterprise's performance, that is useful in assessing the enterprise's cash flow prospects.

### Information Useful in Investment and Credit Decisions

34. Financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions. The information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence.

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**Information Useful in Assessing Cash Flow Prospects**

37. Financial reporting should provide information to help present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loans. The prospects for those cash receipts are affected by an enterprise's ability to generate enough cash to meet its obligations when due and its other cash operating needs, to reinvest in operations, and to pay cash dividends and may also be affected by perceptions of investors and creditors generally about that ability, which affect market prices of the enterprise's securities. Thus, financial reporting should provide information to help investors, creditors, and others assess the amounts, timing, and uncertainty of prospective net cash inflows to the related enterprise.

**Information about Enterprise Resources, Claims to Those Resources, and Changes in Them**

40. Financial reporting should provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transactions, events, and circumstances that change resources and claims to those resources.

**Economic Resources, Obligations, and Owners' Equity**

41. Financial reporting should provide information about an enterprise's economic resources, obligations, and owners' equity. That information helps investors, creditors, and others identify the enterprise's financial strengths and weaknesses and assess its liquidity and solvency. Information about resources, obligations, and owners' equity also provides a basis for investors, creditors, and others to evaluate information about the enterprise's performance during a period (paragraphs 42-48). Moreover, it provides direct indications of the cash flow potentials of some resources and of the cash needed to satisfy many, if not most, obligations. That is, some of an enterprise's resources are direct sources of cash to the enterprise, many obligations are direct causes of cash payments by the enterprise, and reasonably reliable measures of future net cash inflows or future net cash outflows are often possible for those resources and obligations. Many cash flows cannot be identified with individual resources (or some obligations), however, because they are the joint result of combining various resources in the enterprise's operations. Indirect measures of cash flow potential are widely considered necessary or desirable, both for particular resources and for enterprises as a whole. That information may help those who desire to estimate the value of a business enterprise, but financial accounting is not designed to measure directly the value of an enterprise.

**Enterprise Performance and Earnings**

42. Financial reporting should provide information about an enterprise's financial performance during a period. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment and credit decisions reflect investors' and creditors' expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance.

**Liquidity, Solvency, and Funds Flow**

49. Financial reporting should provide information about how an enterprise obtains and spends cash, about its borrowing and repayment of borrowing, about its capital transactions, including cash dividends and other distributions of enterprise resources to owners, and about other factors that may affect an enterprise's liquidity or solvency. For example, although reports of an enterprise's cash receipts and cash outlays during a period are generally less useful than earnings information for measuring enterprise

performance during a period and for assessing an enterprise's ability to generate favorable cash flows (paragraphs 42-46), information about cash flows or other funds flows may be useful in understanding the operations of an enterprise, evaluating its financing activities, assessing its liquidity or solvency, or interpreting earnings information provided. Information about earnings and economic resources, obligations, and owners' equity may also be useful in assessing an enterprise's liquidity or solvency.

### **Management Stewardship and Performance**

50. Financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it. Management of an enterprise is periodically accountable to the owners not only for the custody and safekeeping of enterprise resources but also for their efficient and profitable use and for protecting them to the extent possible from unfavorable economic impacts of factors in the economy such as inflation or deflation and technological and social changes. To the extent that management offers securities of the enterprise to the public, it voluntarily accepts wider responsibilities for accountability to prospective investors and to the public in general. Society may also impose broad or specific responsibilities on enterprises and their managements.

### **Management Explanations and Interpretations**

54. Financial reporting should include explanations and interpretations to help users understand financial information provided. For example, the usefulness of financial information as an aid to investors, creditors, and others in forming expectations about a business enterprise may be enhanced by management's explanations of the information. Management knows more about the enterprise and its affairs than investors, creditors, or other "outsiders" and can often increase the usefulness of financial information by identifying certain transactions, other events, and circumstances that affect the enterprise and explaining their financial impact on it. In addition, dividing continuous operations into accounting periods is a convention and may have arbitrary effects. Management can aid investors, creditors, and others in using financial information by identifying arbitrary results caused by separating periods, explaining why the effect is arbitrary, and describing its effect on reported information. Moreover, financial reporting often provides information that depends on, or is affected by, management's estimates and judgment. Investors, creditors, and others are aided in evaluating estimates and judgmental information by explanations of underlying assumptions or methods used, including disclosure of significant uncertainties about principal underlying assumptions or estimates. Financial reporting may, of course, provide information in addition to that specified by financial accounting standards, regulatory rules, or custom.

***Financial reporting objectives of business enterprises emphasize information necessary to make rational investment, credit, and similar decisions.***

## **Is there a reason why certain federal government activities may have financial reporting objectives that differ from the rest of the federal government?**

The federal government engages in a wide variety of activities in order to achieve the missions and objectives of its diverse programs. The primary activities of the federal government can be characterized as one of the following three types:

- Governmental-type activities;
- Business-type activities; or,
- Fiduciary activities.

### *Governmental-type Activities*

Governmental-type activities are activities primarily funded by governmental receipts (also called budget receipts or federal receipts). Governmental receipts are collections from the public based on the government's exercise of its sovereign powers, including individual and corporate income taxes and social insurance taxes, excise taxes, duties, court fines, compulsory licenses, and deposits of earnings by the Federal Reserve System. Gifts and contributions (as distinguished from payments for services or cost-sharing deposits by state and local governments) are also counted as governmental receipts. Total governmental receipts include those specifically designated as off-budget by provisions of law. Total governmental receipts are compared with total outlays in calculating the budget surplus or deficit.<sup>3</sup>

### *Business-type Activities*

Business-type activities are primarily funded by offsetting collections and receipts resulting from businesslike transactions or market-oriented activities with the public or transactions between appropriated activities.<sup>4</sup> These activities are financed and operated in a manner similar to private business enterprises—where the intent of the federal government is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.<sup>5</sup>

### *Fiduciary Activities*

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment and disposition by the federal government of cash or other assets in which non-federal individuals or entities have an ownership interest that the federal government must uphold. Fiduciary cash and other assets are not assets of the federal government and accordingly are not recognized on the statement of financial position. The accounting for and reporting of fiduciary activities are addressed in Statement of Federal Financial Accounting Standard (SFFAS) 31, *Accounting for Fiduciary Activities*.

Based on the differing sources and uses of funds as well as users among federal governmental-type and business-type activities, it is conceivable that there may be a need for separate reporting objectives for business-type activities in the federal environment.

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<sup>3</sup> A *Glossary of Terms Used in the Federal Budget Process* (Budget Glossary), GAO-05-734SP, September 2005, pg. 29.

<sup>4</sup> Budget Glossary, pg. 29.

<sup>5</sup> SFFAS 6, footnotes 3 and 13 define business-type activities as “a significantly self-sustaining activity which finances its continuing cycle of operations through collection of exchange revenue.”

## What are some specific examples of the needs of users of federal business-type activities' financial statements?

The following list includes examples of user needs of federal business-type activities. These examples were obtained from the responses to the Appropriate Source of GAAP Survey that was presented to the Board at the May 2007 meeting<sup>6</sup>:

- ***Classifying marketable investment securities as “available for sale” to meet liquidity ratios*** -- FASB's Statement of Financial Accounting Standards 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 standard SFFAS 1, paragraph 66-73 only provides accounting guidance for investment securities that are classified as Held-to-Maturity (HTM).<sup>7</sup> 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 Federal Deposit Insurance Corporation (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 FDIC representative believes that 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. (Source: FDIC)<sup>8</sup>
- ***Accounting systems and structure compatible with receiver financial institutions*** -- The FDIC is appointed receiver for failed financial institutions. These receiverships and FDIC Corporate share the same financial system structure/platform. Further costs would be incurred to implement and process FDIC transactions under FASAB guidelines. (Source: FDIC)<sup>9</sup>
- ***Financial statements readily understandable by commercial stakeholders*** -- 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. 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. (Source: FDIC)<sup>10</sup>

<sup>6</sup> May 2007 Discussion Paper; available online at [http://www.fasab.gov/pdffiles/52007\\_issuepaper.pdf](http://www.fasab.gov/pdffiles/52007_issuepaper.pdf).

<sup>7</sup> Staff note: The GAAP hierarchy allows for agencies to apply other standards in areas that FASAB does not address (e.g., available for sale securities and regulatory assets). Therefore, investments that an agency following FASAB standards intends to hold to maturity would be accounted for following the guidance in SFFAS 1, *Accounting for Selected Assets and Liabilities*. Investments that an agency following FASAB standards intends to make available for sale would be accounted for following the guidance in FASB SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, since FASAB standards do not specifically address available for sale securities.

<sup>8</sup> Appropriate Source of GAAP Survey Response from Vanessa Hester, FDIC; May 2007 Discussion Paper; p. A-50; available online at [http://www.fasab.gov/pdffiles/52007\\_issuepaper.pdf](http://www.fasab.gov/pdffiles/52007_issuepaper.pdf).

<sup>9</sup> Hester, p. A-51.

<sup>10</sup> Hester, p. A-51; Survey Response from Russell Rau, FDIC OIG, p. A-53.

Federal Prison Industries (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. (Source: DOJ OIG)<sup>11</sup>

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 the Office of Thrift Supervision's (OTS) 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. (Source: OTS)<sup>12</sup>

- ***Systems and accounts comply with regulatory or other accounting as required by statute*** -- 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. (Source: Bonneville Power Administration (BPA))<sup>13</sup>
- ***Systems and accounts support filings with the SEC*** -- Because of the Tennessee Valley Authority's (TVA) 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. 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. (Source: TVA)<sup>14</sup>
- ***Comparable financial statements for investment decisions*** -- Financial statements prepared under FASB GAAP provide comparability with other entities issuing bonds, which enables investors to evaluate investment opportunities and decisions among various bond offerings. Comparability of financial statements is at the heart of why FASB GAAP exists – to provide financial reports on the same basis to enable comparability among investment opportunities. (Source: BPA)<sup>15</sup>

The investor community understands and recognizes FASB standards and has consistently received Ginnie Mae financial statements that comply with FASB standards. Changing the

<sup>11</sup> GAAP Survey Response from Sophilia Jones, DOJ OIG; p. A-59.

<sup>12</sup> GAAP Survey Response from Timothy Ward, OTS; p. A-71.

<sup>13</sup> GAAP Survey Response from Kelly Kintz, BPA; p. A-38.

<sup>14</sup> GAAP Survey Response from Donna J. Terzak and Louise B. Beck, TVA CFO/OIG Joint Response; p. A-77.

<sup>15</sup> Kintz, p. A-40.

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. (Source: GNMA)<sup>16</sup>

- ***Manufacturing cost accounting system compatible with financial system*** -- The automated accounting system now in place does not support the reporting requirements under FASAB. In addition, the Bureau of Engraving and Printing (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. (Source: BEP)<sup>17</sup>
- ***More detailed information reported on the face of the statement of operations (flow statement)*** -- 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 reflects total cost of the entity with insufficient detail of the essential income statement components that provide valuable information. (Source: FPI)<sup>18</sup>

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). (Source: DOJ OIG)<sup>19</sup>

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. (Source: Exchange Stabilization Fund (ESF))<sup>20</sup>

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<sup>16</sup> GAAP Survey Response from Michael J. Najjum, Jr., GNMA; pp. A-61 and A-62.

<sup>17</sup> GAAP Survey Response from Leonard R. Olijar, BEP; p. A-42.

<sup>18</sup> GAAP Survey Response from Greg Henderson, FPI; p. A-57.

<sup>19</sup> Jones, p. A-59.

<sup>20</sup> GAAP Survey Response from David Legge, ESF; p. A-47.

## Should federal business-type activities be required to meet the financial reporting objectives for federal entities and/or business enterprises?

In order to more fully respond to this question, staff looked at the following seven federal entities that (1) have been designated as one of the 35 significant entities required to submit an audited closing package in support of the CFR and (2) follow FASB accounting and reporting requirements:

- Farm Credit System Insurance Corporation
- Federal Deposit Insurance Corporation
- National Credit Union Administration
- Pension Benefit Guaranty Corporation
- Smithsonian Institution
- Tennessee Valley Authority
- United States Postal Service

The following paragraphs provide more information on the primary mission of each of the above entities as well as a list of the characteristics that some would argue distinguish it from a “typical” federal entity.

### Farm Credit System Insurance Corporation

- |  |
|--|
| <ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Operates a business similar to a private business enterprise</li> <li><input checked="" type="checkbox"/> Engages primarily in business-type activities with parties outside of the government</li> <li><input checked="" type="checkbox"/> Is intended to be self-sustaining</li> <li><input checked="" type="checkbox"/> Does not receive appropriations (not taxpayer funded)</li> <li><input checked="" type="checkbox"/> Is required to handle FASB-based receiverships</li> <li><input checked="" type="checkbox"/> Primary stakeholders are fluent in FASB reporting (e.g., financial institutions)</li> </ul> |
|--|

The Farm Credit System Insurance Corporation (FCSIC) is a Government-controlled corporation established by the Agricultural Credit Act of 1987 (1987 Act) in an effort to renew faith in the financial integrity of the Farm Credit System (System). FCSIC insures the timely payment of principal and interest on System notes, bonds, and other obligations issued to investors. FCSIC is administered by a board of directors who serve concurrently as the Farm Credit Administration (FCA) Board. The Chairperson of FCSIC's Board is elected by the other members and must not be the same person as the FCA Chairman.

FCSIC administers the Farm Credit Insurance Fund (the Fund) and collects annual insurance premiums from System banks. Premium rates are calculated using a statutorily defined formula based on System loan volume with different rates for accrual loans, nonaccrual loans, and loans guaranteed by federal or state governments.

Congress directed FCSIC to build the Fund to a "secure base amount." The secure base amount is defined as two percent of the aggregate of outstanding insured obligations of all insured banks, adjusted downward by a certain percentage of the System's government guaranteed loans. The Farm Credit System Reform Act of 1996 provided FCSIC's Board the authority, in its sole discretion, to reduce insurance premiums from the statutory rates before the Fund reaches the secure base amount.



In addition to building and maintaining the Fund, FCSIC has other mandatory and discretionary responsibilities. The 1987 Act created the Farm Credit System Financial Assistance Corporation (FAC) to raise capital required to restore the financial health of the System. Between 1988 and 1990, the FAC issued \$1.26 billion in U.S. Treasury guaranteed bonds. The 1987 Act mandates that the Corporation satisfy any System bank defaults on repayment of outstanding FAC assistance bond principal and interest. On June 10, 2005, as required by the 1987 Act, FCSIC paid \$231 million towards the retirement of the final FAC bond, representing FCSIC's remaining share of its outstanding obligation. Another responsibility of FCSIC is to ensure the retirement of eligible borrower stock at par value.

FCSIC, in its discretion, is empowered to provide assistance to System banks and direct lender associations suffering financial difficulties by providing loans or contributions, purchasing assets and debt securities, assuming liabilities, and facilitating consolidations and mergers. The statute imposes a cost-test limitation for financial assistance whereby the total cost of assistance may not exceed the alternative cost of liquidating the institution. FCSIC shall also serve as conservator or receiver of any System bank or association placed into conservatorship or receivership by the FCA Board and may serve as conservator or receiver, when appropriate, for other organizations regulated by the FCA.<sup>21</sup>

FCSIC lists as one of its program goals "Maintaining the capability to act as receiver or conservator should the need arise."<sup>22</sup> However, FCSIC has not acted as a receiver since the Federal Land Bank of Jackson receivership was terminated in 1995.

### Federal Deposit Insurance Corporation

- ☒ *Exempt from the Federal Credit Reform Act (P.L. 101-508 § 506, 2 U.S.C. § 661e)*
- ☒ *Operates a business similar to a private business enterprise*
- ☒ *Engages primarily in business-type activities with parties outside of the government*
- ☒ *Is intended to be self-sustaining*
- ☒ *Does not receive appropriations (not taxpayer funded)*
- ☒ *Is required to handle FASB-based receiverships*
- ☒ *Needs to classify marketable investment securities as "available for sale" to meet required liquidity ratios*
- ☒ *Primary stakeholders are fluent in FASB reporting*

The Federal Deposit Insurance Corporation (FDIC) preserves and promotes public confidence in the U.S. financial system by insuring deposits in banks and thrift institutions for at least \$100,000; by identifying, monitoring and addressing risks to the deposit insurance funds; and by limiting the effect on the economy and the financial system when a bank or thrift institution fails.

An independent agency of the federal government, the FDIC was created in 1933 in response to the thousands of bank failures that occurred in the 1920s and early 1930s. Since the start of FDIC insurance on January 1, 1934, no depositor has lost a single cent of insured funds as a result of a failure.

<sup>21</sup> <http://www.fcsic.gov/overview.html>

<sup>22</sup> FCSIC *Annual Performance Plan FY 2008 – 2009*, p. 1; available online at [www.fcsic.gov/documents/FinalAnnual%20Plan%202008-09.doc](http://www.fcsic.gov/documents/FinalAnnual%20Plan%202008-09.doc).

The FDIC receives no Congressional appropriations – it is funded by premiums that banks and thrift institutions pay for deposit insurance coverage and from earnings on investments in U.S. Treasury securities. With an insurance fund totaling more than \$49 billion, the FDIC insures more than \$3 trillion of deposits in U.S. banks and thrifts – deposits in virtually every bank and thrift in the country.

Savings, checking and other deposit accounts, when combined, are generally insured to \$100,000 per depositor in each bank or thrift the FDIC insures. Deposits held in different categories of ownership – such as single or joint accounts – may be separately insured. Also, the FDIC generally provides separate coverage for retirement accounts, such as individual retirement accounts (IRAs) and Keoghs, insured up to \$250,000.<sup>23</sup>

When a bank or thrift is closed by its chartering authority and the FDIC is appointed receiver, the first task is to take custody of the failed institution's premises and all of its records, loans, and other assets. The FDIC closing staff, working in conjunction with employees of the failed institution, bring all accounts forward to the closing date and post all applicable entries to the general ledger, making sure that everything is in balance. The FDIC then creates two complete sets of inventory books containing an explanation of the disposition of the failed institution's assets and liabilities, one set for the assuming institution (if there is one) and one for the receivership.<sup>24</sup> FDIC does not consolidate its financial reports with those of its receiverships; they still maintain separate reporting. However, FDIC utilizes the same financial system and account structure to maintain and report on both FDIC and receivership financial information. A financial institution number field is populated to differentiate between the different receiverships within the accounting system.

FDIC is required in its statute to "be audited by the Government Accountability Office in accordance with the principles and procedures applicable to commercial corporate transactions"<sup>25</sup> (i.e., FASB GAAP). At that time, the Government Corporation Control Act required GAO to audit government corporations "consistent with principles and procedures applicable to commercial corporate transactions where the accounts of a Government corporation usually are kept," and to submit the audit report, including certain financial statements, to Congress, the President, and Treasury. However, that language in the GCCA has been superseded by subsequent legislation. In 1990, the CFO Act replaced this general requirement in the GCCA with the current provision that requires government corporations to annually issue financial statements audited by each corporation's IG or independent auditor. See 31 U.S.C. § 9105, 9106. These provisions do not specify the basis of accounting to be applied to the statements.

### National Credit Union Administration

- ☒ *Exempt from the Federal Credit Reform Act (P.L. 101-508 § 506, 2 U.S.C. § 661e)*
- ☒ *Operates a business similar to a private business enterprise*
- ☒ *Engages primarily in business-type activities with parties outside of the government*
- ☒ *Is intended to be self-sustaining*
- ☒ *Does not receive appropriations (not taxpayer funded) with one immaterial exception*
- ☒ *Primary stakeholders are fluent in FASB reporting*

<sup>23</sup> Who is the FDIC?; available online at <http://www.fdic.gov/about/learn/symbol/index.html>.

<sup>24</sup> FDIC Resolutions Handbook, Chapter 7, *FDIC's Role as a Receiver*, p. 71; available online at <http://www.fdic.gov/bank/historical/reshandbook/ch7recvr.pdf>.

<sup>25</sup> 12 U.S.C. § 1827(e)

The National Credit Union Administration (NCUA) is the independent federal agency that charters and supervises federal credit unions throughout the United States and its territories. NCUA administers the 1934 "Federal Credit Union Act" created by Congress to serve, protect and promote a safe, stable national system of cooperative financial institutions that encourage thrift and offer a source of credit for their members. With the backing of the full faith and credit of the U.S. government, NCUA administers the National Credit Union Share Insurance Fund (NCUSIF), which insures the savings of more than 85 million account holders in all federal credit unions and the substantial majority of state-chartered credit unions. NCUA is supported by the credit unions it supervises and insures through fees submitted to the NCUA Operating Fund and NCUSIF. NCUA also administers the Central Liquidity Facility (CLF) and the Community Development Revolving Loan Fund (CDRLF). The CLF serves as a back-up lender for member credit unions, while the CDRLF provides loans and grants to enhance low-income credit union operations.<sup>26</sup>

Stand-alone financial statements are prepared for each of the funds: NCUSIF, NCUA Operating Fund, CLF, and CDRLF. A consolidated statement is not prepared.<sup>27</sup> The primary source of revenue for each of the funds is as follows:

- NCUSIF – interest;
- NCUA Operating Fund – operating fees and interest;
- CLF – investment income and interest; and,
- CDRLF – appropriations and interest.

As noted above, the primary revenue of NCUA comes from interest, operating fees and investment income -- \$410 million, or over 99 percent of total income in 2006. Only \$893 thousand, or less than one percent, was received in appropriations by CDRLF in 2006 to provide loans and technical assistance grants to the credit unions. Note: While NCUA has an immaterial amount of revenue and expenses, it is a significant federal reporting entity because of the potential for a material loss contingency in the event of multiple credit union failures.<sup>28</sup>

NCUA is required in its statute to "be subject to audit by the Government Accountability Office in accordance with the principles and procedures applicable to commercial corporate transactions"<sup>29</sup> (i.e., FASB GAAP). At that time, the Government Corporation Control Act required GAO to audit government corporations "consistent with principles and procedures applicable to commercial corporate transactions where the accounts of a Government corporation usually are kept," and to submit the audit report, including certain financial statements, to Congress, the President, and Treasury. However, that language in the GCCA has been superseded by subsequent legislation. In 1990, the CFO Act replaced this general requirement in the GCCA with the current provision that requires government corporations to annually issue financial statements audited by each corporation's IG or independent auditor. See 31 U.S.C. § 9105, 9106. These provisions do not specify the basis of accounting to be applied to the statements.

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<sup>26</sup> NCUA 2006 Annual Report; p. 3; available online at [www.ncua.gov/ReportsAndPlans/annualrpt/2006AR.pdf](http://www.ncua.gov/ReportsAndPlans/annualrpt/2006AR.pdf).

<sup>27</sup> NCUA Annual Report; pp. 48 – 75.

<sup>28</sup> 2007 Financial Report of the U.S. Government; Note 18; p. 85; available online at <http://fms.treas.gov/fr/index.html>.

<sup>29</sup> 12 U.S.C. § 1752a (f)

Pension Benefit Guaranty Corporation

- ☒ *Exempt from the Federal Credit Reform Act (P.L. 101-508 § 506, 2 U.S.C. § 661e)*
- ☒ *Operates a business similar to a private business enterprise*
- ☒ *Engages primarily in business-type activities with parties outside of the government*
- ☒ *Is intended to be self-sustaining*
- ☒ *Does not receive appropriations (not taxpayer funded)*
- ☒ *Primary stakeholders are fluent in FASB reporting*

The Pension Benefit Guaranty Corporation (PBGC) is a federal corporation created by Title IV of the Employee Retirement Income Security Act of 1974 (ERISA) and is subject to the provisions of the Government Corporation Control Act. Its activities are defined in ERISA as amended by the Multiemployer Pension Plan Amendments Act of 1980, the Single-Employer Pension Plan Amendments Act of 1986, the Pension Protection Act of 1987, the Retirement Protection Act of 1994, the Consolidated Appropriations Act, 2001, the Deficit Reduction Act of 2005, and the Pension Protection Act of 2006.

PBGC insures the pension benefits, within statutory limits, of 44 million workers and retirees in over 30,000 private defined benefit pension plans, including about 34 million people covered by approximately 28,000 single-employer plans and around 9.9 million people covered by approximately 1,540 multiemployer plans. These pension plans provide a specified monthly benefit at retirement, usually based on salary or a stated dollar amount and years of service. PBGC operates under the guidance of its Board of Directors, which consists of the Secretaries of Labor (Chair), Commerce, and the Treasury.

PBGC receives no funds from general tax revenues. ERISA requires that PBGC programs be self-financing. PBGC's principal sources of revenues are premiums collected from covered plans, assets assumed from terminated plans, collection of employer liability payments due under ERISA, and investment income. ERISA provides that the U.S. Government is not liable for any obligation or liability incurred by PBGC.

The PBGC's goals are to:

- safeguard the federal pension insurance system for the benefit of participants, plan sponsors, and other stakeholders;
- provide exceptional service to customers and stakeholders; and
- exercise effective and efficient stewardship of the PBGC resources.<sup>30</sup>

When PBGC was established in 1974 under ERISA, Congress established it as a wholly-owned government corporation under the Government Corporation Control Act (GCCA).<sup>31</sup> At that time, the Government Corporation Control Act required GAO to audit government corporations "consistent with principles and procedures applicable to commercial corporate transactions where the accounts of a Government corporation usually are kept," and to submit the audit report, including certain financial statements, to Congress, the President, and Treasury. However, that language in the GCCA has been superseded by subsequent legislation. In 1990, the CFO Act replaced this general requirement in the GCCA with the current provision that requires government

<sup>30</sup> Source: PBGC Fiscal Year 2006 Annual Management Report, accessed online on January 16, 2008, at <http://www.pbgc.gov/docs/2006AMR.pdf>.

<sup>31</sup> 29 U.S.C. § 1302.

corporations to annually issue financial statements audited by each corporation's IG or independent auditor. See 31 U.S.C. § 9105, 9106. These provisions do not specify the basis of accounting to be applied to the statements.

While there is no statutory provision that requires PBGC to follow private sector accounting standards, it is also not legally required to follow federal government accounting standards (FASAB) because government corporations are exempt from 31 U.S.C. § 3511(a).

### Smithsonian Institution

- ☒ Operates similar to a non-profit organization
- ☒ Some of the stakeholders are fluent in FASB reporting (e.g., bondholders and donors)

The Smithsonian Institution (Smithsonian) was created by act of Congress in 1846 in accordance with the terms of the will of James Smithson of England, who in 1826 bequeathed property to the United States of America “to found at Washington, under the name of the Smithsonian Institution, an establishment for the increase and diffusion of knowledge among men.” Congress established the Smithsonian as a trust of the United States and vested responsibility for its administration in the Smithsonian Board of Regents (Board).<sup>32</sup>

The Smithsonian is a museum and an education and research complex consisting of 17 museums and galleries, the National Zoological Park, and other research facilities. It is based in Washington, D.C. but also maintains facilities and operates programs in five states and Panama. Research is carried out in the Smithsonian’s museums and in other facilities throughout the world.<sup>33</sup>

The Smithsonian’s primary source of revenue is federal appropriations followed by government grants and contracts. Fiscal year 2006 revenue was composed of 64 percent appropriations, 14 percent grants and contracts, 12 percent contributions and private grants, 6 percent investment earnings, 3 percent business ventures, and 1 percent other.<sup>34</sup>

Appropriations for operations are generally available for obligation only in the year received. In accordance with Public Law 101-510, these appropriations are maintained by the Smithsonian for five years following the year of appropriation, after which the appropriation account is closed and any unexpended balances are returned to the U.S. Treasury.<sup>35</sup>

Smithsonian Business Ventures encompasses *Smithsonian* and *Air & Space* magazines, 30 museum stores, 13 restaurants, three IMAX theaters, and the Smithsonian Gift Catalogue. Business Ventures also includes consumer product licensing, e-commerce, and commercial media enterprises that generate unrestricted income for the Institution. In 2006, total revenues from operations were \$164.4 million, representing a 4.2 percent decrease from 2005, due to a decline in museum visitation in 2006.<sup>36</sup>

<sup>32</sup> Smithsonian Institution Financial Statements September 30, 2006; Note 1; p. 5; available online at [http://www.si.edu/about/documents/financial\\_statements\\_fy2006.pdf](http://www.si.edu/about/documents/financial_statements_fy2006.pdf).

<sup>33</sup> Smithsonian Financial Statements; p. 5.

<sup>34</sup> Smithsonian Annual Report 2006, p. 24; available online at <http://www.si.edu/opa/annualrpts/06report/index.htm>.

<sup>35</sup> Smithsonian Financial Statements; p. 6.

<sup>36</sup> Smithsonian Annual Report, p. 25.

Tennessee Valley Authority

- ☑ *Mandated to follow FERC Uniform System of Accounts*
- ☑ *Exempt from the Federal Credit Reform Act (P.L. 101-508 § 506, 2 U.S.C. § 661e)*
- ☑ *Operates a business similar to a private business enterprise*
- ☑ *Engages primarily in business-type activities with parties outside of the government*
- ☑ *Is intended to be self-sustaining*
- ☑ *Does not receive appropriations (not taxpayer funded)*
- ☑ *Issues a variety of debt securities*
- ☑ *Is required to file with the SEC*
- ☑ *Primary stakeholders are more familiar with FASB reporting (e.g., bondholders and customers)*

The Tennessee Valley Authority (TVA) was established to develop and operate the Tennessee River system to improve navigation, minimize flood damage, and provide energy and related products and services safely, reliably, and at the lowest feasible cost to residents and businesses in the multi-state Tennessee Valley region. TVA has developed and operates one of the largest electric power systems in the U.S., having produced nearly 155 billion kilowatt-hours (“kWh”) of electricity in 2004.

TVA issues a variety of debt securities in U.S. dollars and other currencies designed to meet the needs of investors around the world. Investors in all 50 states and over 60 countries have purchased TVA securities. All TVA bonds are publicly held. Most TVA Power Bonds are listed and traded on the bond market of the New York Stock Exchange, and some global bonds are listed on various foreign exchanges. TVA Puttable Automatic Rate Reset Securities (PARRS) are listed and traded on the New York Stock Exchange under the symbols “TVC” and “TVE.”

TVA issues Power Bonds pursuant to the Act and the Basic Tennessee Valley Authority Power Bond Resolution adopted by the Board of Directors of TVA. TVA issues Discount Notes and Other Indebtedness pursuant to the Act and their authorizing resolutions. Power Bonds, Discount Notes, and Other Indebtedness are collectively referred to in this Statement as “Evidences of Indebtedness.”<sup>37</sup>

TVA is required to adhere to the Federal Energy Regulatory Commission’s Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act.<sup>38</sup>

<sup>37</sup> Source: TVA 2004 Information Statement and 2004 Annual Report; accessed online on December 5, 2006, at <http://www.tva.gov/finance/reports/>.

<sup>38</sup> 16 U.S.C. § 831m



United States Postal Service

- ☒ *Operates a business similar to a private business enterprise*
- ☒ *Engages primarily in business-type activities with parties outside of the government*
- ☒ *Is intended to be self-sustaining*
- ☒ *Does not receive appropriations (not taxpayer funded) with one immaterial exception*
- ☒ *Primary stakeholders are more familiar with FASB reporting (e.g., customers)*

The United States Postal Service (Postal Service) was created as an independent establishment of the executive branch by the Postal Reorganization Act (39 U.S.C. 101 et seq.), approved August 12, 1970. The present Postal Service, which commenced operations on July 1, 1971, provides mail processing and delivery services to individuals and businesses within the United States. The Postal Service is committed to serving customers through the development of efficient mail-handling systems and operates its own planning and engineering programs. It also protects the mails from loss or theft and apprehends those who violate postal laws.<sup>39</sup>

Although the Postal Service is self-funded and does not receive an appropriation for its operations, it does receive appropriations for reimbursement of un-funded statutorily-mandated services (e.g., revenue foregone and free matter for overseas voters and the blind).<sup>40</sup> However, the appropriations received each year are insignificant; for example, appropriations of \$99 million were recognized as operating revenue in 2006 out of a total operating revenue of \$73 billion.<sup>41</sup>

Legislation governing the Postal Service states that no federal law dealing with contracts, property, works, employees, budgets or funds apply to the Postal Service except as provided in the laws governing the Postal Service.<sup>42</sup>

<sup>39</sup> 2007 – 2008 U.S. Government Manual; p. 549; available online at <http://www.gpoaccess.gov/gmanual/browse-gm-07.html>.

<sup>40</sup> United States Postal Service Annual Report 2006; p. 35; available online at [www.usps.com/financials/pdf/anrpt2006\\_final.pdf](http://www.usps.com/financials/pdf/anrpt2006_final.pdf).

<sup>41</sup> USPS Annual Report; pp. 43 and 55.

<sup>42</sup> 39 U.S.C. § 410(a)

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### III. OPTIONS



Based on feedback received from Board members at the last three meetings and the analysis of user needs in the previous section, staff has prepared the following three options for consideration:

- Option 1 – Separate Accounting and Reporting by Line Item
- Option 2 – Separate Accounting and Reporting Using the Modified Equity Method
- Option 3 – Audited Footnote Reconciliation

All three options are based on the premise that, for some types of federal entities, something other than federal government GAAP may be more appropriate to their objectives and operations. These federal entities would be permitted to use the GAAP used by businesses as their primary source of GAAP for reporting in component entity financial statements.

The three options have been presented in the format of a draft Statement to facilitate discussions and provide the Board with a more detailed idea of how the proposed standard might appear. Staff does not expect or desire to receive comments on proposed wording at this time, but instead seeks feedback on the overall Board preference for any one of the options, if any.

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# **Generally Accepted Accounting Principles for Federal Government Corporations and Other Federal Entities Option 1 – Separate Accounting and Reporting by Line Item**

## **Option 1 – Separate Accounting and Reporting by Line Item**

Goal: Provide an informational and decision-useful means for reporting on federal governmental-type and business-type activities that would support the consolidation of agencies reporting under different sources of GAAP, meet the needs of the primary users of each agency's financial statements, and respond to the AICPA's recommendation. Governmental-type and business-type activities would be accounted for and reported separately by line item. Entities that engage in primarily governmental-type activities would be required to apply FASAB standards consistent with the GAAP hierarchy for federal entities. Entities that engage in primarily business-type activities would be permitted, but not required, to apply FASB standards and this also would be consistent with the GAAP hierarchy for federal entities because a FASAB standard specifically permits this approach. Entities that primarily engage in business-type activities would be encouraged to use the specific informational needs of its primary financial statement users as the focus in selecting the appropriate source of GAAP. The consolidated Financial Report of the U.S. Government would report using the same source of GAAP as the entity's financial statements.

### ***Introduction***

The primary activities of the federal government can be characterized as one of the following three types:

- Governmental-type activities;
- Business-type activities; or,
- Fiduciary activities.

### ***Governmental-type Activities***

Governmental-type activities are activities primarily funded by governmental receipts (also called budget receipts or federal receipts). Governmental receipts are collections from the public based on the government's exercise of its sovereign powers, including individual and corporate income taxes and social insurance taxes, excise taxes, duties, court fines, compulsory licenses, and deposits of earnings by the Federal Reserve System. Gifts and contributions (as distinguished from payments for services or cost-sharing deposits by state and local governments) are also counted as governmental receipts. Total governmental receipts include those specifically designated as off-budget by provisions of law. Total governmental receipts are compared with total outlays in calculating the budget surplus or deficit.<sup>43</sup>

### ***Business-type Activities***

Business-type activities are primarily funded by offsetting collections and receipts resulting from businesslike transactions or market-oriented activities with the public or transactions between appropriated activities.<sup>44</sup> These activities are financed and operated in a manner similar to private

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<sup>43</sup> A *Glossary of Terms Used in the Federal Budget Process* (Budget Glossary), GAO-05-734SP, September 2005, pg. 29. Note: SFFAS 6, footnotes 3 and 13 define business-type activities as "a significantly self-sustaining activity which finances its continuing cycle of operations through collection of exchange revenue."

<sup>44</sup> Budget Glossary, pg. 29.

business enterprises—where the intent of the federal government is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

### *Fiduciary Activities*

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment and disposition by the federal government of cash or other assets in which non-federal individuals or entities have an ownership interest that the federal government must uphold. Fiduciary cash and other assets are not assets of the federal government and accordingly are not recognized on the statement of financial position. The accounting for and reporting of fiduciary activities are addressed in Statement of Federal Financial Accounting Standard (SFFAS) 31, *Accounting for Fiduciary Activities*.

The purpose of this proposed Statement is to provide financial reporting standards for business-type activities in the general purpose financial statements for federal entities.

### **Draft Proposed Standards**

#### *General Principles*

1. The accounting standards in FASAB statements are intended for the general purpose financial reports of federal reporting entities. Although FASAB's sponsors do not set accounting standards for the legislative or judicial branches, the Board believes FASAB standards would be appropriate for them. Some federal entities, including government corporations listed in the Government Corporation Control Act and certain others, such as the United States Postal Service, continue to publish financial reports pursuant to the standards issued by the Financial Accounting Standards Board (FASB). Some entities also may be required to prepare statements pursuant to standards set by a regulatory agency (e.g., the Federal Energy Regulatory Commission (FERC)). For such entities, this exposure draft proposes the following three general principles:
  - (a) Separately issued (stand-alone) general purpose financial reports for entities that engage in primarily governmental-type activities should apply FASAB standards consistent with the GAAP hierarchy for federal entities. This requirement would not preclude entities from preparing separate reports to satisfy relevant statutory requirements, if needed.
  - (b) Separately issued (stand-alone) general purpose financial reports for entities that engage in primarily business-type activities should apply applicable accounting principles that will best meet the user needs and any relevant statutory requirements. Entities that engage in primarily business-type activities would be permitted, but not required, to apply FASB standards and this also would be consistent with the GAAP hierarchy for federal entities because a FASAB standard specifically permits this approach. This principle would continue to be true for separately issued reports even if, pursuant to the provisions below, other information about these entities might need to be presented when their financial reports are included within reports of a larger federal entity.
  - (c) When financial information of entities that engage in primarily business-type activities is included in general purpose financial reports of a larger federal reporting entity (including Treasury's consolidated financial statements), any applicable standards

issued by the FASAB that call for additional disclosure or supplemental information should be applied.

2. A federal business-type activity differs from other government organizations in its relationship to the government, objectives, and operations. A federal business-type activity represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, separate accounting and reporting is appropriate.
3. Separately accounting and reporting for a federal business-type activity avoids commingling the independently-managed business-type activity's budget and actual results with those of other government organizations on a line-by-line basis. It also avoids including the business-type activity's gross debt with that of other government organizations as the business-type activity is expected to repay that debt from its own revenues.
4. Because a federal business-type activity carries on a business, its financial statements should be prepared on the same basis as a private sector business as long as that basis best meets the needs of its primary financial statement users.
5. The consolidated financial report of the U.S. Government (CFR) should report on the same basis as its component reporting entities – that is, amounts presented for entities applying FASB standards need not be restated to conform to FASAB standards – to avoid unnecessary confusion and reconciliation among different sources of GAAP. However, these FASB-based amounts would be appropriately segregated from FASAB-based amounts by line item and labeled accordingly.

### *Specific Standards*

#### **Existing Business-Type Activities**

6. This Statement provides that federal entities that (i) historically have applied commercial accounting and financial reporting principles by following the FASB hierarchy for nongovernmental entities and (ii) meet all of the characteristics in (a) – (c) below should apply either the federal governmental model or the FASB commercial model in accounting and reporting for its operations:
  - (a) it has been delegated the financial and operational authority to carry on a business in a manner similar to private business enterprises;
  - (b) it sells goods and/or services to individuals and organizations outside of the government reporting entity as its principal activity (i.e., activities are primarily business-type and not governmental-type); and,
  - (c) it is intended to, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.
7. When determining if an organization can maintain its operations and meet its liabilities with revenues received from outside of the government reporting entity, the following factors should be considered:
  - (a) the organization's history of maintaining its operations and meeting its liabilities;

- (b) whether the organization would continue to maintain its operations and meet its liabilities without relying on sales to, or subsidies in cash or kind from, the government reporting entity;
  - (c) past, present and future economic conditions within which the organization operates; and
  - (d) whether the organization has realistic and specific plans that show how it expects to be able to maintain its operations and meet its liabilities in the future.
8. In addition to meeting the characteristics in paragraph 6, each entity should consider the needs of its primary financial statement users as a determining factor in selecting the most appropriate model to follow. Unique user needs can arise from various sources that include, but are not limited to, investors, SEC filers, bondholders, and customers.
9. Federal entities that have already implemented the federal governmental model should continue to apply the federal model, as FASAB is the preferred method of reporting for federal entities. However, federal entities that meet the characteristics in paragraph 6 and strongly believe that its primary users' needs would be best met by adopting the FASB commercial model may elect to do so after the effective date of this standard. However, this election is permitted only once and may not be made in subsequent years.

### **Existing Governmental-Type Activities**

10. Federal entities that historically have applied commercial accounting and financial reporting principles by following the FASB hierarchy for nongovernmental entities and do not meet all of the characteristics in paragraph 6 should adopt the federal reporting model by the effective date of this standard.

### **Newly Created Entities**

11. A newly created federal entity should apply the federal model as FASAB is the preferred method of reporting for federal entities but may elect to adopt the FASB commercial model if the entity meets the characteristics in paragraph 6 and strongly believes the needs of its primary users would be best met by adopting the FASB commercial model.

### **Disclosure Requirements**

#### Component Entity Report Disclosures

12. Federal entities that have prepared statements on a FASB basis should explicitly disclose that in the notes to the financial statements.
13. Federal entities that engage in both governmental and business-type activities should distinguish between governmental-type activities and business-type activities on the face of its consolidated or combined financial statements as well as in the total column of its consolidating or combining statements, if applicable. In addition, business-type activities should be further distinguished between those presented on a FASAB basis and those presented on a FASB basis.

14. Distinguishing between governmental-type activities and business-type activities will most likely occur at the sub-component entity level but may occur at the fund level if material to the reporting entity's financial statements.

Financial Report of the U.S. Government Disclosures

15. The consolidated financial report of the U.S. Government (CFR) should distinguish between governmental-type activities and business-type activities on the face of its consolidated balance sheet and statement of net cost. In addition, business-type activities should be further distinguished between those presented on a FASAB basis and those presented on a FASB basis.
16. The federal entities that prepare their statements on a FASB basis should be explicitly listed in the notes to the financial statements with a reference to where the component financial reports can be located for additional information.

***Effective Date***

17. These standards are effective for periods beginning after September 30, 2012. Earlier implementation is encouraged.

<p>The provisions of this Statement need not be applied to immaterial items.</p>
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### Appendix A: Basis for Conclusions

This appendix discusses some factors considered significant by members in reaching the conclusions in this Statement. It includes reasons for accepting certain approaches and rejecting others. Some factors were given greater weight than other factors. The guidance enunciated in the standards – not the material in this appendix – should govern the accounting for specific transactions, events or conditions.

#### Project History

- A-1. Since October 1999, the American Institute of Certified Public Accountants (AICPA) has recognized FASAB as the standard-setting body for federal governmental entities; therefore, the pronouncements resulting from the FASAB process represent generally accepted accounting principles (GAAP) for the entire federal government (FASAB GAAP). Nevertheless, some federal entities follow GAAP for non-governmental entities promulgated by the private sector Financial Accounting Standards Board (FASB GAAP). For example, federal government corporations, the US Postal Service, certain component entities of the Department of Treasury, and some smaller entities in the executive and legislative branches have historically applied FASB GAAP and continue to do so.
- A-2. In early 2000, FASAB recognized this practice as acceptable for those entities that had been following FASB GAAP to avoid an immediate and unanticipated requirement that these federal entities follow federal GAAP after FASAB was recognized as the Rule 203 standard-setting body for the federal government. This guidance was published in the January – March 2000 issue of FASAB News.<sup>45</sup> This action was intended as a temporary measure in light of the unanticipated consequences of Rule 203 recognition. The existence of the issue has also been acknowledged in Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display* (par. 78); Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government* (inside front cover and Appendix A, par. 142); SFFAS 8, *Supplementary Stewardship Reporting* (Introduction par. 40); and, SFFAS 24, *Selected Standards for the Consolidated Financial Report of the United States Government* (Appendix A, par. 20).
- A-3. This project was initiated in January 2006 after the topic was considered a top 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 (ITC) on the four projects selected by the Board for consideration.
- A-4. From January 2006 through December 2007, FASAB staff ("staff") presented various options to the Board with accompanying research and analyses. This research included preparing detailed profiles of ten federal entities that have historically followed FASB GAAP: 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, and U.S. Mint (the Mint switched to FASAB GAAP beginning with its fiscal year 2005 financial statements).

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<sup>45</sup> FASAB News, Jan.-March 2000, p. 2.



## Appendix A: Basis for Conclusions (Option 1)

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- A-5. Staff also provided feedback from the user community in the form of a brief survey that was circulated to the preparers and auditors of the ten selected entities to provide information on the expected benefits and perceived costs and burdens associated with various approaches to resolving any concerns regarding the source of GAAP. Staff summarized the sense of the comments received from the respondents, which were generally not in favor of converting from FASB GAAP to FASAB GAAP.
- A-6. After discussion of the options that had been presented by staff, the Board directed staff to coordinate with GAO, OMB, and Treasury on potential solutions to the issue and, if possible, come back to the Board with a draft framework that could be used to determine the appropriate source of GAAP for federal entities.
- A-7. As directed by the Board at the May meeting, staff met with representatives from GAO, OMB, and Treasury on July 11, 2007, to attempt to come to an agreement on how to address the issue.
- A-8. At the September 20, 2007 meeting, staff briefed the Board on the results of the July meeting of the workgroup. Staff summarized the workgroup's recommendation, which was to (1) permit entities currently following GAAP set by the FASB to continue to do so but require that they present in their individual financial statements an audited footnote reconciliation of the differences between FASB GAAP and FASAB GAAP that would support the numbers submitted to Treasury for the consolidated financial report of the U.S. Government (CFR); and (2) revoke the "grandfather authority" that allowed entities to comply with FASAB GAAP by continuing to directly follow the FASB hierarchy. Staff noted that there was not widespread support from the sponsors for requiring full conversion to FASAB standards at this time so the recommendation does not address primary reporting at the component entity level.
- A-9. The majority of the Board requested that staff further develop the workgroup recommendation but include additional information about financial statement user requirements for entities that are preparing FASB-based statements. Some members also requested to see a draft survey requesting cost information about the proposed changes to component level reporting, an assessment of the indirect impact on the legislative and judicial branches, and more information on whether entities that begin preparing financial statements for the first time should be permitted to prepare FASB-based financial statements under certain conditions.
- A-10. At the December 2007 meeting, staff provided members with a better idea of the extent of financial reporting using a primary source of GAAP other than that developed by FASAB. The majority of federal entities prepare their financial statements in accordance with FASAB standards. However, seven of the 35 entities deemed significant to the CFR prepare their statements on a FASB basis. In addition, approximately two dozen other entities that are required to have audited financial statements prepare their statements on a FASB basis.

[To be completed.]

## Appendix B: Illustrations (Option 1)

### Appendix B: Illustrations

*The sample reports in this section are intended to illustrate the type of reporting to be contemplated by the Board and are provided for discussion purposes only. Certain data are taken from various reports for one or more recent years and are "actual data." Other data have been estimated by judgmentally extrapolating from "actual data." Still other data and program references have been fabricated and are hypothetical. Therefore, readers should not rely on the validity of the data in the sample reports. Specific form and content guidance on financial reports would be provided by OMB.*

**Component Entity<sup>46</sup>**  
**Statement of Financial Position / Balance Sheet**  
**As of September 30, 2012**

	Governmental- Type Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash	X,XXX	X,XXX	X,XXX
Accounts Receivable	XX	XXX	XXX
Investments	X	XX,XXX	XX,XXX
<b>Total Assets</b>	<b>X,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>
<b>Liabilities</b>			
Accounts Payable	XX	XXX	XXX
Debt	--	X,XXX	X,XXX
<b>Total Liabilities</b>	<b>XX</b>	<b>X,XXX</b>	<b>X,XXX</b>
<b>Net Position</b>			
Unexpended Appropriations - Earmarked	XXX	--	XXX
Unexpended Appropriations - Other	X,XXX	--	X,XXX
Cumulative Results of Operations - Earmarked	XX	XXX	XXX
Cumulative Results of Operations - Other	(XXX)	X,XXX	X,XXX
<b>Total Net Position</b>	<b>X,XXX</b>	<b>X,XXX</b>	<b>XX,XXX</b>
<b>Total Liabilities and Net Position</b>	<b>X,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>

**Component Entity**  
**Statement of Operations / Income Statement<sup>47</sup>**  
**For the year ended September 30, 2012**

	Governmental- Type Activities	Business-Type Activities	Total
<b>Revenue</b>			
Appropriations	XXX,XXX	--	XXX,XXX
Sales	--	XX,XXX	XX,XXX
Interest	X	X,XXX	X,XXX
<b>Total Revenue</b>	<b>XXX,XXX</b>	<b>XX,XXX</b>	<b>XXX,XXX</b>
<b>Expense</b>			
Cost of Goods Sold	--	XX,XXX	XX,XXX
Grant	XXX,XXX	--	XXX,XXX
Administrative	XX,XXX	X,XXX	XX,XXX
Unfunded	XX,XXX	--	XX,XXX
<b>Total Expense</b>	<b>XXX,XXX</b>	<b>XX,XXX</b>	<b>XXX,XXX</b>
<b>Net Income</b>	<b>(XX,XXX)</b>	<b>XX,XXX</b>	<b>X,XXX</b>

<sup>46</sup> Note that not all component entities will have both governmental and business-type activities. For example, the U.S. Postal Service is not expected to have material governmental-type activities.

<sup>47</sup> For those entities that are applying FASB standards and have material governmental and business-type activities.

## Appendix B: Illustrations (Option 1)

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**Component Entity**  
**Statement of Net Cost<sup>48</sup>**  
**For the year ended September 30, 2012**

	<b>Governmental- Type Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Program A</b>			
Gross Costs	XXX,XXX	XX,XXX	XXX,XXX
Less Earned Revenues	--	XX,XXX	XX,XXX
<b>Net Cost of Program A</b>	<b>XXX,XXX</b>	<b>(X,XXX)</b>	<b>XXX,XXX</b>
<b>Program B</b>			
Gross Costs	XXX,XXX	--	XXX,XXX
Less Earned Revenues	XX	--	XX
<b>Net Cost of Program B</b>	<b>XXX,XXX</b>	<b>--</b>	<b>XXX,XXX</b>
<b>Net Cost</b>	<b>XX,XXX</b>	<b>(X,XXX)</b>	<b>XX,XXX</b>

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<sup>48</sup> For those entities that are applying FASAB standards and have business-type activities.

## Appendix B: Illustrations (Option 1)

**Consolidated Entity<sup>49</sup>**  
**Statement of Financial Position / Balance Sheet**  
**As of September 30, 2012**

	<b>Governmental- Type Activities</b>	<b><u>Business-Type Activities</u></b>		
		<b>FASAB GAAP</b>	<b>FASB GAAP</b>	<b>Total</b>
<b>Assets</b>				
Cash	X,XXX	XXX	X,XXX	X,XXX
Accounts Receivable	XX	XX	XXX	XXX
Investments	X	X,XXX	XX,XXX	XX,XXX
<b>Total Assets</b>	<b>X,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>
<b>Liabilities</b>				
Accounts Payable	XX	XXX	XXX	XXX
Debt	--	X,XXX	X,XXX	X,XXX
<b>Total Liabilities</b>	<b>XX</b>	<b>X,XXX</b>	<b>X,XXX</b>	<b>X,XXX</b>
<b>Net Position</b>				
Unexpended Appropriations - Earmarked	XXX	--	--	XXX
Unexpended Appropriations - Other	X,XXX	--	--	X,XXX
Cumulative Results of Operations - Earmarked	XX	XXX	XXX	XXX
Cumulative Results of Operations - Other	(XXX)	X,XXX	X,XXX	X,XXX
<b>Total Net Position</b>	<b>X,XXX</b>	<b>X,XXX</b>	<b>X,XXX</b>	<b>XX,XXX</b>
<b>Total Liabilities and Net Position</b>	<b>X,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>

**Consolidated Entity**  
**Statement of Operations / Income Statement<sup>50</sup>**  
**For the year ended September 30, 2012**

	<b>Governmental- Type Activities</b>	<b><u>Business-Type Activities</u></b>		
		<b>FASAB GAAP</b>	<b>FASB GAAP</b>	<b>Total</b>
<b>Revenue</b>				
Appropriations	XXX,XXX	--	--	XXX,XXX
Sales	--	XX,XXX	XX,XXX	XX,XXX
Interest	X	X,XXX	X,XXX	X,XXX
<b>Total Revenue</b>	<b>XXX,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>	<b>XXX,XXX</b>
<b>Expense</b>				
Cost of Goods Sold	--	XX,XXX	XX,XXX	XX,XXX
Grant	XXX,XXX	--	--	XXX,XXX
Administrative	XX,XXX	X,XXX	X,XXX	XX,XXX
Unfunded	XX,XXX	--	--	XX,XXX
<b>Total Expense</b>	<b>XXX,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>	<b>XXX,XXX</b>
<b>Net Income</b>	<b>(XX,XXX)</b>	<b>XX,XXX</b>	<b>XX,XXX</b>	<b>X,XXX</b>

<sup>49</sup> Presentation could apply for either a consolidated component entity or the CFR (there would be no unexpended appropriations reported on the CFR).

<sup>50</sup> For those entities that are applying FASB standards and have material governmental and business-type activities.

## Appendix B: Illustrations (Option 1)

### Statement of Net Cost (Agency Level)

<b>Consolidated Entity Statement of Net Cost<sup>51</sup> For the year ended September 30, 2012</b>				
	<b>Governmental- Type Activities</b>	<b>Business-Type Activities</b>		<b>Total</b>
		<b>FASAB GAAP</b>	<b>FASB GAAP</b>	
<b>Program A</b>				
Gross Costs	XXX,XXX	X,XXX	XX,XXX	XXX,XXX
Less Earned Revenues	--	X,XXX	XX,XXX	XX,XXX
<b>Net Cost of Program A</b>	<b>XXX,XXX</b>	<b>(X,XXX)</b>	<b>(X,XXX)</b>	<b>XXX,XXX</b>
<b>Program B</b>				
Gross Costs	XXX,XXX	--	--	XXX,XXX
Less Earned Revenues	XX	--	--	XX
<b>Net Cost of Program B</b>	<b>XXX,XXX</b>	<b>--</b>	<b>--</b>	<b>XXX,XXX</b>
<b>Net Cost</b>	<b>XX,XXX</b>	<b>(X,XXX)</b>	<b>(X,XXX)</b>	<b>XX,XXX</b>

### Statement of Net Cost (CFR)

<b>Consolidated Financial Report Statement of Net Cost For the year ended September 30, 2012</b>			
<b>Governmental-Type Activities</b>	<b>Gross Cost</b>	<b>Earned Revenue</b>	<b>Net Cost</b>
Entity A	XXX,XXX	--	XXX,XXX
Entity B	XXX,XXX	XXX	XXX,XXX
Entity C	X,XXX	XX	X,XXX
<b>Total Governmental-Type Activities</b>	<b>XXX,XXX</b>	<b>XXX</b>	<b>XXX,XXX</b>
<b>Business-Type Activities</b>			
FASAB GAAP:			
Entity A	XXX,XXX	XXX,XXX	(XX,XXX)
Entity B	XXX,XXX	XXX,XXX	(XXX)
Entity C	X,XXX	XX,XXX	X,XXX
<b>Business-Type Activities (FASAB GAAP)</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>	<b>(XX,XXX)</b>
FASB GAAP:			
Entity A	XXX,XXX	XXX,XXX	(XX,XXX)
Entity B	XXX,XXX	XXX,XXX	(XXX)
Entity C	X,XXX	XX,XXX	X,XXX
<b>Business-Type Activities (FASB GAAP)</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>	<b>(XX,XXX)</b>
<b>Total Business-Type Activities</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>	<b>(XX,XXX)</b>
<b>Total</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>

<sup>51</sup> For those entities that are applying FASAB standards and have business-type activities.

## Appendix C: Abbreviations (Option 1)

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### Appendix C: Abbreviations

AICPA	American Institute of Certified Public Accountants
AU	U.S. Auditing Standards
CFO Act	Chief Financial Officers Act
CFR	Consolidated Financial Report of the U.S. Government
CNCS	Corporation for National and Community Service
EXIM	Export-Import Bank
FACTS	Federal Agencies' Centralized Trial-Balance System
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FMS	Financial Management Service
FPI	Federal Prison Industries
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office (formerly General Accounting Office)
GCCA	Government Corporation Control Act
Ginnie Mae	Government National Mortgage Association
ITC	Invitation to Comment
MCC	Millennium Challenge Corporation
MINT	United States Mint
OCBOA	Other Comprehensive Basis of Accounting
OGC	Office of General Counsel
OMB	Office of Management and Budget
OTS	Office of Thrift Supervision
PBGC	Pension Benefit Guaranty Corporation
P.L.	Public Law
SBR	Statement of Budgetary Resources
SFFAC	Statements of Federal Financial Accounting Concepts
SFFAS	Statements of Federal Financial Accounting Standards
Treasury	U.S. Department of the Treasury
TVA	Tennessee Valley Authority

## Appendix C: Abbreviations (Option 1)

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U.S.	United States
U.S.C.	United States Code
USSGL	United States Standard General Ledger

**Appendix D: Glossary**

[To be completed.]



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Robert F. Dacey

John A. Farrell

Norwood J. Jackson, Jr.

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# **Generally Accepted Accounting Principles for Federal Government Corporations and Other Federal Entities Option 2 – Modified Equity Method**

## **Option 2 – Modified Equity Method**

This option contains the same general concept as option 1 except for the use of the modified equity method instead of line item reporting in order to simplify the financial statement display. In accepting this option, one would need to forgo an additional level of detail in favor of simplification for readers.

Goal: Provide an informational and decision-useful means for reporting on federal governmental-type and business-type activities that would support the consolidation of agencies reporting under different sources of GAAP, meet the needs of the primary users of each agency's financial statements, and respond to the AICPA's recommendation. Governmental-type and business-type activities would be accounted for and reported separately using the equity method. Assets, liabilities, revenues and expenses of business-type activities would not be commingled with assets, liabilities, revenues and expenses of governmental-type activities. Entities that engage in primarily governmental-type activities would be required to apply FASAB standards consistent with the GAAP hierarchy for federal entities. Entities that engage in primarily business-type activities would be permitted, but not required, to apply FASB standards and this also would be consistent with the GAAP hierarchy for federal entities because a FASAB standard specifically permits this approach. Entities that primarily engage in business-type activities would be encouraged to use the specific informational needs of its primary financial statement users as the focus in selecting the appropriate source of GAAP. The consolidated Financial Report of the U.S. Government would report using the same source of GAAP as the entity's financial statements.

### ***Introduction***

The primary activities of the federal government can be characterized as one of the following three types:

- Governmental-type activities;
- Business-type activities; or,
- Fiduciary activities.

### ***Governmental-type Activities***

Governmental-type activities are activities primarily funded by governmental receipts (also called budget receipts or federal receipts). Governmental receipts are collections from the public based on the government's exercise of its sovereign powers, including individual and corporate income taxes and social insurance taxes, excise taxes, duties, court fines, compulsory licenses, and deposits of earnings by the Federal Reserve System. Gifts and contributions (as distinguished from payments for services or cost-sharing deposits by state and local governments) are also counted as governmental receipts. Total governmental receipts include those specifically designated as off-

budget by provisions of law. Total governmental receipts are compared with total outlays in calculating the budget surplus or deficit.<sup>52</sup>

#### *Business-type Activities*

Business-type activities are primarily funded by offsetting collections and receipts resulting from businesslike transactions or market-oriented activities with the public or transactions between appropriated activities.<sup>53</sup> These activities are financed and operated in a manner similar to private business enterprises—where the intent of the federal government is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

#### *Fiduciary Activities*

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment and disposition by the federal government of cash or other assets in which non-federal individuals or entities have an ownership interest that the federal government must uphold. Fiduciary cash and other assets are not assets of the federal government and accordingly are not recognized on the statement of financial position. The accounting for and reporting of fiduciary activities are addressed in Statement of Federal Financial Accounting Standard (SFFAS) 31, *Accounting for Fiduciary Activities*.

The purpose of this proposed Statement is to provide financial reporting standards for business-type activities in the general purpose financial statements for federal entities.

### ***Draft Proposed Standards***

#### *General Principles*

1. The accounting standards in FASAB statements are intended for the general purpose financial reports of federal reporting entities. Although FASAB's sponsors do not set accounting standards for the legislative or judicial branches, the Board believes FASAB standards would be appropriate for them. Some federal entities, including government corporations listed in the Government Corporation Control Act and certain others, such as the United States Postal Service, continue to publish financial reports pursuant to the standards issued by the Financial Accounting Standards Board (FASB). Some entities also may be required to prepare statements pursuant to standards set by a regulatory agency (e.g., the Federal Energy Regulatory Commission (FERC)). For such entities, this exposure draft proposes the following three general principles:
  - (a) Separately issued (stand-alone) general purpose financial reports for entities that engage in primarily governmental-type activities should apply FASAB standards consistent with the GAAP hierarchy for federal entities. This requirement would not preclude entities from preparing separate reports to satisfy relevant statutory requirements, if needed.

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<sup>52</sup> A *Glossary of Terms Used in the Federal Budget Process* (Budget Glossary), GAO-05-734SP, September 2005, pg. 29. Note: SFFAS 6, footnotes 3 and 13 define business-type activities as "a significantly self-sustaining activity which finances its continuing cycle of operations through collection of exchange revenue."

<sup>53</sup> Budget Glossary, pg. 29.

- (b) Separately issued (stand-alone) general purpose financial reports for entities that engage in primarily business-type activities should apply applicable accounting principles that will best meet the user needs and any relevant statutory requirements. Entities that engage in primarily business-type activities would be permitted, but not required, to apply FASB standards and this also would be consistent with the GAAP hierarchy for federal entities because a FASAB standard specifically permits this approach. This principle would continue to be true for separately issued reports even if, pursuant to the provisions below, other information about these entities might need to be presented when their financial reports are included within reports of a larger federal entity.
  - (c) When financial information of entities that engage in primarily business-type activities is included in general purpose financial reports of a larger federal reporting entity (including Treasury's consolidated financial statements), any applicable standards issued by the FASAB that call for additional disclosure or supplemental information should be applied.
2. A federal business-type activity differs from other government organizations in its relationship to the government, objectives, and operations. A federal business-type activity represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, the **equity method of accounting** is appropriate.
  3. Accounting for a federal business-type activity by the equity method of accounting avoids commingling the independently-managed business-type activity's budget and actual results with those of other government organizations on a line-by-line basis. It also avoids including the business-type activity's gross debt with that of other government organizations as the business-type activity is expected to repay that debt from its own revenues.
  4. Because a federal business-type activity carries on a business, its financial statements should be prepared on the same basis as a private sector business as long as that basis best meets the needs of its primary financial statement users. This basis is most appropriate for measuring the government's investment in the organization and the impact it has on the government's financial position and results. As such, the **modified equity method** is the most suitable form of equity accounting.
  5. The consolidated financial report of the U.S. Government (CFR) should report on the same basis as its component reporting entities – that is, amounts presented for entities applying FASB standards need not be restated to conform to FASAB standards – to avoid unnecessary confusion and reconciliation among different sources of GAAP. However, these FASB-based amounts would be grouped with business-type activities and appropriately segregated from governmental-type activity using the modified equity method.

### *Specific Standards*

#### **Existing Business-Type Activities**

6. This Statement provides that federal entities that (i) historically have applied commercial accounting and financial reporting principles by following the FASB hierarchy for nongovernmental entities and (ii) meet all of the characteristics in (a) – (c) below should apply

either the federal governmental model or the FASB commercial model in accounting and reporting for its operations:

- (a) it has been delegated the financial and operational authority to carry on a business in a manner similar to private business enterprises;
  - (b) it sells goods and/or services to individuals and organizations outside of the government reporting entity as its principal activity (i.e., activities are primarily business-type and not governmental-type); and,
  - (c) it is intended to, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.
7. When determining if an organization can maintain its operations and meet its liabilities with revenues received from outside of the government reporting entity, the following factors should be considered:
- (a) the organization's history of maintaining its operations and meeting its liabilities;
  - (b) whether the organization would continue to maintain its operations and meet its liabilities without relying on sales to, or subsidies in cash or kind from, the government reporting entity;
  - (c) past, present and future economic conditions within which the organization operates; and
  - (d) whether the organization has realistic and specific plans that show how it expects to be able to maintain its operations and meet its liabilities in the future.
8. In addition to meeting the characteristics in paragraph 6, each entity should consider the needs of its primary financial statement users as a determining factor in selecting the most appropriate model to follow. Unique user needs can arise from various sources that include, but are not limited to, investors, SEC filers, bondholders, and customers.
9. Federal entities that have already implemented the federal governmental model should continue to apply the federal model, as FASAB is the preferred method of reporting for federal entities. However, federal entities that meet the characteristics in paragraph 6 and strongly believe that its primary users' needs would be best met by adopting the FASB commercial model may elect to do so after the effective date of this standard. However, this election is permitted only once and may not be made in subsequent years.

### **Existing Governmental-Type Activities**

10. Federal entities that historically have applied commercial accounting and financial reporting principles by following the FASB hierarchy for nongovernmental entities and do not meet all of the characteristics in paragraph 6 should adopt the federal reporting model by the effective date of this standard.

## Newly Created Entities

11. A newly created federal entity should implement the federal model as FASAB is the preferred method of reporting for federal entities but may elect to adopt the FASB commercial model if the entity meets the characteristics in paragraph 6 and strongly believes the needs of its primary users would be best met by adopting the FASB commercial model.

## Disclosure Requirements

### Component Entity Report Disclosures

12. Federal entities that have prepared statements on a FASB basis should explicitly disclose that in the notes to the financial statements.
13. Federal entities that engage in both governmental and business-type activities should include the aggregated net assets and net income of its business-type activities on its statements of financial position and operations in lieu of consolidating governmental-type and business-type activities line by line. The equity investment is initially recorded at cost and subsequently adjusted to reflect the reporting entity's share of the net profit or loss.
14. The aggregation of net assets and net income of its business-type activities will most likely occur at the sub-component entity level but may occur at the fund level if material to the reporting entity's financial statements.
15. A schedule of the business-type activities that comprise the aggregated net assets and net income amounts should be disclosed in a note to the financial statements indicating whether the component entity financial statements are presented on a FASAB basis or a FASB basis, the audit opinion received on the applicable financial statements, and where the individual financial statements can be found.
16. In addition, transactions with entities accounted for under the equity method are not eliminated and therefore require separate disclosure as related party transactions.

### Financial Report of the U.S. Government Disclosures

17. The consolidated financial report of the U.S. Government (CFR) should include the aggregated net assets and net income of its business-type activities on its statements of financial position and operations in lieu of consolidating governmental-type and business-type activities line by line. The equity investment is initially recorded at cost and subsequently adjusted to reflect the reporting entity's share of the net profit or loss.
18. A schedule of the business-type activities that comprise the aggregated net assets and net income amounts should be disclosed in a note to the financial statements indicating whether the component entity financial statements are presented on a FASAB basis or a FASB basis, the audit opinion received on the applicable financial statements, and where the individual financial statements can be found.
19. In addition, transactions with entities accounted for under the equity method are not eliminated and therefore require separate disclosure as related party transactions.

**Effective Date**

20. These standards are effective for periods beginning after September 30, 2012. Earlier implementation is encouraged.

<p>The provisions of this Statement need not be applied to immaterial items.</p>
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## **Appendix A: Basis for Conclusions (Option 2)**

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### **Appendix A: Basis for Conclusions**

Same as material in Option 1.

## Appendix B: Illustrations (Option 2)

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### Appendix B: Illustrations

*The sample reports in this section are intended to illustrate the type of reporting to be contemplated by the Board and are provided for discussion purposes only. Certain data are taken from various reports for one or more recent years and are "actual data." Other data have been estimated by judgmentally extrapolating from "actual data." Still other data and program references have been fabricated and are hypothetical. Therefore, readers should not rely on the validity of the data in the sample reports. Specific form and content guidance on financial reports would be provided by OMB.*

**Component Entity (or Consolidated Entity)<sup>54</sup>**  
**Statement of Financial Position / Balance Sheet**  
**As of September 30, 2012**

**GOVERNMENTAL-TYPE ACTIVITIES**

<b>Assets</b>	<b>Total</b>	<b>Liabilities</b>	<b>Total</b>
Cash	X,XXX	Accounts Payable	XXX
Accounts Receivable	XXX	Debt	X,XXX
Investments	XX,XXX	<b>Total Liabilities</b>	<b>X,XXX</b>
<b>Net Position</b>			
		Unexpended Appropriations - Earmarked	XXX
		Unexpended Appropriations - Non-Earmarked	X,XXX
		Cumulative Results of Operations - Earmarked	XXX
		Cumulative Results of Operations - Non-Earmarked	X,XXX
		<b>Total Net Position</b>	<b>XX,XXX</b>
<b>Total Assets from governmental-type activities</b>	<b><u>XX,XXX</u></b>	<b>Total Liabilities and Net Position from governmental-type activities</b>	<b><u>XX,XXX</u></b>

**BUSINESS-TYPE ACTIVITIES**

Net assets from business-type activities (see note X)	XX,XXX	Cumulative Results of Operations - Earmarked	XXX
		Cumulative Results of Operations - Non-Earmarked	X,XXX
<b>Total Assets from business-type activities</b>	<b><u>XX,XXX</u></b>	<b>Total Net Position from business-type activities</b>	<b><u>XX,XXX</u></b>
<b>Total Assets</b>	<b><u>XX,XXX</u></b>	<b>Total Liabilities and Net Position</b>	<b><u>XX,XXX</u></b>

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<sup>54</sup> Note that not all component or consolidating entities will have both governmental and business-type activities. For example, the U.S. Postal Service is not expected to have material governmental-type activities.

## Appendix B: Illustrations (Option 2)

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**Component Entity (or Consolidated Entity)  
Statement of Operations / Income Statement<sup>55</sup>  
For the year ended September 30, 2012**

**GOVERNMENTAL-TYPE ACTIVITIES**

<b>Revenues</b>	<b>Total</b>
Appropriations	XXX,XXX
Sales	XX,XXX
Interest	X,XXX
<b>Total Revenue from governmental-type activity</b>	<b>XXX,XXX</b>
 <b>Expenses</b>	
Cost of Goods Sold	XX,XXX
Grant	XXX,XXX
Administrative	XX,XXX
Unfunded	XX,XXX
<b>Total Expenses from governmental-type activity</b>	<b>XXX,XXX</b>
 <b>Net income (loss) from governmental-type activity</b>	<b>(XX,XXX)</b>

**BUSINESS-TYPE ACTIVITIES**

Net income from business-type activities (see Note X)	XXX,XXX
 <b>Net Income</b>	<b>XXX,XXX</b>

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<sup>55</sup> For those entities that are applying FASB standards and have material governmental and business-type activities.

## Appendix B: Illustrations (Option 2)

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### Statement of Net Cost (Agency Level)

Consolidated Entity Statement of Net Cost <sup>56</sup> For the year ended September 30, 2012		
GOVERNMENTAL-TYPE ACTIVITIES		
		Total
<b>Program A</b>		
Gross Costs		XXX,XXX
Less Earned Revenues		XX,XXX
<b>Net Cost of Program A</b>		<b>XXX,XXX</b>
<b>Program B</b>		
Gross Costs		XXX,XXX
Less Earned Revenues		XX
<b>Net Cost of Program B</b>		<b>XXX,XXX</b>
<b>Net cost of governmental-type activity</b>		<b>(XXX,XXX)</b>
<b><u>BUSINESS-TYPE ACTIVITIES</u></b>		
Net cost from business-type activities (see Note X)		(XX,XXX)
<b>Net Cost</b>		<b>XXX,XXX</b>

### Statement of Net Cost (CFR)

Consolidated Financial Report Statement of Net Cost For the year ended September 30, 2012			
<u>GOVERNMENTAL-TYPE ACTIVITIES</u>	Gross Cost	Earned Revenue	Net Cost
Entity A	XXX,XXX	--	XXX,XXX
Entity B	XXX,XXX	XXX	XXX,XXX
Entity C	X,XXX	XX	X,XXX
<b>Total Governmental-Type Activities</b>	<b>XXX,XXX</b>	<b>XXX</b>	<b>XXX,XXX</b>
<b><u>BUSINESS-TYPE ACTIVITIES</u></b>			
<b>Net Cost from Business-Type Activities (see Note X)</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>	<b>(XX,XXX)</b>
<b>Net Cost</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>

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<sup>56</sup> For those entities that are applying FASAB standards and have business-type activities.

## **Appendix C: Abbreviations (Option 2)**

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### **Appendix C: Abbreviations**

Same as material in Option 1.

### Appendix D: Glossary

**Equity Method of Accounting** – Method of accounting whereby a reporting entity includes the aggregated net assets and net income of a separate entity on its statements of financial position and operations in lieu of consolidating line items. The equity investment is initially recorded at cost and subsequently adjusted to reflect the reporting entity's share of the net profit or loss.

**Modified Equity Method** – Under the modified equity method, the equity method of accounting is modified only to the extent that the federal business-type activity's accounting principles are not adjusted to conform with those of the government. Thus, the government aggregates a federal business-type's net assets and net income by adjusting the net assets shown in the consolidated statement of financial position and by presenting the net income as a separate item on the consolidated statement of operations.

[To be completed.]

## **Appropriate Source of Generally Accepted Accounting Principles for Federal Government Corporations and Other Federal Entities Option 3 – Audited Footnote Reconciliation**

### **Option 3 – Audited Footnote Reconciliation**

This option would be to implement the workgroup's recommendation which is to (1) permit entities currently following FASB GAAP to continue to do so but require that they present in their individual financial statements an audited footnote reconciliation of the differences between FASB GAAP and FASAB GAAP that would support the numbers submitted to Treasury for the CFR; and (2) revoke the "grandfather authority" that allowed entities to comply with FASAB GAAP by continuing to follow the FASB hierarchy.

This option requires no change to the entity-level presentation other than the addition of an audited reconciliation footnote. One line of thinking is that those entities that have no real basis to follow a different source of GAAP will voluntarily convert to FASAB instead of maintaining two different reporting bases.

Goal: Support the consolidation of agencies reporting under different sources of GAAP, meet the needs of the primary users of each agency's financial statements, and respond to the AICPA's recommendation. Entities that prepare statements under a source of GAAP other than FASAB would be permitted to continue to do so but would be required to provide an audited footnote reconciliation that would crosswalk the information reported in its primary FASB-based financial statements to the information reported for the consolidated financial report (CFR) of the U.S. Government for the balance sheet and statement of net cost. The CFR would report using only FASAB GAAP. The reason for the differences between amounts reported in an entity's financial statements and the CFR would be explained in a footnote to the CFR that references the individual entities' financial statements that contain the audited reconciliations.

This option is thought to have undesirable political ramifications because of the implications for the judicial and legislative branches. It has been suggested that an exemption be granted for legislative and judicial branches. While FASAB is designated by the AICPA as the Rule 203 body to set accounting principles for all federal government entities, there is no statutory provision that grants FASAB or its sponsors the authority to set or enforce standards for the legislative and judicial branches.<sup>57</sup> Explicitly granting an exemption to the judicial and legislative branches is a form of setting standards for those branches but not granting the exemption would automatically result in a requirement to adhere to FASAB standards if a GAAP opinion is sought. If any exemption is desired, the only option would be to craft the standard such that only executive branch agencies would be constrained by the guidance (disclosure requirements) while legislative and judicial branch agencies would be permitted to select freely any source of accounting standards (at the extreme, this argument suggests that FASAB could not even direct these branches to use an existing Rule 203 recognized source of standards). Taken to its extreme, this approach is clearly unreasonable and staff believes that free selection among any accounting standards is not principles-based.

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<sup>57</sup> It is important to recall that FASAB must explicitly address the application of standards other than FASAB standards in order for federal entities doing so to assert "GAAP" compliance.

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***Draft Proposed Standards******General Principles***

1. The accounting standards in FASAB statements are intended for the general purpose financial reports of federal reporting entities. Although FASAB's sponsors do not set accounting standards for the legislative or judicial branches, the Board believes FASAB standards would be appropriate for them. Some federal entities, including government corporations listed in the Government Corporation Control Act and certain others, such as the United States Postal Service, continue to publish financial reports pursuant to the standards issued by the Financial Accounting Standards Board (FASB). Some entities also may be required to prepare statements pursuant to standards set by a regulatory agency (e.g., the Federal Energy Regulatory Commission (FERC)). For such entities, this exposure draft proposes the following two general principles:
  - (a) Separately issued (stand-alone) general purpose financial reports on such entities should apply applicable accounting principles that will best meet the user needs and any relevant statutory requirements. This principle would continue to be true for separately issued reports even if, pursuant to the provisions below, other information about these entities might need to be presented when their financial reports are included within reports of a larger federal entity.
  - (b) When financial information of such entities is included in general purpose financial reports of a larger federal reporting entity (including Treasury's consolidated financial statements), any applicable standards issued by the FASAB that call for additional disclosure or supplemental information should be applied.

***Specific Standards*****Existing Federal Entities**

2. This Statement provides for federal entities that historically have applied commercial accounting and financial reporting principles by following the FASB standards for nongovernmental entities to continue to do so but requires that they present in their individual financial statements an audited footnote reconciliation of the differences between FASB standards and FASAB standards that would support the numbers submitted to Treasury for the CFR.
3. Federal entities that have already implemented the federal governmental model should continue to apply the federal model, as FASAB is the preferred method of reporting for federal entities. However, federal entities that meet the characteristics in (a) through (c) below and strongly believe that its primary users' needs would be best met by adopting the FASB commercial model may elect to do so after the effective date of this standard. However, this election is permitted only once and may not be made in subsequent years.
  - (a) it has been delegated the financial and operational authority to carry on a business in a manner similar to private business enterprises;
  - (b) it sells goods and/or services to individuals and organizations outside of the government reporting entity as its principal activity (i.e., activities are primarily business-type and not governmental-type); and,



- (c) it is intended to, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.
4. When determining if an organization can maintain its operations and meet its liabilities with revenues received from outside of the government reporting entity, the following factors should be considered:
- (a) the organization's history of maintaining its operations and meeting its liabilities;
  - (b) whether the organization would continue to maintain its operations and meet its liabilities without relying on sales to, or subsidies in cash or kind from, the government reporting entity;
  - (c) past, present and future economic conditions within which the organization operates; and
  - (d) whether the organization has realistic and specific plans that show how it expects to be able to maintain its operations and meet its liabilities in the future.

### **Newly Created Entities**

5. A newly created federal entity should apply the federal model as FASAB is the preferred method of reporting for federal entities. However, a newly created federal entity may elect to adopt the FASB commercial model if the entity meets the characteristics in paragraph 5 and strongly believes the needs of its primary users would be best met by adopting the FASB commercial model.
6. In addition to meeting the characteristics in paragraph 5, each entity should consider the needs of its primary financial statement users as a determining factor in selecting the most appropriate model to follow. Unique user needs can arise from various sources that include, but are not limited to, investors, SEC filers, bondholders, and customers.

### **Disclosure Requirements**

#### Component Entity Report Disclosures

7. A federal entity that has prepared its statements on a FASB basis should explicitly disclose that in the notes to the financial statements.
8. A federal entity that has prepared its statements on a FASB basis should prepare a note that reconciles its FASB-based statements to FASAB-based statements for each line item on the entity's statements of financial position (stock statement) and operations (flow statement) on a line by line basis. Material differences are to be explained in a narrative that accompanies the note.

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Financial Report of the U.S. Government Disclosures

9. As all information in the consolidated financial report of the U.S. Government (CFR) will be reported in accordance with FASAB standards and supported by the individual component entity audited footnote reconciliations, there are no required disclosures for the CFR other than a statement in the significant accounting policies note regarding the use of reconciliations in preparation of the report and a reference to the individual financial statements where reconciliations that have a material impact on the CFR can be found.

**Effective Date**

10. These standards are effective for periods beginning after September 30, 2012. Earlier implementation is encouraged.

<p>The provisions of this Statement need not be applied to immaterial items.</p>
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## **Appendix A: Basis for Conclusions (Option 3)**

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### **Appendix A: Basis for Conclusions**

Same as material in Option 1.

## Appendix B: Illustrations (Option 3)

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### Appendix B: Illustrations

*The sample reports in this section are intended to illustrate the type of reporting to be contemplated by the Board and are provided for discussion purposes only. Certain data are taken from various reports for one or more recent years and are "actual data." Other data have been estimated by judgmentally extrapolating from "actual data." Still other data and program references have been fabricated and are hypothetical. Therefore, readers should not rely on the validity of the data in the sample reports. Specific form and content guidance on financial reports would be provided by OMB.*

[Sample illustration to be developed if Board members indicate a desire to pursue this option. See example from Export-Import Bank attached to the draft survey as Example 3 beginning on page 80.]

## **Appendix C: Abbreviations (Option 3)**

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### **Appendix C: Abbreviations**

Same as material in Option 1.

## **Appendix D: Glossary (Option 3)**

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### **Appendix D: Glossary**

Same as material in Option 1.

# Draft Surveys

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Federal Accounting Standards Advisory Board

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**Responses Requested by March 21, 2008**

March 3, 2008

Memorandum

To: Chief Financial Officers and Inspectors General of the following selected entities:

*Bonneville Power Administration  
Community Development Financial Institution  
Corporation for National and Community Service  
Farm Credit System Insurance Corporation  
Federal Deposit Insurance Corporation  
Federal Prison Industries (Unicor)  
Government National Mortgage Association (Ginnie Mae)  
Millennium Challenge Corporation  
National Credit Union Administration  
Office of Thrift Supervision  
Pension Benefit Guaranty Corporation  
Smithsonian Institution  
Tennessee Valley Authority  
United States Postal Service  
U.S. Treasury*

From: Wendy M. Payne, Executive Director

Subject: Request for Additional Information on Potential Source of GAAP Approaches

The Federal Accounting Standards Advisory Board (FASAB or the Board) is conducting a second round of research regarding the appropriate source of generally accepted accounting principles<sup>58</sup> (GAAP) for federal government corporations and other federal entities that currently follow accounting standards issued by a GAAP standards-setting body other than 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.

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<sup>58</sup> For brevity, we have adopted the phrase "source of GAAP" to refer to the application of the GAAP hierarchies established by the American Institute of CPAs (AICPA) through its ethics rules and auditing standards and applicable to entities in various domains. The AICPA has designated the FASAB as the source of GAAP for federal government entities.

In undertaking this project, the Board is striving to satisfy the following three main goals:

- To ensure that general purpose financial reports issued by federal entities are meeting the objectives of its primary users;
- To respond to a recommendation from the American Institute of Certified Public Accountants (AICPA) that FASAB clarify its policy with regard to entities that have been following FASB standards; and,
- To address compilation issues that are occurring during the consolidation of the Financial Report of the U.S. Government (CFR) as a result of federal entities using different sources of GAAP.

Some of you provided responses to the original survey request last March. In that survey, you were asked to provide information on expected benefits and perceived costs and burdens associated with various approaches to resolving any concerns regarding the source of GAAP. The survey focused primarily on full conversion to FASAB reporting standards. Your responses were crucial to the Board's deliberations on the impact that might result from such a change.

Based on the information that was provided in last year's survey and the concerns that remain with different agencies using different sources of GAAP, the Board is now seeking your input on three alternative approaches: (1) separate reporting for governmental-type and business-type activities that allows for reporting under both FASB and FASAB, (2) separate reporting for governmental-type and business-type activities using the modified equity method, or (3) an audited footnote reconciliation that crosswalks between an agency's FASB-based financial statements and the agency's submission for the CFR. The Board is also seeking information on whether there are additional reporting requirements that a federal business-type activity should comply with.

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 [ranaganj@fasab.gov](mailto:ranaganj@fasab.gov) or faxed to 202-512-7366 by Friday, March 21, 2008. 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

**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.

### **Approach 1 – Separate Reporting for Governmental-Type and Business-Type Activities by Line Item**

Goal: Provide an informational and decision-useful means for reporting on federal governmental-type and business-type activities that would support the consolidation of agencies reporting under different sources of GAAP, meet the needs of the primary users of each agency's financial statements, and respond to the AICPA's recommendation. Governmental-type and business-type activities would be accounted for and reported separately by line item. Entities that engage in primarily governmental-type activities would be required to apply FASAB standards consistent with the GAAP hierarchy for federal entities. Entities that engage in primarily business-type activities would be permitted, but not required, to apply FASB standards and this also would be consistent with the GAAP hierarchy for federal entities because a FASAB standard specifically permits this approach. Entities that primarily engage in business-type activities would be encouraged to use the specific informational needs of its primary financial statement users as the focus in selecting the appropriate source of GAAP. The consolidated Financial Report of the U.S. Government would report using the same source of GAAP as the entity's financial statements.

1. The primary activities of the federal government can be characterized as one of the following three types:
  - Governmental-type activities;
  - Business-type activities; or,
  - Fiduciary activities.

*Governmental-type activities* are activities primarily funded by governmental receipts (also called budget receipts or federal receipts). Governmental receipts are collections from the public based on the government's exercise of its sovereign powers, including individual and corporate income taxes and social insurance taxes, excise taxes, duties, court fines, compulsory licenses, and deposits of earnings by the Federal Reserve System. Gifts and contributions (as distinguished from payments for services or cost-sharing deposits by state and local governments) are also counted as governmental receipts. Total governmental receipts include those specifically designated as off-budget by provisions of law. Total governmental receipts are compared with total outlays in calculating the budget surplus or deficit.

*Business-type activities* are activities primarily funded by offsetting collections and receipts resulting from businesslike transactions or market-oriented activities with the public or transactions between appropriated activities. These activities are financed and operated in a manner similar to private business enterprises—where the intent of the federal government is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

*Fiduciary activities* involve the collection or receipt, and the management, protection, accounting, investment and disposition by the federal government of cash or other assets in which non-federal individuals or entities have an ownership interest that the federal government must uphold. Fiduciary cash and other assets are not assets of the federal government and accordingly are not recognized on the statement of financial position. The accounting for and reporting of fiduciary activities are addressed in Statement of Federal Financial Accounting

Standard (SFFAS) 31, *Accounting for Fiduciary Activities*, and would not be affected by the current proposals under consideration.

How would you characterize your agency's primary activities, as governmental-type or business-type? If you list both business-type and governmental-type as primary activities, please include the dollar amount of 2007 revenue for each type.

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

2. What benefits and drawbacks would you expect from reporting material governmental-type and business-type operations separately? For example, one benefit might be that the statement of operations / net cost (flow statement) may be more useful if income from business-type activities were not lumped together and offset against losses from governmental-type activities. One drawback might be that the statements may become more cluttered and confusing to the average user.

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

3. If you have material amounts of both governmental-type and business-type activities, please estimate the incremental cost that would be incurred by your organization to separately report these activities on the statements of financial position and operations / net cost (see attached example 1A). Note: a federal entity that primarily engages in business-type activities and has an immaterial amount of governmental-type activities would not be required to report these separately since it would not meet the requirement for materiality.

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

4. If you have material amounts of both governmental-type and business-type activities, please estimate the incremental cost that would be incurred by your organization to separately report these activities in a footnote schedule instead of on the statements of financial position and operations / net cost (see attached example 1B).

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

5. If the majority of your agency's activities are governmental-type activities (more than 50 percent of total revenue), what justification do you have for continuing to use FASB as your primary source of GAAP? It would be most helpful for you to describe the specific needs of your primary users that would indicate the need for a source of GAAP other than FASAB.

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

6. If you are an agency that is required to prepare consolidated financial statements of federal agencies that primarily engage in both governmental-type and business-type activities or report under different sources of GAAP, please estimate the incremental cost that would be incurred by your organization to separately report governmental-type and business-type activities on the statements of financial position and operations / net cost (see attached example 1C)?

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

7. If you are an agency that is required to prepare consolidated financial statements of federal agencies that primarily engage in both governmental-type and business-type activities or report under different sources of GAAP, please estimate the incremental cost that would be incurred by your organization to separately report governmental-type and business-type activities in a footnote schedule instead of on the statements of financial position and operations (see attached example 1D)?

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

8. Do you believe that permitting federal entities that primarily engage in business-type activities to use FASB as their primary source of GAAP and report those amounts separately from federal entities that use FASAB as their primary source of GAAP would provide meaningful and useful information?

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

9. Is there additional information required under FASAB standards that should also be applied to the reporting requirement for business-type activities (e.g., budgetary reporting, cost accounting, management discussion and analysis)? It would be most helpful if you explained why the primary users of your financial statements would or would not find such information helpful.

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

10. Do you have any other comments regarding Approach 1?

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

## Approach 2 – Modified Equity Method

Goal: Provide an informational and decision-useful means for reporting on federal governmental-type and business-type activities that would support the consolidation of agencies reporting under different sources of GAAP, meet the needs of the primary users of each agency's financial statements, and respond to the AICPA's recommendation. Governmental-type and business-type activities would be accounted for and reported separately using the equity method. Assets, liabilities, revenues and expenses of business-type activities would not be commingled with assets, liabilities, revenues and expenses of governmental-type activities. Entities that engage in primarily governmental-type activities would be required to apply FASAB standards consistent with the GAAP hierarchy for federal entities. Entities that engage in primarily business-type activities would be permitted, but not required, to apply FASB standards and this also would be consistent with the GAAP hierarchy for federal entities because a FASAB standard specifically permits this approach. Entities that primarily engage in business-type activities would be encouraged to use the specific informational needs of its primary financial statement users as the focus in selecting the appropriate source of GAAP. The consolidated Financial Report of the U.S. Government would report using the same source of GAAP as the entity's financial statements.

11. What benefits and drawbacks would you expect from reporting material governmental-type and business-type operations separately using the equity method (one line titled "net assets from business-type activities" reported separately on the balance sheet and one line titled "net

income from business-type activities” reported separately on the statement of operations / net cost) instead of line item reporting of assets, liabilities, revenues, and expenses as proposed in Approach 1? For example, one benefit might be that the statements of financial position (stock statement) and operations / net cost (flow statement) would not become as cluttered as they might if Approach 1 were implemented. One drawback might be that material assets from business-type operations would be removed from individual line items.

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

12. If you have material amounts of both governmental-type and business-type activities, please estimate the incremental cost that would be incurred by your organization to separately report these activities on the statements of financial position and operations / net cost using the modified equity method (see attached example 2A). Note: a federal entity that primarily engages in business-type activities and has an immaterial amount of governmental-type activities would not be required to report these separately since it would not meet the requirement for materiality.

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

13. If you have material amounts of both governmental-type and business-type activities, please estimate the incremental cost that would be incurred by your organization to separately report these activities in a footnote schedule instead of on the statements of financial position and operations / net cost (see attached example 2B).

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

14. Do you have any other comments regarding Approach 2?

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

### **Approach 3 – Audited Footnote Reconciliation of FASB GAAP to FASAB GAAP**

Goal: Support the consolidation of agencies reporting under different sources of GAAP, meet the needs of the primary users of each agency's financial statements, and respond to the AICPA's recommendation. Entities that prepare statements under a source of GAAP other than FASAB would be permitted to continue to do so but would be required to provide an audited footnote reconciliation that would crosswalk the information reported in its primary FASB-based financial statements to the information reported for the consolidated financial report (CFR) of the U.S. Government for the balance sheet and statement of net cost. The CFR would report using only FASAB GAAP. The reason for the differences between amounts reported in an entity's financial statements and the CFR would be explained in a footnote to the CFR that references the individual entities' financial statements that contain the audited reconciliations.

15. What benefits and drawbacks would you expect from preparing an audited footnote reconciliation that crosswalks from your agency's financial statements to the information provided for the CFR? For example, one benefit might be that it would facilitate a clean audit opinion on the CFR. One drawback might be the training that would be required for accounting and auditing staff at each agency to provide the information needed to reconcile to FASAB information.

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

16. Estimates of the incremental costs that would be incurred by your organization to prepare an audited reconciliation would be helpful in selecting an approach that will most appropriately resolve the source of GAAP issue. Please provide your input below on possible incremental costs for the preparation and audit of such a reconciliation (see attached example 3).

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

17. What suggestions can you offer that could potentially decrease the cost of preparing and auditing a reconciliation of FASB statements to information provided for the CFR?

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

18. Do you have any other comments regarding Approach 3?

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

### **Other Suggestions / Alternative Approaches**

19. Do you have other suggestions or alternative approaches that would satisfy the three goals the Board is striving to meet with this project (i.e., meet user needs, support consolidation, and respond to the AICPA)?

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

### **Requested Information Regarding Person Completing Survey:**

*(Please click on each gray 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](mailto:ranagani@fasab.gov) or fax to 202-512-7366 by Friday, March 21, 2008. Your responses are greatly appreciated.

**Example 1A: Component Entity Financial Statements**

**Component Entity<sup>59</sup>**  
**Statement of Financial Position / Balance Sheet**  
**As of September 30, 2012**

	<b>Governmental- Type Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash	X,XXX	X,XXX	X,XXX
Accounts Receivable	XX	XXX	XXX
Investments	X	XX,XXX	XX,XXX
<b>Total Assets</b>	<b>X,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>
<b>Liabilities</b>			
Accounts Payable	XX	XXX	XXX
Debt	--	X,XXX	X,XXX
<b>Total Liabilities</b>	<b>XX</b>	<b>X,XXX</b>	<b>X,XXX</b>
<b>Net Position</b>			
Unexpended Appropriations - Earmarked	XXX	--	XXX
Unexpended Appropriations - Other	X,XXX	--	X,XXX
Cumulative Results of Operations - Earmarked	XX	XXX	XXX
Cumulative Results of Operations - Other	(XXX)	X,XXX	X,XXX
<b>Total Net Position</b>	<b>X,XXX</b>	<b>X,XXX</b>	<b>XX,XXX</b>
<b>Total Liabilities and Net Position</b>	<b>X,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>

**Component Entity**  
**Statement of Operations / Income Statement<sup>60</sup>**  
**For the year ended September 30, 2012**

	<b>Governmental- Type Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Revenue</b>			
Appropriations	XXX,XXX	--	XXX,XXX
Sales	--	XX,XXX	XX,XXX
Interest	X	X,XXX	X,XXX
<b>Total Revenue</b>	<b>XXX,XXX</b>	<b>XX,XXX</b>	<b>XXX,XXX</b>
<b>Expense</b>			
Cost of Goods Sold	--	XX,XXX	XX,XXX
Grant	XXX,XXX	--	XXX,XXX
Administrative	XX,XXX	X,XXX	XX,XXX
Unfunded	XX,XXX	--	XX,XXX
<b>Total Expense</b>	<b>XXX,XXX</b>	<b>XX,XXX</b>	<b>XXX,XXX</b>
<b>Net Income</b>	<b>(XX,XXX)</b>	<b>XX,XXX</b>	<b>X,XXX</b>

The significant accounting policies note should disclose which primary source of GAAP the agency is using.

<sup>59</sup> Note that not all component entities will have both governmental and business-type activities. For example, the U.S. Postal Service is not expected to have material governmental-type activities.

<sup>60</sup> For those entities that are applying FASB standards and have material governmental and business-type activities.



**Example 1A: Component Entity Financial Statements (contd.)**

**Component Entity  
Statement of Net Cost<sup>61</sup>  
For the year ended September 30, 2012**

	Governmental- Type Activities	Business-Type Activities	Total
<b>Program A</b>			
Gross Costs	XXX,XXX	XX,XXX	XXX,XXX
Less Earned Revenues	--	XX,XXX	XX,XXX
<b>Net Cost of Program A</b>	<b>XXX,XXX</b>	<b>(X,XXX)</b>	<b>XXX,XXX</b>
<b>Program B</b>			
Gross Costs	XXX,XXX	--	XXX,XXX
Less Earned Revenues	XX	--	XX
<b>Net Cost of Program B</b>	<b>XXX,XXX</b>	<b>--</b>	<b>XXX,XXX</b>
<b>Net Cost</b>	<b>XX,XXX</b>	<b>(X,XXX)</b>	<b>XX,XXX</b>

<sup>61</sup> For those entities that are applying FASAB standards and have business-type activities.

**Example 1B: Component Entity Footnote Schedule**

**Component Entity**  
**Schedule of Governmental-Type and Business-Type Activity**  
**As of September 30, 2012**

	<b>Governmental- Type Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash	X,XXX	X,XXX	X,XXX
Accounts Receivable	XX	XXX	XXX
Investments	X	XX,XXX	XX,XXX
<b>Total Assets</b>	<b>X,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>
<b>Liabilities</b>			
Accounts Payable	XX	XXX	XXX
Debt	--	X,XXX	X,XXX
<b>Total Liabilities</b>	<b>XX</b>	<b>X,XXX</b>	<b>X,XXX</b>
<b>Net Position</b>			
Unexpended Appropriations - Earmarked	XXX	--	XXX
Unexpended Appropriations - Other	X,XXX	--	X,XXX
Cumulative Results of Operations - Earmarked	XX	XXX	XXX
Cumulative Results of Operations - Other	(XXX)	X,XXX	X,XXX
<b>Total Net Position</b>	<b>X,XXX</b>	<b>X,XXX</b>	<b>XX,XXX</b>
<b>Total Liabilities and Net Position</b>	<b>X,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>

**Component Entity**  
**Schedule of Governmental-Type and Business-Type Activity**<sup>62</sup>  
**For the year ended September 30, 2012**

	<b>Governmental- Type Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Revenue</b>			
Appropriations	XXX,XXX	--	XXX,XXX
Sales	--	XX,XXX	XX,XXX
Interest	X	X,XXX	X,XXX
<b>Total Revenue</b>	<b>XXX,XXX</b>	<b>XX,XXX</b>	<b>XXX,XXX</b>
<b>Expense</b>			
Cost of Goods Sold	--	XX,XXX	XX,XXX
Grant	XXX,XXX	--	XXX,XXX
Administrative	XX,XXX	X,XXX	XX,XXX
Unfunded	XX,XXX	--	XX,XXX
<b>Total Expense</b>	<b>XXX,XXX</b>	<b>XX,XXX</b>	<b>XXX,XXX</b>
<b>Net Income</b>	<b>(XX,XXX)</b>	<b>XX,XXX</b>	<b>X,XXX</b>

The significant accounting policies note should disclose which primary source of GAAP the agency is using.

<sup>62</sup> For those entities that are applying FASB standards and have material governmental and business-type activities.

**Example 1B: Component Entity Footnote Schedule (contd.)**

<b>Component Entity</b> <b>Schedule of Governmental-Type and Business-Type Activity</b> <sup>63</sup> <b>For the year ended September 30, 2012</b>			
	<b>Governmental- Type Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Program A</b>			
Gross Costs	XXX,XXX	XX,XXX	XXX,XXX
Less Earned Revenues	--	XX,XXX	XX,XXX
<b>Net Cost of Program A</b>	<b>XXX,XXX</b>	<b>(X,XXX)</b>	<b>XXX,XXX</b>
<b>Program B</b>			
Gross Costs	XXX,XXX	--	XXX,XXX
Less Earned Revenues	XX	--	XX
<b>Net Cost of Program B</b>	<b>XXX,XXX</b>	<b>--</b>	<b>XXX,XXX</b>
<b>Net Cost</b>	<b>XX,XXX</b>	<b>(X,XXX)</b>	<b>XX,XXX</b>

<sup>63</sup> For those entities that are applying FASAB standards and have business-type activities.

**Example 1C: Consolidated Entity Financial Statements**

**Consolidated Entity<sup>64</sup>**  
**Statement of Financial Position / Balance Sheet**  
**As of September 30, 2012**

	Governmental- Type Activities	<u>Business-Type Activities</u>		Total
		FASAB GAAP	FASB GAAP	
<b>Assets</b>				
Cash	X,XXX	XXX	X,XXX	X,XXX
Accounts Receivable	XX	XX	XXX	XXX
Investments	X	X,XXX	XX,XXX	XX,XXX
<b>Total Assets</b>	<b>X,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>
<b>Liabilities</b>				
Accounts Payable	XX	XXX	XXX	XXX
Debt	--	X,XXX	X,XXX	X,XXX
<b>Total Liabilities</b>	<b>XX</b>	<b>X,XXX</b>	<b>X,XXX</b>	<b>X,XXX</b>
<b>Net Position</b>				
Unexpended Appropriations - Earmarked	XXX	--	--	XXX
Unexpended Appropriations - Other	X,XXX	--	--	X,XXX
Cumulative Results of Operations - Earmarked	XX	XXX	XXX	XXX
Cumulative Results of Operations - Other	(XXX)	X,XXX	X,XXX	X,XXX
<b>Total Net Position</b>	<b>X,XXX</b>	<b>X,XXX</b>	<b>X,XXX</b>	<b>XX,XXX</b>
<b>Total Liabilities and Net Position</b>	<b>X,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>

**Consolidated Entity**  
**Statement of Operations / Income Statement<sup>65</sup>**  
**For the year ended September 30, 2012**

	Governmental- Type Activities	<u>Business-Type Activities</u>		Total
		FASAB GAAP	FASB GAAP	
<b>Revenue</b>				
Appropriations	XXX,XXX	--	--	XXX,XXX
Sales	--	XX,XXX	XX,XXX	XX,XXX
Interest	X	X,XXX	X,XXX	X,XXX
<b>Total Revenue</b>	<b>XXX,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>	<b>XXX,XXX</b>
<b>Expense</b>				
Cost of Goods Sold	--	XX,XXX	XX,XXX	XX,XXX
Grant	XXX,XXX	--	--	XXX,XXX
Administrative	XX,XXX	X,XXX	X,XXX	XX,XXX
Unfunded	XX,XXX	--	--	XX,XXX
<b>Total Expense</b>	<b>XXX,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>	<b>XXX,XXX</b>
<b>Net Income</b>	<b>(XX,XXX)</b>	<b>XX,XXX</b>	<b>XX,XXX</b>	<b>X,XXX</b>

The significant accounting policies note should disclose which primary source of GAAP each component agency is using and where the user can find the individual reports.

<sup>64</sup> Presentation could apply for either a consolidated component entity or the CFR (there would be no unexpended appropriations reported on the CFR).

<sup>65</sup> For those entities that are applying FASB standards and have material governmental and business-type activities.

**Example 1C: Consolidated Entity Financial Statements (contd.)****Statement of Net Cost (Agency Level)**

Consolidated Entity Statement of Net Cost <sup>66</sup> For the year ended September 30, 2012				
	Governmental- Type Activities	<u>Business-Type Activities</u>		Total
		FASAB GAAP	FASB GAAP	
<b>Program A</b>				
Gross Costs	XXX,XXX	X,XXX	XX,XXX	XXX,XXX
Less Earned Revenues	--	X,XXX	XX,XXX	XX,XXX
<b>Net Cost of Program A</b>	<b>XXX,XXX</b>	<b>(X,XXX)</b>	<b>(X,XXX)</b>	<b>XXX,XXX</b>
<b>Program B</b>				
Gross Costs	XXX,XXX	--	--	XXX,XXX
Less Earned Revenues	XX	--	--	XX
<b>Net Cost of Program B</b>	<b>XXX,XXX</b>	<b>--</b>	<b>--</b>	<b>XXX,XXX</b>
<b>Net Cost</b>	<b>XX,XXX</b>	<b>(X,XXX)</b>	<b>(X,XXX)</b>	<b>XX,XXX</b>

**Statement of Net Cost (CFR)**

Consolidated Financial Report Statement of Net Cost For the year ended September 30, 2012			
Governmental-Type Activities	Gross Cost	Earned Revenue	Net Cost
Entity A	XXX,XXX	--	XXX,XXX
Entity B	XXX,XXX	XXX	XXX,XXX
Entity C	X,XXX	XX	X,XXX
<b>Total Governmental-Type Activities</b>	<b>XXX,XXX</b>	<b>XXX</b>	<b>XXX,XXX</b>
<b>Business-Type Activities</b>			
FASAB GAAP:			
Entity A	XXX,XXX	XXX,XXX	(XX,XXX)
Entity B	XXX,XXX	XXX,XXX	(XXX)
Entity C	X,XXX	XX,XXX	X,XXX
<b>Business-Type Activities (FASAB GAAP)</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>	<b>(XX,XXX)</b>
FASB GAAP:			
Entity A	XXX,XXX	XXX,XXX	(XX,XXX)
Entity B	XXX,XXX	XXX,XXX	(XXX)
Entity C	X,XXX	XX,XXX	X,XXX
<b>Business-Type Activities (FASB GAAP)</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>	<b>(XX,XXX)</b>
<b>Total Business-Type Activities</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>	<b>(XX,XXX)</b>
<b>Total</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>

<sup>66</sup> For those entities that are applying FASAB standards and have business-type activities.

**Example 1D: Consolidated Entity Footnote Schedule**

**Consolidated Entity<sup>67</sup>**  
**Schedule of Governmental-Type and Business-Type Activity**  
**As of September 30, 2012**

	Governmental- Type Activities	<u>Business-Type Activities</u>		Total
		FASAB GAAP	FASB GAAP	
<b>Assets</b>				
Cash	X,XXX	XXX	X,XXX	X,XXX
Accounts Receivable	XX	XX	XXX	XXX
Investments	X	X,XXX	XX,XXX	XX,XXX
<b>Total Assets</b>	<b>X,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>
<b>Liabilities</b>				
Accounts Payable	XX	XXX	XXX	XXX
Debt	--	X,XXX	X,XXX	X,XXX
<b>Total Liabilities</b>	<b>XX</b>	<b>X,XXX</b>	<b>X,XXX</b>	<b>X,XXX</b>
<b>Net Position</b>				
Unexpended Appropriations - Earmarked	XXX	--	--	XXX
Unexpended Appropriations - Other	X,XXX	--	--	X,XXX
Cumulative Results of Operations - Earmarked	XX	XXX	XXX	XXX
Cumulative Results of Operations - Other	(XXX)	X,XXX	X,XXX	X,XXX
<b>Total Net Position</b>	<b>X,XXX</b>	<b>X,XXX</b>	<b>X,XXX</b>	<b>XX,XXX</b>
<b>Total Liabilities and Net Position</b>	<b>X,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>

**Consolidated Entity**  
**Schedule of Governmental-Type and Business-Type Activity<sup>68</sup>**  
**For the year ended September 30, 2012**

	Governmental- Type Activities	<u>Business-Type Activities</u>		Total
		FASAB GAAP	FASB GAAP	
<b>Revenue</b>				
Appropriations	XXX,XXX	--	--	XXX,XXX
Sales	--	XX,XXX	XX,XXX	XX,XXX
Interest	X	X,XXX	X,XXX	X,XXX
<b>Total Revenue</b>	<b>XXX,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>	<b>XXX,XXX</b>
<b>Expense</b>				
Cost of Goods Sold	--	XX,XXX	XX,XXX	XX,XXX
Grant	XXX,XXX	--	--	XXX,XXX
Administrative	XX,XXX	X,XXX	X,XXX	XX,XXX
Unfunded	XX,XXX	--	--	XX,XXX
<b>Total Expense</b>	<b>XXX,XXX</b>	<b>XX,XXX</b>	<b>XX,XXX</b>	<b>XXX,XXX</b>
<b>Net Income</b>	<b>(XX,XXX)</b>	<b>XX,XXX</b>	<b>XX,XXX</b>	<b>X,XXX</b>

The significant accounting policies note should disclose which primary source of GAAP each component agency is using and where the user can find the individual reports.

<sup>67</sup> Presentation could apply for either a consolidated component entity or the CFR (there would be no unexpended appropriations reported on the CFR).

<sup>68</sup> For those entities that are applying FASB standards and have material governmental and business-type activities.

**Example 1D: Consolidated Entity Footnote Schedule (contd.)****(Agency Level)**

Consolidated Entity Schedule of Governmental-Type and Business-Type Activity <sup>69</sup> For the year ended September 30, 2012				
	Governmental- Type Activities	<u>Business-Type Activities</u>		Total
		FASAB GAAP	FASB GAAP	
<b>Program A</b>				
Gross Costs	XXX,XXX	X,XXX	XX,XXX	XXX,XXX
Less Earned Revenues	--	X,XXX	XX,XXX	XX,XXX
<b>Net Cost of Program A</b>	<b>XXX,XXX</b>	<b>(X,XXX)</b>	<b>(X,XXX)</b>	<b>XXX,XXX</b>
<b>Program B</b>				
Gross Costs	XXX,XXX	--	--	XXX,XXX
Less Earned Revenues	XX	--	--	XX
<b>Net Cost of Program B</b>	<b>XXX,XXX</b>	<b>--</b>	<b>--</b>	<b>XXX,XXX</b>
<b>Net Cost</b>	<b>XX,XXX</b>	<b>(X,XXX)</b>	<b>(X,XXX)</b>	<b>XX,XXX</b>

**(CFR)**

Consolidated Financial Report Schedule of Governmental-Type and Business-Type Activity For the year ended September 30, 2012			
Governmental-Type Activities	Gross Cost	Earned Revenue	Net Cost
Entity A	XXX,XXX	--	XXX,XXX
Entity B	XXX,XXX	XXX	XXX,XXX
Entity C	X,XXX	XX	X,XXX
<b>Total Governmental-Type Activities</b>	<b>XXX,XXX</b>	<b>XXX</b>	<b>XXX,XXX</b>
<b>Business-Type Activities</b>			
FASAB GAAP:			
Entity A	XXX,XXX	XXX,XXX	(XX,XXX)
Entity B	XXX,XXX	XXX,XXX	(XXX)
Entity C	X,XXX	XX,XXX	X,XXX
<b>Business-Type Activities (FASAB GAAP)</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>	<b>(XX,XXX)</b>
FASB GAAP:			
Entity A	XXX,XXX	XXX,XXX	(XX,XXX)
Entity B	XXX,XXX	XXX,XXX	(XXX)
Entity C	X,XXX	XX,XXX	X,XXX
<b>Business-Type Activities (FASB GAAP)</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>	<b>(XX,XXX)</b>
<b>Total Business-Type Activities</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>	<b>(XX,XXX)</b>
<b>Total</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>

<sup>69</sup> For those entities that are applying FASAB standards and have business-type activities.

**Example 2A: Component / Consolidated Entity Financial Statements**

**Component Entity (or Consolidated Entity)<sup>70</sup>**  
**Statement of Financial Position / Balance Sheet**  
**As of September 30, 2012**

**GOVERNMENTAL-TYPE ACTIVITIES**

<b>Assets</b>	<b>Total</b>	<b>Liabilities</b>	<b>Total</b>
Cash	X,XXX	Accounts Payable	XXX
Accounts Receivable	XXX	Debt	X,XXX
Investments	XX,XXX	<b>Total Liabilities</b>	<b>X,XXX</b>

**Net Position**

Unexpended Appropriations - Earmarked	XXX
Unexpended Appropriations – Non-Earmarked	X,XXX
Cumulative Results of Operations - Earmarked	XXX
Cumulative Results of Operations - Non-Earmarked	X,XXX
<b>Total Net Position</b>	<b>XX,XXX</b>

**Total Assets from governmental-  
type activities** XX,XXX

**Total Liabilities and Net Position from  
governmental-type activities** XX,XXX

**BUSINESS-TYPE ACTIVITIES**

Net assets from business-type activities (see note X)	XX,XXX	Cumulative Results of Operations - Earmarked	XXX
		Cumulative Results of Operations - Non-Earmarked	X,XXX
<b>Total Assets from business-type activities</b>	<u><u>XX,XXX</u></u>	<b>Total Net Position from business-type activities</b>	<u><u>XX,XXX</u></u>
<b>Total Assets</b>	<u><u>XX,XXX</u></u>	<b>Total Liabilities and Net Position</b>	<u><u>XX,XXX</u></u>

<sup>70</sup> Note that not all component or consolidating entities will have both governmental and business-type activities. For example, the U.S. Postal Service is not expected to have material governmental-type activities.



**Example 2A: Component / Consolidated Entity Financial Statements (contd.)**

**Component Entity (or Consolidated Entity)  
Statement of Operations / Income Statement<sup>71</sup>  
For the year ended September 30, 2012**

**GOVERNMENTAL-TYPE ACTIVITIES**

<b>Revenues</b>	<b>Total</b>
Appropriations	XXX,XXX
Sales	XX,XXX
Interest	X,XXX
<b>Total Revenue from governmental-type activity</b>	<b>XXX,XXX</b>
<b>Expenses</b>	
Cost of Goods Sold	XX,XXX
Grant	XXX,XXX
Administrative	XX,XXX
Unfunded	XX,XXX
<b>Total Expenses from governmental-type activity</b>	<b>XXX,XXX</b>
<b>Net income (loss) from governmental-type activity</b>	<b>(XX,XXX)</b>

**BUSINESS-TYPE ACTIVITIES**

Net income from business-type activities (see Note X)	XXX,XXX
<b>Net Income</b>	<b>XXX,XXX</b>

<sup>71</sup> For those entities that are applying FASB standards and have material governmental and business-type activities.

**Example 2A: Component / Consolidated Entity Financial Statements (contd.)****Statement of Net Cost (Agency Level)**

Consolidated Entity Statement of Net Cost <sup>72</sup> For the year ended September 30, 2012	
<b><u>GOVERNMENTAL-TYPE ACTIVITIES</u></b>	
<b>Program A</b>	<b>Total</b>
Gross Costs	XXX,XXX
Less Earned Revenues	XX,XXX
<b>Net Cost of Program A</b>	<b>XXX,XXX</b>
<b>Program B</b>	
Gross Costs	XXX,XXX
Less Earned Revenues	XX
<b>Net Cost of Program B</b>	<b>XXX,XXX</b>
<b>Net cost of governmental-type activity</b>	<b>(XXX,XXX)</b>
<b><u>BUSINESS-TYPE ACTIVITIES</u></b>	
Net cost from business-type activities (see Note X)	(XX,XXX)
<b>Net Cost</b>	<b>XXX,XXX</b>

**Statement of Net Cost (CFR)**

Consolidated Financial Report Statement of Net Cost For the year ended September 30, 2012			
Governmental-Type Activities	Gross Cost	Earned Revenue	Net Cost
Entity A	XXX,XXX	--	XXX,XXX
Entity B	XXX,XXX	XXX	XXX,XXX
Entity C	X,XXX	XX	X,XXX
<b>Total Governmental-Type Activities</b>	<b>XXX,XXX</b>	<b>XXX</b>	<b>XXX,XXX</b>
<b>Business-Type Activities</b>			
<b>Net Cost from Business-Type Activities (see Note X)</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>	<b>(XX,XXX)</b>
<b>Net Cost</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>

<sup>72</sup> For those entities that are applying FASAB standards and have business-type activities.

**Example 2B: Component / Consolidated Entity Footnote Schedule**

**Component Entity (or Consolidated Entity)<sup>73</sup>**  
**Schedule of Governmental-Type and Business-Type Activity**  
**As of September 30, 2012**

**GOVERNMENTAL-TYPE ACTIVITIES**

<b>Assets</b>	<b>Total</b>	<b>Liabilities</b>	<b>Total</b>
Cash	X,XXX	Accounts Payable	XXX
Accounts Receivable	XXX	Debt	X,XXX
Investments	XX,XXX	<b>Total Liabilities</b>	<b>X,XXX</b>
<b>Net Position</b>			
		Unexpended Appropriations - Earmarked	XXX
		Unexpended Appropriations – Non-Earmarked	X,XXX
		Cumulative Results of Operations - Earmarked	XXX
		Cumulative Results of Operations - Non-Earmarked	X,XXX
		<b>Total Net Position</b>	<b>XX,XXX</b>
<b>Total Assets from governmental-type activities</b>	<b><u>XX,XXX</u></b>	<b>Total Liabilities and Net Position from governmental-type activities</b>	<b><u>XX,XXX</u></b>

**BUSINESS-TYPE ACTIVITIES**

Net assets from business-type activities (see note X)	XX,XXX	Cumulative Results of Operations - Earmarked	XXX
		Cumulative Results of Operations - Non-Earmarked	X,XXX
<b>Total Assets from business-type activities</b>	<b><u>XX,XXX</u></b>	<b>Total Net Position from business-type activities</b>	<b><u>XX,XXX</u></b>
<b>Total Assets</b>	<b><u>XX,XXX</u></b>	<b>Total Liabilities and Net Position</b>	<b><u>XX,XXX</u></b>

<sup>73</sup> Note that not all component or consolidating entities will have both governmental and business-type activities. For example, the U.S. Postal Service is not expected to have material governmental-type activities.

**Example 2B: Component / Consolidated Entity Footnote Schedule (contd.)**

**Component Entity (or Consolidated Entity)  
Schedule of Governmental-Type and Business-Type Activity<sup>74</sup>  
For the year ended September 30, 2012**

**GOVERNMENTAL-TYPE ACTIVITIES**

<b>Revenues</b>	<b>Total</b>
Appropriations	XXX,XXX
Sales	XX,XXX
Interest	X,XXX
<b>Total Revenue from governmental-type activity</b>	<b>XXX,XXX</b>
<b>Expenses</b>	
Cost of Goods Sold	XX,XXX
Grant	XXX,XXX
Administrative	XX,XXX
Unfunded	XX,XXX
<b>Total Expenses from governmental-type activity</b>	<b>XXX,XXX</b>
<b>Net income (loss) from governmental-type activity</b>	<b>(XX,XXX)</b>

**BUSINESS-TYPE ACTIVITIES**

Net income from business-type activities (see Note X)	XXX,XXX
<b>Net Income</b>	<b>XXX,XXX</b>

<sup>74</sup> For those entities that are applying FASB standards and have material governmental and business-type activities.

**Example 2B: Component /Consolidated Entity Footnote Schedule (contd.)****(Agency Level)**

<b>Consolidated Entity</b>	
<b>Schedule of Governmental-Type and Business-Type Activity <sup>75</sup></b>	
<b>For the year ended September 30, 2012</b>	
<b>GOVERNMENTAL-TYPE ACTIVITIES</b>	
	<b>Total</b>
<b>Program A</b>	
Gross Costs	XXX,XXX
Less Earned Revenues	XX,XXX
<b>Net Cost of Program A</b>	<b>XXX,XXX</b>
<b>Program B</b>	
Gross Costs	XXX,XXX
Less Earned Revenues	XX
<b>Net Cost of Program B</b>	<b>XXX,XXX</b>
<b>Net cost of governmental-type activity</b>	<b>(XXX,XXX)</b>
<b><u>BUSINESS-TYPE ACTIVITIES</u></b>	
Net cost from business-type activities (see Note X)	(XX,XXX)
<b>Net Cost</b>	<b>XXX,XXX</b>

**(CFR)**

<b>Consolidated Financial Report</b>			
<b>Schedule of Governmental-Type and Business-Type Activity</b>			
<b>For the year ended September 30, 2012</b>			
<b>Governmental-Type Activities</b>	<b>Gross Cost</b>	<b>Earned Revenue</b>	<b>Net Cost</b>
Entity A	XXX,XXX	--	XXX,XXX
Entity B	XXX,XXX	XXX	XXX,XXX
Entity C	X,XXX	XX	X,XXX
<b>Total Governmental-Type Activities</b>	<b>XXX,XXX</b>	<b>XXX</b>	<b>XXX,XXX</b>
<b>Business-Type Activities</b>			
<b>Net Cost from Business-Type Activities (see Note X)</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>	<b>(XX,XXX)</b>
<b>Net Cost</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>

<sup>75</sup> For those entities that are applying FASAB standards and have business-type activities.

**Example 3: Footnote Reconciliation of FASB GAAP to FASAB GAAP**

## Government GAAP/GAAP Statements of Financial Position Reconciliation

(in millions)	September 30, 2005		September 30, 2004	
	GAAP	GOVERNMENT GAAP	GAAP	GOVERNMENT GAAP
<b>ASSETS</b>				
Cash	\$3,981.3	\$3,957.4	\$5,095.5	\$5,095.5
Loans Receivable, Net	5,036.7	5,517.1	5,225.4	5,845.8
Receivables from Subrogated Claims, Net	1,222.4	1,843.1	1,272.4	1,887.2
Lease Receivables Consolidated from VIEs, Net	4,992.7	N/A	3,815.2	N/A
Subsidy Receivable from Program Account	N/A	375.6	N/A	747.7
Accrued Interest, Fees Received and Other Assets	157.7	133.1	145.3	130.3
<b>Total Assets</b>	<b>\$15,390.8</b>	<b>\$11,826.3</b>	<b>\$15,553.8</b>	<b>\$13,706.5</b>
<b>LIABILITIES &amp; EQUITY</b>				
Borrowings from the U.S. Treasury	\$5,848.3	\$5,848.3	\$7,237.2	\$7,237.2
Payment Certificates	297.2	297.2	448.5	448.5
Borrowings Consolidated from VIEs	5,150.3	N/A	4,008.5	N/A
Allowance for Guarantees, Insurance and Undisbursed Loans	4,741.8	N/A	6,077.7	N/A
Claims Payable	7.9	7.9	12.1	12.1
Guarantee Loan Liability	N/A	2,284.8	N/A	3,071.8
Liability for Subsidy Related to Undisbursed Loans/Guarantees	N/A	286.4	N/A	458.9
Subsidy Payable to Financing Account, Net	N/A	89.2	N/A	288.8
Amounts Payable to the U.S. Treasury	1,884.3	1,973.5	751.5	1,040.3
Deferred Fees	859.7	N/A	889.5	N/A
Other Liabilities	73.5	49.3	83.3	68.4
<b>Total Liabilities</b>	<b>18,863.0</b>	<b>10,836.6</b>	<b>19,508.3</b>	<b>12,626.0</b>
Capital Stock held by the U.S. Treasury	1,000.0	1,000.0	1,000.0	1,000.0
Tied-Aid Appropriations	338.6	N/A	341.7	N/A
Credit Appropriations	328.5	N/A	444.9	N/A
Unexpended Appropriations	N/A	863.7	N/A	1,139.1
Accumulated Deficit	(5,139.3)	(874.0)	(5,741.1)	(1,058.6)
<b>Total Stockholder's (Deficiency)/Equity</b>	<b>(3,472.2)</b>	<b>989.7</b>	<b>(3,954.5)</b>	<b>1,080.5</b>
<b>Total Liabilities and Stockholders Equity</b>	<b>\$15,390.8</b>	<b>\$11,826.3</b>	<b>\$15,553.8</b>	<b>\$13,706.5</b>

**20. GAAP-TO-GOVERNMENT-GAAP RECONCILIATION**

Ex-Im Bank prepares its financial statements in accordance with GAAP. In January 2000, the American Institute for Certified Public Accountants (AICPA) recognized the Federal Accounting Standards Advisory Board (FASAB) as the standard setting body for federal entities. FASAB

established generally accepted accounting principles for the preparation of federal agencies' financial statements (government GAAP) which differ in some respects from GAAP.

The manner in which loss reserves are calculated under GAAP differs from the way they are calculated under government GAAP. As detailed in Note 2, Ex-Im Bank's operations are subject to the Credit Reform Act of 1990.

VIE = Variable Interest Entity

Under the Credit Reform Act, the cost of credit risk is defined as the net present value of cash disbursements offset by the net present value of cash receipts, such as fees, premiums, and loan principal and interest. This definition of cost of credit risk is used to determine the level of credit-related loss reserves under government GAAP. However, GAAP generally does not recognize future fees and premiums as an offset to the allowance since to do so would recognize income before it is earned. The difference in treatment of the level of loss reserves between government GAAP and GAAP is reflected in the Government GAAP/ GAAP Statements of Financial Position. Under government GAAP guidance, the allowance for loans and subrogated claims receivable is less, the reserve for guarantees and insurance is less, and equity is greater.

The amount of net income reported under government GAAP is also different than net income reported under GAAP. Depending on the level of activity, net income reported on a government GAAP basis may be more or less than net income reported on a GAAP basis.

Ex-Im Bank's Statements of Financial Position is presented in accordance with GAAP for financial reporting purposes. The reconciliation of Ex-Im Bank's Statements of Financial Position prepared in accordance with GAAP to the Statements of Financial Position in accordance with government GAAP is presented on page 74. The reconciliation of net income from the accompanying GAAP Statement of Operations to net income in accordance with government GAAP is presented on page 76.

The following are the differences between government GAAP and GAAP in the statements above:

Cash under government GAAP is lower by \$23.9 million. Government GAAP does not require consolidation of VIE lease receivables as does GAAP; therefore, government GAAP does not account for the cash balance on hand as a result of VIE activity.

Loans Receivable, Net under government GAAP is higher by \$480.4 million in FY 2005 and \$620.4 million in FY 2004. Loan interest and fee income is credited to the loan-loss reserve under government GAAP, which results in a lower loss reserve and a larger receivable. Additionally, the methodology for determining the allowance for loan losses under GAAP differs in some respects with the

methodology under government GAAP, generally resulting in a lower allowance under government GAAP.

Receivables from Subrogated Claims under government GAAP is higher by \$620.7 million in FY 2005 and \$614.8 million in FY 2004. Interest income on rescheduled claims is credited to the loss reserve under government GAAP, which results in a lower loss reserve and a larger receivable.

Lease Receivables Consolidated From VIEs, Net, and Borrowings Consolidated From VIEs are recorded under GAAP, which requires consolidation of certain special purpose entities where Ex-Im Bank is providing a guarantee to the lender and is the primary beneficiary. Government GAAP does not require consolidation and the amounts are zero.

Under government GAAP, the Subsidy Receivable from the Program Account of \$375.6 million for FY 2005 and \$747.7 million for FY 2004 is fully offset by the Liability for Subsidy Related to Undisbursed Loans and Guarantees and the Subsidy Payable to the Financing Account, Net. These amounts are payable to and receivable from different Ex-Im Bank accounts at the U.S. Treasury and net to zero. They are not broken out separately under GAAP.

The Allowance for Guarantee, Insurance and Undisbursed Loans shown under GAAP is the equivalent of the Guarantee Loan Liability and the Liability for Subsidy Related to Undisbursed Loans/Guarantees under government GAAP. The government GAAP figure is lower by \$2,170.6 million in FY 2005 and \$2,547.0 million in FY 2004 because fees are recorded as income when received under government GAAP. Also, the allowance is adjusted for the amounts related to consolidated VIEs under GAAP, no such adjustments is recorded under government GAAP. Additionally, the methodology for determining the allowance under GAAP differs in some respects with the methodology under government GAAP, generally resulting in a smaller allowance under government GAAP.

Amounts Payable to the U.S. Treasury are higher by \$89.2 million in FY 2005 and \$288.8 million in FY 2004 under government GAAP. The annual subsidy re-estimate calculation is made up of two components: an amount due from the U.S. Treasury for cohorts of loans and guarantees that have increased in risk and an amount payable to the U.S. Treasury for cohorts of loans and guarantees that

have decreased in risk. Under GAAP, the two components are netted and shown as Amounts Payable to the U.S. Treasury. Under government GAAP, the amount due to the U.S. Treasury is shown as a payable and the amount due from the U.S. Treasury is recorded as an increase to subsidy expense that is reflected in the Accumulated Deficit. In addition, the net value of credits authorized prior to October 1, 1991, is recorded as a payable to the U.S. Treasury under government GAAP but is reflected in the Accumulated Deficit under GAAP.

Deferred fees are \$859.7 million in FY 2005 and \$889.5 million in FY 2004 under GAAP and are zero under Government GAAP. Under Government GAAP, guarantee

exposure fees are not deferred but are credited directly to the Guarantee Loan Liability. Under GAAP, such fees are deferred for loans and for guarantees.

Under government GAAP, Stockholder's Deficiency is lower by \$4,461.9 million in FY 2005 and \$5,035.0 in FY 2004 than under GAAP. Lower loss reserves under government GAAP result in less provision expense, which results in higher stockholder's equity. Also, under government GAAP, Unexpended Appropriations of \$863.7 million in FY 2005 and \$1,139.1 million in FY 2004 includes both obligated and unobligated balances. Under GAAP, only the obligated portion of unexpended appropriations is reflected in the Accumulated Deficit.

#### Government GAAP/GAAP Statement of Operations Supplemental Reconciliation

(in millions)

	September 30, 2005	September 30, 2004
Reported Net Income, GAAP Basis	\$2,681.4	\$2,044.4
ADJUSTMENTS TO INCOME:		
Subsidy Appropriation Used	559.6	646.4
Appropriation from Prior-Year Re-estimate	288.8	232.6
Administrative Expense Appropriation Used	68.3	71.8
Total Adjustments to Income	916.7	950.8
ADJUSTMENTS TO EXPENSE:		
Subsidy Expense	(958.1)	(1,677.2)
Financing Resources Transferred Out	(1,858.1)	(954.4)
Future Funded Expense	(89.2)	(288.8)
Lease Provision	(46.8)	156.3
Total Adjustments to Expense	(2,952.2)	(2,764.1)
Net Income Government-GAAP Basis	\$645.9	\$231.1

All of the differences in the schedule above result from differences in the treatment of appropriations and re-estimates between government GAAP and GAAP. Under government GAAP, the receipt and use of appropriations for credit activity, administrative expense and re-estimates is reflected in the Statement of Operations. Under GAAP this activity is shown as part of the Statement of Changes in Capital and Accumulated Deficit.



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**Note:** The above example footnote reconciliation is an excerpt from the Export-Import (Ex-Im) Bank's fiscal year 2005 financial statements. Ex-Im has since converted to FASAB accounting. The fiscal year 2006 footnote regarding Ex-Im's subsequent conversion to FASAB GAAP is as follows:

***Basis of Accounting***

For FY 2006, the Bank changed reporting methodology from reporting under private-sector generally accepted accounting principles (GAAP) to reporting under generally accepted accounting principles for federal agencies (government GAAP). The decision to change accounting methodologies was prompted by various factors, notably the recognition by the American Institute of Certified Public Accountants (AICPA) of government accounting standards and Ex-Im Bank's determination that presenting statements under government GAAP is the preferable method of presentation. The format of the financial statements and notes are in accordance with form and content guidance provided in Office of Management and Budget (OMB) Circular A-136.

[Source: 2006 Ex-Im Bank Financial Report]

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Federal Accounting Standards Advisory Board

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## Responses Requested by March 21, 2008

March 3, 2008

Memorandum

To: GAO, OMB, and Treasury

From: Wendy M. Payne, Executive Director

Subject: Request for Additional Information on Potential Source of GAAP Approaches

The Federal Accounting Standards Advisory Board (FASAB or the Board) is conducting a second round of research regarding the appropriate source of generally accepted accounting principles<sup>76</sup> (GAAP) for federal government corporations and other federal entities that currently follow accounting standards issued by a GAAP standards-setting body other than 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.

In undertaking this project, the Board is striving to satisfy the following three main goals:

- To ensure that general purpose financial reports issued by federal entities are meeting the objectives of its primary users;
- To respond to a recommendation from the American Institute of Certified Public Accountants (AICPA) that FASAB clarify its policy with regard to entities that have been following FASB standards; and,
- To address compilation issues that are occurring during the consolidation of the Financial Report of the U.S. Government (CFR) as a result of federal entities using different sources of GAAP.

Some of you provided responses to the original survey request last March. In that survey, you were asked to provide information on expected benefits and perceived costs and burdens associated with various approaches to resolving any concerns regarding the source of GAAP. The survey focused primarily on full conversion to FASAB reporting standards. Your responses were crucial to the Board's deliberations on the impact that might result from such a change.

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<sup>76</sup> For brevity, we have adopted the phrase "source of GAAP" to refer to the application of the GAAP hierarchies established by the American Institute of CPAs (AICPA) through its ethics rules and auditing standards and applicable to entities in various domains. The AICPA has designated the FASAB as the source of GAAP for federal government entities.

Based on the information that was provided in last year's survey and the concerns that remain with different agencies using different sources of GAAP, the Board is now seeking your input on three alternative approaches: (1) separate reporting for governmental-type and business-type activities that allows for reporting under both FASB and FASAB, (2) separate reporting for governmental-type and business-type activities using the modified equity method, or (3) an audited footnote reconciliation that crosswalks between an agency's FASB-based financial statements and the agency's submission for the CFR. The Board is also seeking information on whether there are additional reporting requirements that a federal business-type activity should comply with.

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 [ranaganj@fasab.gov](mailto:ranaganj@fasab.gov) or faxed to 202-512-7366 by Friday, March 21, 2008. 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

**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.

### **Approach 1 – Separate Reporting for Governmental-Type and Business-Type Activities by Line Item**

Goal: Provide an informational and decision-useful means for reporting on federal governmental-type and business-type activities that would support the consolidation of agencies reporting under different sources of GAAP, meet the needs of the primary users of each agency's financial statements, and respond to the AICPA's recommendation. Governmental-type and business-type activities would be accounted for and reported separately by line item. Entities that engage in primarily governmental-type activities would be required to apply FASAB standards consistent with the GAAP hierarchy for federal entities. Entities that engage in primarily business-type activities would be permitted, but not required, to apply FASB standards and this also would be consistent with the GAAP hierarchy for federal entities because a FASAB standard specifically permits this approach. Entities that primarily engage in business-type activities would be encouraged to use the specific informational needs of its primary financial statement users as the focus in selecting the appropriate source of GAAP. The consolidated Financial Report of the U.S. Government would report using the same source of GAAP as the entity's financial statements.

1. The primary activities of the federal government can be characterized as one of the following three types:
  - Governmental-type activities;
  - Business-type activities; or,
  - Fiduciary activities.

Governmental-type activities are activities primarily funded by governmental receipts (also called budget receipts or federal receipts). Governmental receipts are collections from the public based on the government's exercise of its sovereign powers, including individual and corporate income taxes and social insurance taxes, excise taxes, duties, court fines, compulsory licenses, and deposits of earnings by the Federal Reserve System. Gifts and contributions (as distinguished from payments for services or cost-sharing deposits by state and local governments) are also counted as governmental receipts. Total governmental receipts include those specifically designated as off-budget by provisions of law. Total governmental receipts are compared with total outlays in calculating the budget surplus or deficit.

Business-type activities are activities primarily funded by offsetting collections and receipts resulting from businesslike transactions or market-oriented activities with the public or transactions between appropriated activities. These activities are financed and operated in a manner similar to private business enterprises—where the intent of the federal government is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary activities involve the collection or receipt, and the management, protection, accounting, investment and disposition by the federal government of cash or other assets in which non-federal individuals or entities have an ownership interest that the federal government must uphold. Fiduciary cash and other assets are not assets of the federal government and accordingly are not recognized on the statement of financial position. The accounting for and reporting of fiduciary activities are addressed in Statement of Federal Financial Accounting

Standard (SFFAS) 31, *Accounting for Fiduciary Activities*, and would not be affected by the current proposals under consideration.

What benefits and drawbacks would you expect from reporting material governmental-type and business-type operations separately? For example, one benefit might be that the statement of operations / net cost may be more useful if income from business-type activities were not lumped together and offset against losses from governmental-type activities. One drawback might be that the statements may become more cluttered and confusing to the average user.  
(Please click on the gray shading in the box below to begin typing your response)

2. Do you believe reporting material governmental-type and business-type operations separately would be an improvement over what is presented currently in the consolidated financial statements (individual agency reports as well as the consolidated financial report (CFR) of the U.S. Government)?

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

3. If you are responsible for preparing or auditing consolidated financial statements, please estimate the incremental cost that would be incurred by your organization if these activities were separately reported on the statements of financial position and operations / net cost (see attached example 1A). Note: a federal entity that primarily engages in business-type activities and has an immaterial amount of governmental-type activities would not be required to report these separately since it would not meet the requirement for materiality.

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

4. If you are responsible for preparing or auditing consolidated financial statements, please estimate the incremental cost that would be incurred by your organization if these activities were separately reported in a footnote schedule instead of on the statements of financial position and operations (see attached example 1B).

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

5. If you are responsible for preparing or auditing consolidated financial statements of federal agencies that primarily engage in both governmental-type and business-type activities or report under different sources of GAAP, please estimate the incremental cost that would be incurred by your organization if governmental-type and business-type activities were reported separately on the statements of financial position and operations / net cost (see attached example 1C)?

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

6. If you are responsible for preparing or auditing consolidated financial statements of federal agencies that primarily engage in both governmental-type and business-type activities or report under different sources of GAAP, please estimate the incremental cost that would be incurred by your organization if governmental-type and business-type activities were reported separately in a footnote schedule instead of on the statements of financial position and operations / net cost (see attached example 1D)?

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

7. How much of the incremental costs described above, if any, to consolidate and audit separately reported governmental-type and business-type activities would be offset by the person hours currently being utilized to reconcile different sources of GAAP? It would be most helpful if you could provide an approximate estimate and comparison of the difference.

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

8. Do you believe that permitting federal entities that primarily engage in business-type activities to use FASB as their primary source of GAAP and report those amounts separately from federal entities that use FASAB as their primary source of GAAP would provide meaningful and useful information?

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

9. Is there additional information required under FASAB standards that should also be applied to the reporting requirement for business-type activities (e.g., budgetary reporting, cost accounting, management discussion and analysis)? It would be most helpful if you explained why the primary users of your financial statements would or would not find such information helpful.

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

10. Do you have any other comments regarding Approach 1?

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

## Approach 2 – Modified Equity Method

Goal: Provide an informational and decision-useful means for reporting on federal governmental-type and business-type activities that would support the consolidation of agencies reporting under different sources of GAAP, meet the needs of the primary users of each agency's financial statements, and respond to the AICPA's recommendation. Governmental-type and business-type activities would be accounted for and reported separately using the equity method. Assets, liabilities, revenues and expenses of business-type activities would not be commingled with assets, liabilities, revenues and expenses of governmental-type activities. Entities that engage in primarily governmental-type activities would be required to apply FASAB standards consistent with the GAAP hierarchy for federal entities. Entities that engage in primarily business-type activities would be permitted, but not required, to apply FASB standards and this also would be consistent with the GAAP hierarchy for federal entities because a FASAB standard specifically permits this approach. Entities that primarily engage in business-type activities would be encouraged to use the specific informational needs of its primary financial statement users as the focus in selecting the appropriate source of GAAP. The consolidated Financial Report of the U.S. Government would report using the same source of GAAP as the entity's financial statements.

11. What benefits and drawbacks would you expect from reporting material governmental-type and business-type operations separately using the equity method (one line titled "net assets from

business-type activities” reported separately on the balance sheet and one line titled “net income from business-type operations” reported separately on the statement of operations / net cost) instead of line item reporting of assets, liabilities, revenues and expenses as proposed in Approach 1? For example, one benefit might be that the statements of financial position / balance sheet (stock statement) and operations / net cost (flow statement) would not become as cluttered as they might if Approach 1 were implemented. One drawback might be that material assets from business-type operations would be removed from individual line items.

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

12. Do you believe reporting material governmental-type and business-type operations separately using the modified equity method would be an improvement over what is presented currently in the consolidated financial statements (individual agency reports as well as the consolidated financial report (CFR) of the U.S. Government)?

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

13. If you are responsible for preparing or auditing consolidated financial statements, please estimate the incremental cost that would be incurred by your organization if these activities were separately reported on the statements of financial position and operations / net cost (see attached example 2A). Note: a federal entity that primarily engages in business-type activities and has an immaterial amount of governmental-type activities would not be required to report these separately since it would not meet the requirement for materiality.

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

14. If you are responsible for preparing or auditing consolidated financial statements, please estimate the incremental cost that would be incurred by your organization if these activities were separately reported in a footnote schedule instead of on the statements of financial position and operations / net cost (see attached example 2B).

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

15. How much of the incremental costs described above, if any, to consolidate and audit separately reported governmental-type and business-type activities would be offset by the person hours currently being utilized to reconcile different sources of GAAP? It would be most helpful if you could provide an approximate estimate and comparison of the difference.

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

16. Do you have any other comments regarding Approach 2?

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



### Approach 3 – Audited Footnote Reconciliation of FASB GAAP to FASAB GAAP

Goal: Support the consolidation of agencies reporting under different sources of GAAP, meet the needs of the primary users of each agency's financial statements, and respond to the AICPA's recommendation. Entities that prepare statements under a source of GAAP other than FASAB would be permitted to continue to do so but would be required to provide an audited footnote reconciliation that would crosswalk the information reported in its primary FASB-based financial statements to the information reported for the consolidated financial report (CFR) of the U.S. Government for the balance sheet and statement of net cost. The CFR would report using only FASAB GAAP. The reason for the differences between amounts reported in an entity's financial statements and the CFR would be explained in a footnote to the CFR that references the individual entities' financial statements that contain the audited reconciliations.

17. What benefits and drawbacks would you expect from compiling or auditing a footnote reconciliation that crosswalks from each agency's financial statements to the information provided for the CFR? For example, one benefit might be that it would facilitate a clean audit opinion on the CFR. One drawback might be the training that would be required for accounting and auditing staff at each agency to provide the information needed to reconcile to FASAB information.

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

18. As a preparer, reviewer, or auditor of the CFR, do you believe an audited footnote reconciliation that crosswalks from each agency's financial statements to the information provided for the CFR would be sufficient to obtain a clean audit opinion with respect to the issue of consolidation of entities with different sources of GAAP (see attached example 3)? If not, what else might be needed?

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

19. What suggestions can you offer that could potentially decrease the cost of preparing and auditing a reconciliation of FASB statements to information provided for the CFR?

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

20. Do you have any other comments regarding Approach 3?

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

### Other Suggestions / Alternative Approaches

21. Do you have other suggestions or alternative approaches that would satisfy the three goals the Board is striving to meet with this project (i.e., meet user needs, support consolidation, and respond to the AICPA)?

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

**Requested Information Regarding Person Completing Survey:**

*(Please click on each gray 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](mailto:ranagani@fasab.gov) or fax to 202-512-7366 by Friday, March 21, 2008. Your responses are greatly appreciated.

**Examples 1A, 1B, 1C, 1D, 2A, 2B, and 3 -- See attachments to draft survey to agencies.**

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## **Generally Accepted Accounting Principles for Federal Government Corporations and Other Federal Entities Staff Recommendation / Questions for the Board**

### **Staff Recommendation**

Staff recommends option 1 as the best solution for meeting the following three objectives the Board is striving to achieve through resolution of this project:

- To ensure that general purpose financial reports issued by federal entities are meeting the objectives of its primary users;
- To respond to the AICPA's recommendation that FASAB clarify its policy with regard to entities that have been following FASB standards; and,
- To address compilation issues that are occurring during the consolidation of the financial report of the U.S. Government as a result of federal entities using different sources of GAAP.

Staff has drafted a survey to be sent to affected agencies (see page 59) and one to be sent to representatives from GAO, OMB, and Treasury (see page 85). The surveys seek feedback on options 1, 2, and 3.

### **Primary Question for the Board**

**Do you approve the draft surveys beginning on pages 58 and 83 to be released to the financial management community for comment?**

### **Secondary Questions for the Board**

**(if not addressed through discussion of the primary question in the box above)**

1. Do you agree that the primary activities of the federal government can be characterized as one of the following (1) governmental-type, (2) business-type, or (3) fiduciary?
2. Do you agree that federal entities with business-type activities may have different reporting objectives than those outlined in SFFAC 1 if they have financial statement users with different needs than the "typical" federal financial statement user?
3. Do you agree that separate reporting of governmental-type and business-type activities would improve the transparency and usability of federal financial reports?
4. Do you agree that a federal entity that primarily engages in governmental-type activity funded by taxpayer money should be required to account and report using FASAB as its primary source of GAAP?
5. Do you agree that a federal entity that primarily engages in business-type activity funded by offsetting collections may be permitted to account and report using FASB as its primary source of GAAP if it best meets the needs of its primary financial statement users?

6. Would you like to receive additional feedback on all three options: (1) separate reporting of governmental-type and business-type activities by line item; (2) separate reporting of governmental-type and business-type activities using the modified equity method; and, (3) reconciliation of FASB-based financial statements to FASAB-based financial statements?
7. Do you prefer any of the three options above the others?
8. Which of the following approaches would you prefer to take to obtain feedback from the federal financial management community:
  - a) Request feedback on all three options from selected members of the federal financial management community via a survey as staff has suggested and then develop the preferred option into an exposure draft for further feedback from all interested parties;
  - b) Request feedback on all three options from all interested parties via an Invitation to Comment and then develop the preferred option into an exposure draft for further comment from all interested parties; or,
  - c) Select one of the options now and develop into an exposure draft for comment from all interested parties?

## Additional Issue for the Board (time permitting)

### Should business-type activities be required to prepare a Statement of Budgetary Resources?

Meeting the first objective of SFFAC No. 1, “Objectives of Federal Financial Reporting,” namely the budgetary integrity objective, necessitates that the reader receive assurance that

- the amounts obligated or spent did not exceed the available budget authority,
- obligations and outlays were for the purposes intended in the appropriations and authorizing legislation,
- other legal requirements pertaining to the account have been met, and
- the amounts are properly classified and accurately reported.<sup>77</sup>

#### SFFAC 1, First Objective of Federal Financial Reporting

**Budgetary integrity:** What legal authority was provided for financing government activities and for spending the monies? Were the financing and spending in accordance with these authorities?

The Statement of Budgetary Resources (SBR) is intended to help address the budgetary integrity objective. The format of the SBR is based on the Office of Management and Budget’s (OMB) Report on Budget Execution and Budgetary Resources (SF 133). A common misconception about the SF 133 is that it is only required to be prepared by federal entities that receive appropriations. This is simply not true! Almost every federal executive branch entity that appears in the Budget of the U.S. Government is required to prepare and submit an SF 133 to the OMB.<sup>78</sup>

<sup>77</sup> SFFAC 2, par. 63.

<sup>78</sup> OMB Circular A-11 Section 130.2 specifies that all Executive Branch agencies are required to electronically report the SF 133 quarterly. In addition, Section 130.1 cites 31 U.S.C. 1511-1514 as a requirement for the President to review Federal expenditures at least four times a year (OMB acting on behalf of the President). OMB and Treasury collaborated

In addition, the Antideficiency Act requires the OMB, via delegation from the President, to apportion appropriated funds and other budgetary resources for all executive branch agencies (31 U.S.C. § 1512), not just appropriated ones.<sup>79</sup> “Apportion” means to divide amounts available for obligation by specific time periods (usually quarters), activities, projects, objects, or a combination thereof.<sup>80</sup>

“Budgetary Resources” is not synonymous with “appropriations.” Budgetary resources are the amounts available to enter into new obligations and to liquidate them. Budgetary resources are made up of new budget authority (including direct spending authority provided in existing statute and obligation limitations) and unobligated balances of budget authority provided in previous years.<sup>81</sup>

“Budget Authority” is authority provided by federal law to enter into financial obligations that will result in immediate or future outlays involving federal government funds. The basic forms of budget authority include (1) appropriations, (2) borrowing authority, (3) contract authority, and (4) authority to obligate and expend offsetting receipts and collections.<sup>82</sup>

This budgetary reporting provides valuable information on the resources used in the conduct of government operations and the status of those resources at the reporting date. This information contributes to the decision usefulness of the federal government’s general purpose financial statements. While the SF 133 is required to be prepared and submitted to OMB, FASAB has recognized the integrity that is added by subjecting the report to audit. The following paragraph from SFFAC 2 recognizes the importance of auditing budgetary information:

64. This information is provided in other reports, but there needs to be auditor involvement to provide assurance as to the reliability of the information. The assurance as to reliability of the information could be accomplished by including a **statement of budgetary resources** in the reporting entity’s financial statements, recognizing that the statement will likely be subject to audit. The presentation of data could be for the reporting entity as a whole, for the major suborganization units (assuming there is congruity among the major suborganization units and the budget accounts), or for the aggregations of the major budget accounts, rather than for the individual budget accounts of the entity or other types of entities. Violations of budgetary integrity at the account level occurring during the current year could be disclosed on an exception basis. (Many violations of budgetary integrity would also be violations of the Anti-Deficiency Act. Disclosure in the financial statements notwithstanding, these violations would also have to be reported as required by the Act.)

The requirement for budgetary accounting and reporting is a unique aspect that differentiates reporting for federal entities from reporting for commercial entities. Another unique characteristic is the profit and loss motivation inherent in the commercial domain.

The following paragraph, effectively eliminating the requirement for budgetary reporting in the CFR, appears in SFFAS 24, *Selected Standards for the Consolidated Financial Report of the United States Government*.

9. SFFAS 7, paragraphs 77-82, requires certain information about budgetary resources and about the relationship between budget obligations and proprietary net cost of operations. Such information is reported in the Statement of Budgetary Resources and

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and developed FACTS II as the mechanism of obtaining this information for both OMB and Treasury use. Note: Title 39 of the U.S. Code exempts the United States Postal Service from the requirements of Title 31 (except for chapter 39 covering Prompt Payment).

<sup>79</sup> Budget Glossary, pg. 11.

<sup>80</sup> Budget Glossary, pg. 12.

<sup>81</sup> Budget Glossary, pg. 26.

<sup>82</sup> Budget Glossary, pg. 20.

Statement of Financing, respectively.<sup>[footnote omitted]</sup> This information is not required in the consolidated financial report of the Government as a whole, and accordingly such statements are not required.

In addition, OMB prohibits federal agencies from preparing a consolidated SBR. OMB Circular A-136, *Financial Reporting Requirements*,<sup>83</sup> states “the budgetary information presented in [the SBR] shall be presented on a combined basis and not a consolidated basis. Preparation of consolidated financial statements involves line-by-line elimination of inter-entity balances. In order to remain consistent with the aggregate of the account-level information presented on the SF 133, consolidation of this statement is not appropriate. Accordingly, line-by-line consolidation of this statement is not permitted.”

Therefore, while a Statement of Budgetary Resources can be prepared for business-type activities, an important consideration is whether its usefulness to the primary users of the financial statements outweighs the cost to have it audited.

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<sup>83</sup> Revised June 29, 2007; available online at <http://www.whitehouse.gov/omb/circulars/index.html>; accessed January 7, 2008.



## **TAB F – APPENDICES**

	<b><u>Page</u></b>
<b>Appendix 1 – Project Background</b>	<b>A-101</b>
<b>Appendix 2 – Mention of the Source of GAAP in FASAB Literature</b>	<b>A-105</b>
<b>Appendix 3 – Excerpts from SFFAC 1, Objectives of Federal Financial Reporting</b>	<b>A-109</b>
<b>Appendix 4 – AICPA Comment Letter on SFFAS 24 ED</b>	<b>A-110</b>
<b>Appendix 5 – FASB/GASB Example</b>	<b>A-113</b>

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## Project Background

### Prior to March 2007

Since October 1999, the American Institute of Certified Public Accountants (AICPA) has recognized the Federal Accounting Standards Advisory Board (FASAB) as the standard-setting body for federal governmental entities; therefore, the pronouncements resulting from the FASAB process represent generally accepted accounting principles (GAAP) for the entire federal government (FASAB GAAP). Nevertheless, some federal entities follow GAAP for non-governmental entities promulgated by the private sector Financial Accounting Standards Board (FASB GAAP). For example, federal government corporations, the US Postal Service, certain component entities of the Department of Treasury, and some smaller entities in the executive and legislative branches have historically applied FASB GAAP and continue to do so.

This project was initiated in January 2006 after the topic was considered a top 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 (ITC) on the four projects selected by the Board for consideration.

Prior to the March 2007 Board 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 above).

### Proposed Project Approach

Task	Completion Date (Estimated)
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.	April 2007
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).	May 2007
5. Present draft of appropriate staff or Board document, if applicable, depending on the approach selected by the Board.	September 2007
6. Follow applicable due process if an official document is deemed necessary.	As deemed necessary

### March 2007

At the March 22, 2007, FASAB board meeting, staff presented a project plan and background information that included entity profiles and excerpts from financial statements for the following ten federal entities that have historically followed FASB GAAP: 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, and U.S. Mint (the Mint switched to FASAB GAAP beginning with its fiscal year 2005 financial statements).

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 Board approved additional research on the project at that time.

**May 2007**

At the May 24, 2007, meeting, staff provided an analysis of various characteristics of the ten entities that were profiled in the March 2007 briefing materials. The characteristics that staff reviewed were grouped into the following eight categories: (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. From the population of characteristics contained in the eight areas listed above, staff selected 16 characteristics that it deemed most relevant to the determination of the appropriate source of GAAP. Using those 16 characteristics, staff provided a draft framework for determining which source of GAAP would be more appropriate for a given entity utilizing a non-weighted scoring mechanism (see page A-17 of staff's September 2007 issue paper at <http://www.fasab.gov/projectsqaap.html> for the characteristics reviewed).

At the May meeting, staff also provided feedback from the user community in the form of a brief survey that was circulated to the preparers and auditors of the ten selected entities to provide information on the expected benefits and perceived costs and burdens associated with various approaches to resolving any concerns regarding the source of GAAP. Staff summarized the sense of the comments received from the respondents, which were generally not in favor of converting from FASB GAAP to FASAB GAAP.

After discussion of the options, the Board directed FASAB staff to coordinate with GAO, OMB, and Treasury on potential solutions to the issue and, if possible, come back to the Board with a draft framework that could be used to determine the appropriate source of GAAP for federal entities.

**July 2007**

As directed by the Board at the May meeting, FASAB staff met with representatives from GAO, OMB, and Treasury on July 11, 2007, to attempt to come to an agreement on how to address the issue.

**September 2007**

At the September 20, 2007 meeting, staff briefed the Board on the results of the July meeting of the workgroup. Staff summarized the workgroup's recommendation, which is to (1) permit entities currently following GAAP set by the FASB to continue to do so but require that they present in their individual financial statements an audited footnote reconciliation of the differences between FASB GAAP and FASAB GAAP that would support the numbers submitted to Treasury for the consolidated Financial Report of the U.S. Government (CFR); and (2) revoke the "grandfather authority" that allowed entities to comply with FASAB GAAP by continuing to directly follow the FASB hierarchy. Staff noted that there was not widespread support from the sponsors for requiring full conversion to FASAB standards at this time so the recommendation does not address primary reporting at the component entity level.

Staff stated that in addition to the workgroup recommendation, there are other potential options that the members have to address the issue. Staff referred to the three options contained in the September briefing paper:

- Option A – Take no action
- Option B – Implement workgroup recommendation

- Option C – Initiate FASAB project to address specific differences

The majority of the Board requested that staff further develop Option B (implement workgroup recommendation) but include additional information about financial statement user requirements for entities that are preparing FASB-based statements. Some members also requested to see a draft survey requesting cost information about the proposed changes to component level reporting, an assessment of the indirect impact on the legislative and judicial branches, and more information on whether entities that begin preparing financial statements for the first time should be permitted to prepare FASB-based financial statements under certain conditions (see updated project approach below).

### Updated Project Approach (Nov. 2007)

Task	Completion Date (Estimated)
1. Select 10 federal entities that are following the FASB GAAP hierarchy.	January 2006
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
3. Analyze and document similarities and differences that might prove helpful in developing guidance on which source of GAAP is most appropriate.	April 2007
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).	May 2007
5. Develop Option B (implement workgroup recommendation) and include additional information about financial statement user requirements for entities that are preparing FASB-based statements. Prepare draft survey requesting cost information about the proposed changes to component level reporting.	January 2008
6. Present draft of appropriate staff or Board document, if applicable, depending on the approach selected by the Board.	Second Quarter 2008
7. Follow applicable due process if an official document is deemed necessary.	Fourth Quarter 2008

### December 2007

At the December 4, 2007 meeting, staff presented an informational paper to the Board members in order to provide them with a better idea of the extent of financial reporting using a primary source of GAAP other than that developed by FASAB (e.g., FASB). It was thought that a closer look at the extent of the project would also serve to address open questions from the members about exactly what the impact might be to reporting entities in the executive, legislative, and judicial branches.

Staff's paper contained a listing of all of the entities required to prepare financial statements under the *Chief Financial Officers Act of 1990 as expanded by the Government Management and Reform Act of 1994* (CFO/GMRA), the *Accountability of Tax Dollars Act* (ATDA), and the *Government Corporation Control Act* (GCCA) with a link to each entity's 2006 financial statements, if available, as well as the source of GAAP used to prepare the financial statements (FASAB vs. FASB GAAP) and the audit opinion received thereon.

The majority of the Board agreed that staff should continue as directed at the last meeting, which is to determine the user needs of the entities currently reporting under FASB, develop proposed reporting requirements that would incorporate those user needs with the needs of Treasury in compiling the CFR, and then prepare a draft survey to get feedback on the potential costs, burdens, and hurdles to providing the information necessary to satisfy the proposed reporting requirements. One member (Mr. Werfel) also requested that staff prepare a position paper that compares the pros and cons or strengths and weaknesses of the CFR in its current format to one that requires more consistency or homogeneity, including an analysis of the balance of governmentwide costs vs. benefits of changes as well as status quo.

## Key Project Decisions to Date

At the March 2007 meeting, the Board approved the project plan with the majority of the Board agreeing that staff should continue through at least phase 3 in the proposed project plan (see box on page A-101) 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. At the May 2007 meeting, the Board agreed that staff should coordinate with GAO, OMB, and Treasury on potential solutions to the issue and, if possible, come back to the Board with a draft framework that could be used to determine the appropriate source of GAAP for federal entities.

At the September 2007 meeting, nine of the Board members requested that staff further develop Option B (implement workgroup recommendation) but include additional information about financial statement user requirements for entities that are preparing FASB-based statements. Mr. Dacey stated that he preferred Option C and would like to have the guidance be flexible enough to allow for new entities to follow FASB where there may be legitimate user needs-based reasons. Some members also requested to see a draft survey requesting cost information about the proposed changes to component level reporting, an assessment of the indirect impact on the legislative and judicial branches, and more information on whether entities that begin preparing financial statements for the first time should be permitted to prepare FASB-based financial statements under certain conditions (see updated project plan on page A-103).

At the December 2007 meeting, the majority of the Board agreed that staff should continue as directed at the last meeting, which is to determine the user needs of the entities currently reporting under FASB, develop proposed reporting requirements that would incorporate those user needs with the needs of Treasury in compiling the CFR, and then prepare a draft survey to get feedback on the potential costs, burdens, and hurdles to providing the information necessary to satisfy the proposed reporting requirements. One member (Mr. Werfel) also requested that staff prepare a position paper that compares the pros and cons or strengths and weaknesses of the CFR in its current format to one that requires more consistency or homogeneity, including an analysis of the balance of governmentwide costs vs. benefits of changes as well as status quo.

The following are excerpts from FASAB literature where the issue surrounding the appropriate source of GAAP is mentioned. It is important to note that none of these sources are in authoritative sections of FASAB pronouncements; however, it may be necessary to revise these sections to be consistent with any new standards issued and avoid undue confusion.

## Statement of Federal Financial Accounting Concepts No. 2: Entity and Display

(excerpt from section on "Financial Reporting For An Organizational Entity")

78. Some of a reporting entity's components are likely to be required by law or policy to prepare and issue financial statements in accordance with accounting standards other than those recommended by FASAB and issued by OMB and GAO, e.g., accounting standards issued by the Financial Accounting Standards Board or accounting standards established by a regulatory agency. Those components should continue to issue the required reports. The reporting entities of which the components are a part can issue consolidated, consolidating, or combining statements that include the components' financial information prepared in accordance with the other accounting standards. They need to be sensitive, however, to differences resulting from applying different accounting standards that could be material to the users of the reporting entity's financial statements. If these differences are material, the standards recommended by FASAB and issued by OMB and GAO should be applied. The components would need to provide any additional disclosures recommended by FASAB and included in the OMB-issued standards that would not be required by the other standards.

## Statement of Federal Financial Accounting Standards No. 5: Accounting for Liabilities of the Federal Government

(inside front cover)

### APPLICABILITY, MATERIALITY, AND TERMINOLOGY

These standards apply to general purpose financial reports of U.S. Government reporting entities. These standards need not be applied to immaterial items. Statement of Federal Financial Accounting Concepts No. 2 (SFFAC No. 2), "Entity and Display", lists criteria for defining Government reporting entities. Paragraph 78 of "Entity and Display" notes that some of a reporting entity's components may be required by law or policy to issue financial statements in accordance with accounting standards other than those recommended by the FASAB and issued by the OMB and the GAO, e.g., accounting standards issued by the Financial Accounting Standards Board or by a regulatory agency. Those components should continue to apply the standards used in these reports. The reporting entities of which the components are a part, however, need to be sensitive to differences that may arise from different accounting standards. If these differences are material, the standards recommended by the FASAB and issued by the OMB and the GAO should be applied. In such cases, the components would need to provide any additional disclosures or different measurements required by the accounting standards issued by the OMB and the GAO that would not be required by the other standards. The word "disclosure" in FASAB's recommended standards indicates reporting information in notes or narrative that is regarded as an integral part of the basic financial statements, while "supplemental" indicates reporting information in schedules or narrative regarded as "required supplementary information" as that term is used in accounting and auditing standards. Government auditing standards require little auditing assurance for required supplementary information. "Other accompanying information" refers to unaudited information that accompanies the audited financial statements. "Required

supplementary stewardship information" is a new category of information FASAB proposes in its exposure draft, "Supplementary Stewardship Reporting", with the expectation that OMB and GAO will in collaboration agree upon audit procedures that would be appropriate to apply to this information. These terms are intended to indicate the Board's expectations regarding the minimum auditor's responsibility for the information, not its specific location within general purpose financial reports.

## Statement of Federal Financial Accounting Standards No. 5: Accounting for Liabilities of the Federal Government (excerpt from Appendix A: Basis for Conclusions)

142. FASB defines the basic principles that govern liability recognition by private sector entities in the United States [footnote omitted]. Government corporations follow those standards in their separately issued financial statements. Probably most readers of this Statement are familiar with these principles. Probably most readers of federal financial reports are accustomed to seeing other financial reports prepared according to these principles.

## Statement of Federal Financial Accounting Standards No. 8: Supplementary Stewardship Reporting (excerpt from Chapter 1: Introduction and Background)

40. Some Federal entities, including those government corporations listed in the Government Corporation Control Act and certain others, such as the US Postal Service, are required by law or policy to publish financial statements pursuant to the standards issued by the Financial Accounting Standards Board (FASB). (Some entities also may be required to prepare statements pursuant to standards set by a regulatory agency. That practice would not be affected by this statement of standards.) For such entities, this standard provides the following general principles:
- *Applying Applicable Accounting Principles* - Separately issued (stand-alone) general-purpose financial statements on such entities should apply applicable accounting principles that will best meet user needs and comply with any relevant statutory requirements. This principle would continue to be true for separately issued statements even if, pursuant to the provisions below, other information about these entities might need to be presented when their financial statements are included within reports of a larger Federal entity.
  - *Reporting Additional or Supplementary Information* - When financial information on such entities is included in general-purpose financial reports of a larger Federal reporting entity (including Treasury's consolidated financial report), any applicable standards recommended by the FASAB and issued by OMB and the Government Accountability Office (GAO) that call for additional reporting or supplementary information should be applied.
  - *Applying Applicable Standards When Differences Arise* - When financial information on such entities is included in general purpose financial reports of a larger Federal reporting entity (including Treasury's consolidated financial report), standards recommended by FASAB and issued by OMB and GAO should be used if the difference arising from differences between Federal accounting standards and FASB's would be material to users of the report of the larger entity.



## Statement of Federal Financial Accounting Standards No. 24: Selected Standards for the Consolidated Financial Report of the United States Government

(excerpt from Appendix A: Basis for Conclusions)

20. This standard clarifies that SFFAS apply to all Federal entities unless a current or subsequent standard specifically provides otherwise. All of the respondents who addressed the issue agreed that the FASAB standards should apply to the CFR. Several respondents requested more guidance regarding whether the proposed standard affected the FASAB policy whereby “financial statements [prepared] in accordance with accounting standards published by [the Financial Accounting Standards Board (FASB)] also may be regarded as in accordance with GAAP for those entities that have in the past issued such financial statements.”<sup>84</sup> The Board did not intend to change and is not changing this policy at this time.

FASAB News, Issue 60, January – March 2000, p. 2.

### ***FASAB News***

Issue 60, January – March 2000

#### ***Use Of FASB Standards by Federal Reporting Entities***

Another issue raised by the AICPA's Rule 203 action is whether financial statements of Federal entities prepared in accordance with standards issued by the Financial Accounting Standards Board (FASB) may be considered prepared in accordance with GAAP. The Board has not deliberated that question and will not have time to do so before the fiscal year 1999 financial statements are issued. FASAB staff is providing this response as immediate guidance.

**Question:** May financial statements issued by Federal entities after October 19, 1999, and prepared in accordance with standards issued by FASB be considered prepared in accordance with generally accepted accounting principles for Federal entities, even in situations where material differences exist in amounts recognized or disclosed, or in the number, form, and content of required financial statements pursuant to FASB and FASAB standards?

**Answer:** The AICPA has designated FASAB as the source of GAAP for Federal entities. In general, therefore, any Federal entity financial statements prepared in accordance with principles that conflict with FASAB standards should not be regarded as being in accordance with GAAP. However, financial statements in accordance with accounting standards published by the FASB also may be regarded as in accordance with GAAP for those Federal entities that have in the past issued such financial statements.

Background: Federal financial reporting concepts and standards have recognized that certain Federal entities prepare financial statements in accordance with FASB standards. This practice developed before FASAB was established and has been widely recognized and prevalent in the Federal government. In SFFAC 2, *Entity and Display*, paragraph 78, and SFFAS 8, *Supplementary Stewardship Reporting*, paragraph 40, the Board speaks to this practice.

At its meeting on December 14, 1999, the Board did not object to the above response and expressed the view that further Board level action was not needed at this time.

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## Objectives of Federal Financial Reporting

Budgetary Integrity	<p>13. Federal financial reporting should assist in fulfilling the government’s duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government’s budget for a particular fiscal year and related laws and regulations. Federal financial reporting should provide information that helps the reader to determine</p> <ul style="list-style-type: none"> <li>• how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization,</li> <li>• the status of budgetary resources, and</li> <li>• how information on the use of budgetary resources relates to information on the costs of programs operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.</li> </ul>
Operating Performance	<p>14. Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity;<sup>1</sup> the manner in which these efforts and accomplishments have been financed; and the management of the entity’s assets and liabilities. Federal financial reporting should provide information that helps the reader to determine</p> <ul style="list-style-type: none"> <li>• the costs of providing specific programs and activities and the composition of, and changes in, these costs;</li> <li>• the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs; and</li> <li>• the efficiency and effectiveness of the government’s management of its assets and liabilities.</li> </ul>
Stewardship	<p>15. Federal financial reporting should assist report users in assessing the impact on the country of the government’s operations and investments for the period and how, as a result, the government’s and the nation’s financial conditions have changed and may change in the future.</p> <p>16. Federal financial reporting should provide information that helps the reader to determine whether</p> <ul style="list-style-type: none"> <li>• the government’s financial position improved or deteriorated over the period,</li> <li>• future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, and</li> <li>• government operations have contributed to the nation’s current and future well-being.</li> </ul>
Systems and Controls	<p>17. Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that</p> <ul style="list-style-type: none"> <li>• transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purpose authorized, and are recorded in accordance with federal accounting standards;</li> <li>• assets are properly safeguarded to deter fraud, waste, and abuse; and</li> <li>• performance measurement information is adequately supported.</li> </ul>

<sup>1</sup> The FASAB has not yet considered criteria for defining, and terminology for describing, federal financial reporting components or units. In this document, therefore, the term “entity” is used in a generic way to refer, depending on the context, to the U. S. government as a whole; to organizational component units of the government, such as an agency; and to other kinds of potential reporting units, such as programs.



July 17, 2002

Ms. Wendy Comes  
Executive Director  
Federal Accounting Standards Advisory Board  
Suite 3B18  
441 G Street, NW  
Washington, DC 20548

**Re: Statement of Federal Financial Accounting Standards Exposure Draft, *Selected Standards for the Consolidated Financial Report of the United States Government***

Dear Ms. Comes:

The Federal Accounting Standards Advisory Board (FASAB) Liaison Task Force of the American Institute of Certified Public Accountants (AICPA) appreciates the opportunity to comment on the Federal Accounting Standards Advisory Board's Exposure Draft entitled, "*Selected Standards for the Consolidated Financial Report of the United States Government*." Our specific comments in response to the questions provided in the ED are provided below.

**Comment 1:** As explained in paragraphs 14 and 20-22, the Board is proposing to establish that Statements of Federal Financial Accounting Standards (SFFAS) apply to the Government as a whole as well as to component entities, unless otherwise provided in an existing or subsequent standard. The Board asks respondents whether they agree that SFFAS should apply to the Government as a whole as well as to component entities unless otherwise provided.

**Response:** Although we agree that the FASAB SFFAS should apply to the entire Government, we believe that more guidance is needed to address those governmental entities that are currently issuing reports based on commercial GAAP (i.e., FASB). In its January – March 2000 newsletter, FASAB issued the following guidance:

**Question:** *May financial statements issued by Federal entities after October 19, 1999, and prepared in accordance with standards issued by the FASB be considered prepared in accordance with generally accepted accounting principles for Federal entities, even in situations where material differences exist in amounts recognized or disclosed, or in the number, form, and content of required financial statements pursuant to FASB and FASAB standards?*

**Answer:** *The AICPA has designated FASAB as the source of GAAP for Federal entities. In general, therefore, any Federal entity financial statements prepared in accordance with principles that conflict with FASAB standards should not be regarded as being in accordance with GAAP. However, financial statements in accordance with accounting standards published by the FASB also may be regarded as in accordance with GAAP for those Federal entities that have in the past issued such financial statements.*

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The CPA Never Underestimate The Value.

Ms. Wendy Comes  
July 17, 2002  
Page 2

The language in the ED could be read as overturning this guidance. As the ED did not explicitly address overturning this long-standing practice, we believe the final standard should explicitly re-affirm the guidance provided in January 2000. If the board believes that this policy is no longer appropriate, it should propose such a change in a separate exposure draft, subject to due process. Also, we recommend that the final standard affirm the scope of FASAB standards with respect to the Judicial and Legislative branches of the federal government. Again, if FASAB believes change to current practice is appropriate, it should propose such change in a separate exposure draft.

**Comment 2:** As explained in paragraphs 15 and 23-29, the Board is proposing to exempt the Consolidated Financial Report of the United States Government (CFR) from certain budgetary information required of agencies in the statement of budgetary resources (SBR) and the statement of financing (SOF). (See Appendices D and E for illustrations of the SBR and SOF, respectively.) The Board tentatively concludes that such information is not relevant or meaningful at the level of the CFR. The Board asks respondents whether they agree that the CFR should be exempt from these particular statements.

**Response:** We agree that the CFR should be exempt from the statement of budgetary resources and the statement of financing.

**Comment 3:** The Board intends to reassess the form in which consolidated budgetary information is presented in the CFR to ensure that such information is relevant and meaningful to users. The Board asks respondents whether they have suggestions for including other information in the CFR that would be relevant and meaningful to users. The Board requests respondents to make suggestions in the context of two potential goals of budgetary information in the CFR: first, the integration of proprietary and budgetary information, and second, improving the quality and integrity of budgetary information.

**Response:** We have no additional suggestions for the Board to consider at this time.

**Comment 4:** As explained in paragraphs 16-19 and 30-35, the Board is proposing that the Government as a whole be required to provide information relating net operating revenue (or cost), the budget surplus (or deficit), and cash flow. Appendix B provides an illustration of how the reconciliation of the net operating revenue (or cost) with the budget surplus (or deficit) could be displayed. Appendix C provides an illustration of how the cash flow data could be displayed. The Board notes that the information is hypothetical and the format is merely illustrative of what would be acceptable.

**Response:** We believe that illustrative statements in Appendices A and B provide sufficient information to users of the CFR as it relates to the Government's net operating revenue, budget surplus (or deficit), and cash flow.

**Comment 5:** Appendix C presents two versions of the cash flow statement: versions "A" and "B." Both versions contain the same basic financial statement line items but are organized differently. The Board is seeking respondents' views regarding, among other things, the inherent

Ms. Wendy Comes  
July 17, 2002  
Page 3

understandability of the line items and format for a range of users, but especially for citizens with a general knowledge of Government financial operations. In that regard, some of those favoring the version “A” illustration suggest the alternative title “Reconciliation of Budget Surplus (Deficit) and Cash Flow,” and the Board requests that respondents consider whether that title would enhance understandability.

**Response:** We believe that version “B” of the cash flow statement has a more meaningful and level of summarization. We would suggest the Board to consider adding beginning and ending cash balance line items as well as sample note disclosures to the version “B” format in order to make the cash flow statement more relevant and understandable.

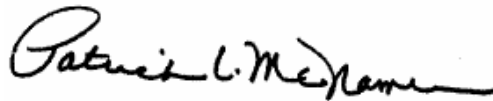
**Comment 6:** Respondents may also provide other information related to the proposed standard for the Board’s consideration.

**Response:** The provisions of this ED are effective for periods beginning after September 30, 2001. We question the ability of the effected agencies to report the requested information in the categories by the requested effective date. Therefore, we recommend the Board consider moving the effective date to periods beginning after September 30, 2002 in order the agencies to have sufficient time to comply with the new reporting requirements.

\* \* \* \* \*

We appreciate the opportunity to comment on the exposure draft. The comments herein represent the views of the AICPA FASAB Liaison Task Force. The comments have not been approved, disapproved, or otherwise acted on by a senior technical committee of the AICPA. Accordingly, the views expressed herein do not represent the official position of the AICPA. Representatives of the FASAB Liaison Task Force would be pleased to discuss these comments with you at your convenience.

Sincerely,



Patrick L. McNamee  
Chair  
AICPA FASAB Liaison Task Force

## CALIFORNIA STATE UNIVERSITY, LOS ANGELES

## Statement of Net Assets

June 30, 2006

Assets	University	Discretely presented component units		Total
		GASB Auxiliary Organizations	FASB Auxiliary Organizations	
Current assets:				
Cash and cash equivalents	\$ 21,835,697	1,560,951	1,492,328	24,888,976
Short-term investments	52,959,981	988,057	7,468,460	61,416,498
Accounts receivable, net	17,657,791	5,121,542	145,863	22,925,196
Leases receivable, current portion	5,000	—	—	5,000
Pledges receivable, net	—	—	185,415	185,415
Prepaid expenses and other assets	4,837,427	—	21,463	4,858,890
Total current assets	97,295,896	7,670,550	9,313,529	114,279,975
Noncurrent assets:				
Restricted cash and cash equivalents	1,891,554	—	274,115	2,165,669
Accounts receivable, net	65,822,324	—	168,203	65,990,527
Leases receivable, net of current portion	28,420,000	—	—	28,420,000
Student loans receivable, net	3,588,913	—	—	3,588,913
Endowment investments	—	—	11,372,347	11,372,347
Capital assets, net	156,597,842	32,199,724	49,096	188,846,662
Other assets	151,380	64,739	—	216,119
Total noncurrent assets	256,472,013	32,264,463	11,863,761	300,600,237
Total assets	353,767,909	39,935,013	21,177,290	414,880,212
<b>Liabilities and Net Assets</b>				
Current liabilities:				
Accounts payable	6,346,517	2,863,019	209,223	9,418,759
Accrued salaries and benefits payable	12,160,683	331,663	66,444	12,558,790
Accrued compensated absences – current portion	4,526,766	25,000	78,812	4,630,578
Deferred revenue	8,452,582	2,862,352	—	11,314,934
Due to California State University Risk Management Authority	713,000	—	—	713,000
Capitalized lease obligations – current portion	1,176,738	5,000	—	1,181,738
Long-term debt obligations – current portion	1,275,000	435,930	—	1,710,930
Other liabilities	758,883	1,329,952	—	2,088,835
Total current liabilities	35,410,169	7,852,916	354,479	43,617,564
Noncurrent liabilities:				
Accrued compensated absences, net of current portion	3,624,711	593,482	14,183	4,232,376
Deferred revenue	192,364	—	—	192,364
Grants refundable	3,958,928	—	—	3,958,928
Capitalized lease obligations, net of current portion	3,762,078	28,420,000	—	32,182,078
Long-term debt obligations, net of current portion	83,638,334	2,476,580	—	86,114,914
Depository accounts	164,355	4,666,167	—	4,830,522
Other liabilities	—	886,527	—	886,527
Total noncurrent liabilities	95,340,770	37,042,756	14,183	132,397,709
Total liabilities	130,750,939	44,895,672	368,662	176,015,273
Net assets:				
Invested in capital assets, net of related debt	126,239,313	1,555,936	49,096	127,844,345
Restricted for:				
Nonexpendable – endowments	—	—	11,830,878	11,830,878
Expendable:				
Scholarships and fellowships	718,741	—	4,694,177	5,412,918
Loans	149,380	—	—	149,380
Capital projects	57,989,789	—	—	57,989,789
Debt service	350,032	—	—	350,032
Unrestricted	37,569,715	(6,516,595)	4,234,477	35,287,597
Total net assets	\$ 223,016,970	(4,960,659)	20,808,628	238,864,939

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY, LOS ANGELES**  
Statement of Revenues, Expenses, and Changes in Net Assets  
Year ended June 30, 2006

	University	Discretely presented component units		Total
		GASB Auxiliary Organizations	FASB Auxiliary Organizations	
Revenues:				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$19,045,831)	\$ 55,414,798	—	3,174,756	58,589,554
Grants and contracts, noncapital:				
Federal	22,249,616	24,767,571	—	47,017,187
State and local	9,304,627	3,242,729	—	12,547,356
Nongovernmental	410,920	2,541,286	—	2,952,206
Sales and services of educational activities	410,613	—	—	410,613
Sales and services of auxiliary enterprises (net of scholarship allowances of \$915,846)	7,587,774	2,659,831	352,057	10,599,662
Other operating revenues	3,363,163	356,751	28,046	3,747,960
Total operating revenues	98,741,511	33,568,168	3,554,859	135,864,538
Expenses:				
Operating expenses:				
Instruction	93,149,189	—	—	93,149,189
Research	579,435	30,035,777	—	30,615,212
Public service	2,037,827	—	—	2,037,827
Academic support	15,569,267	—	—	15,569,267
Student services	14,344,564	—	2,140,463	16,485,027
Institutional support	25,482,709	—	982,868	26,465,577
Operation and maintenance of plant	16,381,437	2,758,628	224,953	19,365,018
Student grants and scholarships	28,232,083	—	623,795	28,855,878
Auxiliary enterprise expenses	7,746,835	56,375	—	7,803,210
Depreciation	11,938,964	2,570,022	6,485	14,515,471
Total operating expenses	215,462,310	35,420,802	3,978,564	254,861,676
Operating loss	(116,720,799)	(1,852,634)	(423,705)	(118,997,138)
Nonoperating revenues (expenses):				
State appropriations, noncapital	117,204,911	—	—	117,204,911
Gifts, noncapital	—	—	1,931,057	1,931,057
Investment income, net	3,578,645	80,803	231,666	3,891,114
Endowment income (loss)	—	—	1,014,529	1,014,529
Interest on capital-related debt	(3,886,064)	(1,423,153)	—	(5,309,217)
Other nonoperating revenues (expenses), net	5,748,573	—	(251,053)	5,497,520
Net nonoperating revenues (expenses)	122,646,065	(1,342,350)	2,926,199	124,229,914
Income (loss) before other additions	5,925,266	(3,194,984)	2,502,494	5,232,776
State appropriations, capital	45,836,000	—	—	45,836,000
Grants and gifts, capital	30,000	—	—	30,000
Additions to permanent endowments	—	—	687,098	687,098
Increase (decrease) in net assets	51,791,266	(3,194,984)	3,189,592	51,785,874
Net assets:				
Net assets at beginning of year, as restated	171,225,704	(1,765,675)	17,619,036	187,079,065
Net assets at end of year	\$ 223,016,970	(4,960,659)	20,808,628	238,864,939

See accompanying notes to financial statements.



## CALIFORNIA STATE UNIVERSITY, LOS ANGELES

## Statement of Cash Flows

Year ended June 30, 2006

	<u>University</u>
Cash flows from operating activities:	
Student tuition and fees	\$ 53,248,836
Federal grants and contracts	22,249,616
State and local grants and contracts	9,304,627
Nongovernmental grants and contracts	410,920
Payments to suppliers	(38,277,568)
Payments to employees	(138,550,798)
Payments to students	(28,232,083)
Collections of student loans	20,625
Sales and services of educational activities	410,613
Sales and services of auxiliary enterprises	7,340,920
Other receipts (payments)	4,869,805
Net cash used in operating activities	<u>(107,204,487)</u>
Cash flows from noncapital financing activities:	
State appropriations	110,660,985
Federal loan program receipts	25,289,738
Federal loan program disbursements	(25,375,006)
Monies received on behalf of others	1,165,838
Monies disbursed on behalf of others	(1,491,645)
Other	5,437,483
Net cash provided by noncapital financing activities	<u>115,687,393</u>
Cash flows from capital and related financing activities:	
Proceeds from capital debt	40,882,590
State appropriations – capital	14,715,988
Acquisition of capital assets	(28,229,570)
Transfers to escrow agent	(9,531,554)
Principal paid on capital debt and leases	(19,237,326)
Interest paid on capital debt and leases	(3,767,137)
Interest payments received on capital leases	748,388
Net cash used in capital and related financing activities	<u>(4,418,621)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	2,676,699
Purchases of investments	(17,049,248)
Investment income received	2,150,437
Net cash used in investing activities	<u>(12,222,112)</u>
Net decrease in cash and cash equivalents	<u>(8,157,827)</u>
Cash and cash equivalents at beginning of year	31,885,078
Cash and cash equivalents at end of year	\$ <u><u>23,727,251</u></u>
Summary of cash and cash equivalents at end of year:	
Cash and cash equivalents	\$ 21,835,697
Restricted cash and investments	1,891,554
Total cash and cash equivalents at end of year	\$ <u><u>23,727,251</u></u>

**CALIFORNIA STATE UNIVERSITY, LOS ANGELES**

## Statement of Cash Flows

Year ended June 30, 2006

	<u>University</u>
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating loss	\$ (116,720,799)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:	
Depreciation	11,938,964
Change in assets and liabilities:	
Accounts receivable, net	2,258,186
Student loans receivable, net	20,625
Prepaid expenses and other assets	(18,878)
Accounts payable	(393,244)
Accrued salaries and benefits	137,332
Accrued compensated absences	(23,248)
Deferred revenue	(3,294,940)
Due to California State University Risk Management Authority	(849,000)
Other liabilities	(259,485)
Net cash used in operating activities	<u>\$ (107,204,487)</u>
Supplemental schedule of noncash transactions:	
Contributed capital assets	\$ 30,000
Acquisition of capital asset through capital lease	205,990
Capital asset transferred from the Office of the Chancellor	2,643

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY, LOS ANGELES**

## Notes to Financial Statements

June 30, 2006

**(1) Organization**

California State University, Los Angeles (the University) was established as a campus of the California State University under the state of California Education Code to offer undergraduate and graduate instruction for professional and occupational goals emphasizing a broad liberal arts education. As one of 23 campuses in the California State University System (the System), the University is included in the financial statements of the System. Responsibility for the University is vested in the Trustees of the System (the Trustees) who, in turn, appoint the Chancellor, the chief executive officer of the System, and the University president, the chief executive officer of the University.

The University provides instruction for baccalaureate and master's degrees and certificate programs and operates various auxiliary enterprises such as student dormitories, student unions, and parking facilities. In addition, the University administers a variety of financial aid programs which are funded primarily through state and federal programs.

**(2) Summary of Significant Accounting Policies****(a) Financial Reporting Entity**

In accordance with Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the accompanying financial statements include the accounts of the University and the University's four recognized auxiliary organizations. These auxiliary organizations are legally separate entities that provide services primarily to the University's students and faculty. Separate financial statements are issued for each of the recognized auxiliary organizations and may be obtained from the University.

The discretely presented auxiliary organizations are as follows:

- California State University, Los Angeles Foundation
- Associated Students of California State University Los Angeles, Inc.
- University-Student Union Board, California State University, Los Angeles
- Cal State Los Angeles University Auxiliary Services, Inc. (UAS).

**CALIFORNIA STATE UNIVERSITY, LOS ANGELES**

## Notes to Financial Statements

June 30, 2006

Summary information for the discretely presented auxiliary organizations is as follows:

<b>June 30, 2006</b>	<b>California State University, Los Angeles Foundation</b>	<b>Cal State L.A. University Auxiliary Services, Inc.</b>	<b>California State University, Los Angeles Other Auxiliaries</b>	<b>Total</b>
Current assets	\$ 5,379,422	7,670,550	3,934,107	16,984,079
Capital assets, net	32,465	32,199,724	16,631	32,248,820
Other noncurrent assets	11,814,665	64,739	—	11,879,404
Total assets	17,226,552	39,935,013	3,950,738	61,112,303
Current liabilities	107,608	7,852,916	246,871	8,207,395
Noncurrent liabilities	—	37,042,756	14,183	37,056,939
Total liabilities	107,608	44,895,672	261,054	45,264,334
Invested in capital assets, net of related debt	32,465	1,555,936	16,631	1,605,032
Restricted	16,525,055	—	—	16,525,055
Unrestricted	561,424	(6,516,595)	3,673,053	(2,282,118)
Total net assets	\$ 17,118,944	(4,960,659)	3,689,684	15,847,969
Operating revenues:				
Student tuition and fees	\$ —	—	3,174,756	3,174,756
Grants and contracts, noncapital	—	30,551,586	—	30,551,586
Sales and services of auxiliary enterprises, net	—	2,659,831	352,057	3,011,888
Other	—	356,751	28,046	384,797
Total operating revenues	—	33,568,168	3,554,859	37,123,027
Operating expenses:				
Research	—	30,035,777	—	30,035,777
Student services	—	—	2,140,463	2,140,463
Institutional support	247,467	—	735,401	982,868
Operation and maintenance of plant	—	2,758,628	224,953	2,983,581
Student grants and scholarships	623,795	—	—	623,795
Auxiliary enterprise expenses	—	56,375	—	56,375
Depreciation	1,820	2,570,022	4,665	2,576,507
Total operating expenses	873,082	35,420,802	3,105,482	39,399,366
Operating income (loss)	(873,082)	(1,852,634)	449,377	(2,276,339)
Net nonoperating revenues (expenses)	2,687,579	(1,342,350)	238,620	1,583,849
Income (loss) before other additions	1,814,497	(3,194,984)	687,997	(692,490)
Additions to permanent endowments	687,098	—	—	687,098
Increase in net assets	2,501,595	(3,194,984)	687,997	(5,392)
Beginning net assets as previously reported	14,482,786	(1,765,675)	3,001,687	15,718,798
Adjustment to reflect previously unrecorded charitable remainder trust	134,563	—	—	134,563
Beginning net assets as restated	14,617,349	(1,765,675)	3,001,687	15,853,361
Ending net assets	\$ 17,118,944	(4,960,659)	(3,689,684)	15,847,969

**CALIFORNIA STATE UNIVERSITY, LOS ANGELES**

## Notes to Financial Statements

June 30, 2006

The auxiliary organizations are presented in the accompanying financial statements as component units due to the nature and significance of their relationship with the University. The relationships are such that exclusion of these organizations from the reporting entity would render the financial statements incomplete, primarily due to the activities that the organizations carry out on behalf of the University, such as research, grant administration, foodservice, and academic support. The auxiliary organizations are discretely presented to allow the financial statement users to distinguish them from the University.

The financial statements present only the statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows of the University and do not purport to, and do not, present fairly the financial position of the California State University System as of June 30, 2006 and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

**(b) Basis of Presentation**

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles, as prescribed by the GASB. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The financial statements required by GASB Statement Nos. 34 and 35 include a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. As a public institution, the University is considered a special-purpose government under the provisions of GASB Statement No. 35. The University records revenue in part from fees and other charges for services to external users and, accordingly, has chosen to present its financial statements using the reporting model for special-purpose governments engaged only in business-type activities. This model allows all financial information of the University to be reported in a single column in each of the financial statements, accompanied by aggregated financial information for the auxiliary organizations. In accordance with the business-type activities reporting model, the University prepares its statement of cash flows using the direct method.

Three of the auxiliary organizations included in these financial statements apply the accounting and reporting standards promulgated by the Financial Accounting Standards Board (FASB), while one of the auxiliary organizations applies the accounting and reporting standards promulgated by the GASB.

# CALIFORNIA STATE UNIVERSITY, LOS ANGELES

## Notes to Financial Statements

June 30, 2006

### (c) *Auxiliary Organizations Restatement*

The beginning net assets of the auxiliary organizations have been restated due to the correction of an error reported in the separately audited financial statements of the auxiliary organizations. A summary of the restatements to net assets at the beginning of the year related to the auxiliary organizations is as follows:

Net assets as of June 30, 2005, as previously reported	\$ 15,718,798
Previously unrecorded charitable remainder trust	<u>134,563</u>
Net assets at beginning of year, as restated	<u><u>\$ 15,853,361</u></u>

### (d) *Election of Applicable FASB Statements*

The University has elected not to adopt the pronouncements issued by the FASB after November 30, 1989.

### (e) *Classification of Current and Noncurrent Assets and Liabilities*

The University considers assets to be current that can reasonably be expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within 12 months of the statement of net assets date. Liabilities that reasonably can be expected, as part of normal University business operations, to be liquidated within 12 months of the statement of net assets date are considered to be current. All other assets and liabilities are considered to be noncurrent.

### (f) *Cash and Cash Equivalents*

The University considers all highly liquid investments with an original maturity date of three months or less to be cash and cash equivalents.

### (g) *Investments*

Investments are reflected at fair value using quoted market prices. Realized and unrealized gains and losses are included in the accompanying statement of revenues, expenses, and changes in net assets as investment income, net.